Countrywide Holdings, Ltd

Financial Results for the Year Ended December 31, 2012

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Annual Report of Countrywide Holdings, Ltd

Pursuant to section 4.2(i) of the indenture dated May 8, 2009, as amended and supplemented (the "Indenture"), among Countrywide Holdings, Ltd (the "issuer"), the guarantors (as defined therein) and Deutsche Bank AG, London Branch, as trustee (the "Trustee"), governing the issuer's Senior Secured Fixed Rate Notes due 2018.

(The "Annual Report")

On our behalf, the Trustee is providing you with a copy of the Annual Report in satisfaction of our obligation under Section 4.2(i) of the Indenture to provide to holders of the Notes (as defined in the Indenture) certain information regarding Countrywide Holdings, Ltd and its subsidiaries (the Countrywide Group), including but not limited to audited non-statutory consolidated financial statements of the Countrywide Holdings, Ltd Group.

This document does not constitute an offer or invitation to purchase or form part of an offer or invitation to purchase any securities, and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. The Notes and Guarantees (as defined in the Indenture) referred to herein have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any state of the United States and may not be offered or sold in the United States unless registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available.

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FORWARD-LOOKING STATEMENTS

This Report includes forward-looking statements, which involve risks and uncertainties. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms "believes," "estimates," "anticipates," "expects," "intends," "may," "will" or "should" or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies, the industry in which we operate and potential acquisitions. We derive many of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. All forward-looking statements are based upon information available to us on the date of this Report.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, the development of the industry in which we operate and the effect of acquisitions on us may differ materially from those made in or suggested by the forward-looking statements contained in this Report. In addition, even if our results of operations, financial condition and liquidity and the development of the industry in which we operate are consistent with the forward-looking statements contained in this Report, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause those differences include, but are not limited to:

- a decline in the number of transactions, prices or commission levels in the UK residential property market, whether due to the impact of macroeconomic factors or otherwise;
- increased or reduced competition in the industry in which we operate;
- changes in, or our failure or inability to comply with, government laws or regulations;
- the loss of any of our important commercial relationships;
- any increase in our professional liabilities or any adverse development in the litigation or other disputes to which we are a party;

We caution you that the foregoing list of important factors may not contain all of the material factors that are important to you. We urge you to read the "Operating and Financial Review," for a more complete discussion of the factors that could affect our future performance and the industry in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Report may not occur.

We undertake no obligation, and do not expect, to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Report.

PRESENTATION OF FINANCIAL INFORMATION

The financial information presented has been prepared on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union.

We are presenting the audited non-statutory consolidated financial statements of Countrywide Holdings, Ltd for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, in accordance with clause 4.2 (i) of the Trust Indenture dated 8 May 2009.

We define "EBITDA" as operating profit/(loss) after adding back: depreciation and amortisation; share-based payments charged as a non-cash charge, or any costs or expenses incurred pursuant to any management equity plan and management fees charged by our Investors. EBITDA before exceptionals is defined as EBITDA before business optimisation expenses, other restructuring charges, refurbishment costs to offices and other exceptional costs or income which are shown as exceptional in the financial statements. EBITDA , EBITDA before exceptionals and pro forma EBITDA and pro-forma EBITDA before exceptionals together with any related ratios presented in this Report are supplemental measures of our performance and liquidity that are not required by, or presented in accordance with IFRS. Furthermore, EBITDA before exceptionals and pro forma EBITDA before exceptionals should not be considered as an alternative to profit or loss for the year or any other performance measure derived in accordance with US GAAP or IFRS or as an alternative to cash flow from operating, investing or financing activities as a measure of our liquidity as derived in accordance with IFRS. These non-GAAP financial measures do not necessarily indicate whether cash flow will be sufficient or available for cash requirements and may not be indicative of our results of operations. In addition, such measures as we define them may not be comparable to other similarly titled measures used by other companies.

As required by the Indenture governing the high yield Notes issued by Countrywide Holdings, Ltd, the company has engaged PricewaterhouseCoopers LLP to audit its non-statutory financial statements for the year ended December 31 2012.

The sole purpose of the preparation by the directors of these non-statutory consolidated financial statements and the engagement of PricewaterhouseCoopers LLP to audit them is to assist the directors to discharge their stewardship obligations and fiduciary responsibilities in respect of the company and the company's obligations under the terms of the Indenture and for no other purpose.

The Audit report and opinion included therein, which is addressed to the directors, contains statements to this effect and to the effect that in undertaking their audits and in giving their reports and the opinions included therein, PricewaterhouseCoopers LLP do not accept or assume responsibility for any other purpose or to any other person, to whom this report is shown or into whose hands it may come. This includes, without limitation, the Trustees and holders of the Senior Secured Notes issued under the Indenture, or anyone else who may seek to rely on this report.

The Indenture does not prohibit PricewaterhouseCoopers LLP from clarifying their responsibilities in this way or from including a statement to that effect in their audit report.

HIGHLIGHTS

- Double digit EBITDA growth trend continues
- Capital and operational investment during 2012; a base for future growth
- Positive trends going into 2013
- UK Housing market transaction volumes and house prices were stable in 2012
- Countrywide delivers strong profit trajectory with no market assistance
- Impact from Government initiatives designed to stimulate the housing market: New-Buy and Funding-for-Lending Schemes
- Positive lender sentiment in early 2013 with more favourable mortgage products available, under pinned by Funding-for-Lending.

	Year ended December 31,		
Results	(audited)		
	2012	2011	Variance
	£'000	£'000	%
Total income	**539,848**	509,050	+6
EBITDA before exceptional items[1]	**63,036**	56,367	+12
Operating profit before exceptional items and amortisation of intangibles	**53,663**	45,552	+18
Operating profit	**16,761**	19,560	-14
	(unaudited)		
	Number	Number	
House sales exchanged			
- Estate Agency division	**56,874**	56,108	+1
- Hamptons	**3,498**	3,274	+7
Life policies arranged	**38,168**	35,333	+8
Mortgages arranged	**53,929**	53,180	+1
Valuations and survey instructions	**281,189**	271,001	+4
Total conveyances completed	**59,180**	30,604	+93
Headcount – average throughout year	**8,431**	8,025	+5
Headcount – at year end	**8,181**	8,188	-
Segment results	(audited)		
Total income	£'000	£'000	
Estate Agency	**214,287**	215,390	-1
Lettings	**95,806**	81,255	+18
Financial Services	**64,749**	62,069	+4
Surveying & Valuation	**65,408**	60,391	+8
Conveyancing	**26,048**	22,843	+14
Hamptons	**72,590**	66,065	+10
Other segments	**960**	1,037	-7
	539,848	509,050	+6
EBITDA before exceptional items			
Estate Agency	**12,799**	13,181	-3
Lettings	**21,733**	15,291	+42
Financial Services	**9,806**	9,398	+4
Surveying & Valuation	**10,200**	8,592	+19
Conveyancing	**8,022**	7,714	+4
Hamptons	**14,043**	14,292	-2
Segment EBITDA before exceptional items	**76,603**	68,468	+12
Other segments	**(13,567)**	(12,101)	-12
Group EBITDA before exceptional items	**63,036**	56,367	+12

[1] Exceptional items comprise exceptional income and operational restructuring, acquisition expenses and insurance claims and litigation charges and are shown in note 10 to the consolidated financial statements.

CONSOLIDATED INCOME STATEMENT

	For the year ended 31 December (audited)		
	2012	2011	2010
	£'000	£'000	£'000
Revenue	**527,355**	498,855	468,041
Other income	**12,493**	10,195	9,881
	539,848	509,050	477,922
Employee benefit costs	**(297,518)**	(283,047)	(270,464)
Depreciation on property, plant & equipment and amortisation on purchased computer software	**(8,647)**	(9,629)	(9,305)
Other operating costs	**(180,794)**	(171,136)	(157,482)
Share of profit from joint venture	**774**	314	359
Group operating profit before exceptional items and amortisation of assets recognised through business combinations	**53,663**	**45,552**	**41,030**
Amortisation of intangible assets recognised through business combinations	**(7,709)**	(9,445)	(13,271)
Exceptional income	**7,867**	—	—
Exceptional costs	**(37,060)**	(16,547)	(18,992)
Group operating profit	**16,761**	**19,560**	**8,767**
Finance costs	**(28,531)**	(27,658)	(23,812)
Finance income	**999**	793	2,014
Net finance costs	**(27,532)**	(26,865)	(21,798)
Loss before taxation	**(10,771)**	(7,305)	(13,031)
Taxation	**7,776**	4,664	4,758
Loss for the year	**(2,995)**	(2,641)	(8,273)
Attributable to:			
Owners of the parent	**(3,417)**	(2,842)	(8,273)
Non-controlling interests	**422**	201	—
Loss attributable for the year	**(2,995)**	(2,641)	(8,273)

CONDENSED CONSOLIDATED BALANCE SHEET

	As at 31 December (audited)		
	2012	2011	2010
	£'000	£'000	£'000
Assets			
Non-current assets			
Goodwill	**356,517**	344,944	333,668
Other intangible assets	**193,700**	198,933	200,731
Property, plant and equipment	**23,596**	22,508	22,614
Investments accounted for using the equity method:			
Investments in joint venture	**2,676**	2,650	2,672
Available-for-sale financial assets	**14,370**	317	303
Deferred tax asset	**16,458**	16,088	15,766
Total non-current assets	**607,317**	585,440	575,754
Current assets			
Trade and other receivables	**68,178**	67,108	68,691
Cash and cash equivalents	**46,544**	60,636	58,907
Total current assets	**114,722**	127,744	127,598
Total assets	**722,039**	713,184	703,352
Non-current liabilities			
Financial liabilities loans and borrowings	**249,774**	249,513	248,240
Defined benefit scheme liabilities	**6,612**	6,463	5,506
Provisions	**34,366**	20,211	27,090
Deferred income	**16,040**	16,667	12,342
Other liabilities due after one year	**10,811**	13,029	6,295
Deferred tax liability	**43,676**	50,489	53,641
Total non-current liabilities	**361,279**	356,372	353,114
Current liabilities			
Trade and other payables	**80,318**	79,849	72,579
Deferred income	**13,213**	9,850	3,795
Provisions	**24,222**	21,908	16,052
Current tax liabilities	**708**	1,333	1,564
Total current liabilities	**118,461**	112,940	93,990
Total liabilities	**479,740**	469,312	447,104
Net assets	**242,299**	243,872	256,248

CONSOLIDATED CASH FLOW

	For the year ended 31 December (audited)		
	2012	2011	2010
	£'000	£'000	£'000
Cash flows from operating activities			
Loss before taxation	**(10,771)**	(7,305)	(13,031)
Adjustments for:			
Depreciation	**6,328**	6,969	6,517
Amortisation of intangible assets	**10,028**	12,105	16,059
Impairment of assets	**133**	—	—
Loss/(profit) on disposal of fixed assets	**35**	(12)	(333)
Unrealised gains (exceptional income)	**(7,867)**	—	—
Income from joint venture	**(774)**	(314)	(359)
Finance expense	**28,531**	27,658	23,812
Finance income	**(999)**	(793)	(2,014)
	24,644	38,308	30,651
Changes in working capital (excluding effects of acquisitions and disposals of Group undertakings):			
(Increase)/decrease in trade and other receivables	**(796)**	6,189	4,451
(Decrease)/increase in trade and other payables	**(9,092)**	9,691	(10,748)
Increase/(decrease) in provisions	**16,356**	(3,750)	3,123
Cash generated from operations	**31,112**	50,438	27,477
Interest paid	**(25,564)**	(25,791)	(22,337)
Tax paid	**(972)**	(552)	(2,918)
Net cash inflow from operating activities	**4,576**	24,095	2,222
Cash flows from investing activities			
Acquisitions net of cash acquired	**(10,078)**	(16,328)	(85,718)
Purchase of property, plant and equipment	**(8,353)**	(5,775)	(5,348)
Purchase of intangible assets	**(2,177)**	(1,652)	(2,718)
Proceeds from sale of property, plant and equipment	**1,097**	381	1,895
Proceeds from sale of a subsidiary	**—**	500	—
Purchase of assets available-for-sale	**(905)**	—	(303)
Dividend received from joint venture	**748**	336	500
Interest received	**650**	886	2,105
Net cash outflow from investing activities	**(19,018)**	(21,652)	(89,587)
Cash flows from financing activities			
Proceeds from issue of share capital	**509**	544	160
Financing fees paid	**—**	(1,258)	(1,920)
Issue of bonds	**—**	—	75,000
Repayment of overseas loan	**—**	—	(1,070)
Dividend paid	**(159)**	—	—
Purchase of own shares	**—**	—	(26,015)
Net cash inflow/(outflow) from financing activities	**350**	(714)	46,155
Net(decrease)/ increase in cash and cash equivalents	**(14,092)**	1,729	(41,210)
Cash and cash equivalents at 1 January	**60,636**	58,907	100,117
Cash and cash equivalents at 31 December	**46,544**	60,636	58,907

OTHER FINANCIAL DATA

	(unaudited) For the year ended December 31,		
	2012	2011	2010
	£'000	£'000	£'000
EBITDA before exceptionals[1]	**63,036**	56,367	54,599
Cash and cash equivalents	**46,544**	60,636	58,907
Gross debt	**250,000**	250,000	250,000
Net debt	**203,456**	189,364	191,093
Consolidated interest expense[2]	**27,240**	26,865	24,332
Consolidated leverage ratio[3]	**3.23**	3.36	3.50
Fixed charge ratio[4]	**2.31**	2.10	2.24

The table below presents a reconciliation from the net profit or loss to EBITDA:

	(audited)		
	2012	2011	2010
	£'000	£'000	£'000
Consolidated net loss	**(2,995)**	(2,641)	(8,273)
Finance income	**(999)**	(793)	(2,014)
Share of profit post tax from joint venture	**(774)**	(314)	(359)
Depreciation and amortisation	**16,356**	19,074	22,576
Management fee	**1,500**	1,500	1,500
Finance expense	**28,531**	27,658	23,812
Taxation	**(7,776)**	(4,664)	(4,758)
EBITDA	**33,843**	39,820	32,484
Net exceptional items	**29,193**	16,547	18,992
EBITDA before exceptionals	**63,036**	56,367	51,476

[1] The EBITDA for 2010 is pro-forma as it includes the full 12 months results for Hamptons International. The results for 2011 and 2012 are not pro-forma.
[2] The interest expense for 2010 is pro-forma as it assumes a full 12 months interest arising from the £250 million Notes, net of any interest received during the year and other interest payable. The interest expense for 2011 and 2012 is not pro-forma.
[3] The consolidated leverage ratio is net debt over EBITDA or pro-forma EBITDA before exceptionals
[4] The fixed charge ratio is EBITDA or pro-forma EBITDA before exceptionals over consolidated interest expense

OPERATING AND FINANCIAL REVIEW

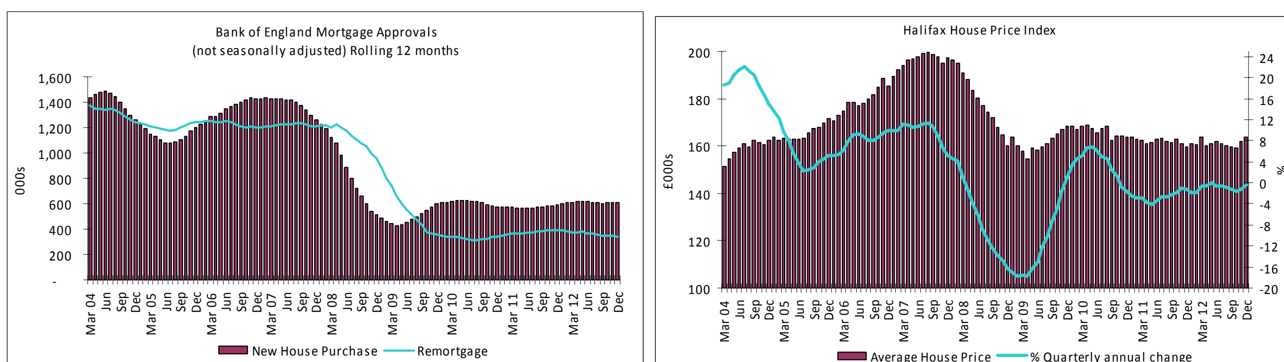
The Group is the leading integrated, full service residential estate agency and property services group in the UK, measured by both revenue and transaction volumes in 2012. It offers estate agency and lettings services, together with a range of complementary services and has a significant presence in key areas and property types which are promoted through locally and respected brands.

The Group operates in five complementary businesses: (i) residential property sales; (ii) residential property lettings and property management; (iii) arranging mortgages, insurance and related financial products (provided by third parties) for participants in residential property transactions; (iv) surveying and valuation services for mortgage lenders and prospective homebuyers; and (v) residential property conveyancing services. The Group seeks, through the breadth of its product offering, to capture revenue streams across the full range of stages of a typical residential property sale or rental, from listing to completion or letting.

Business review

The distractions of the extended Jubilee celebrations and the Olympics during the summer caused short-term disruption and hindered an already struggling UK housing market. The national metrics reflect little change on the previous two years; house prices[1] reduced by 0.3% while mortgage approvals[2] increased by 2.8%. 2012 was the fourth consecutive year of a half-size housing market.

Base interest rates remain historically low and during 2012 there was no significant change in the availability of affordable mortgage products.



Against this background Countrywide delivered 6% growth in revenue and 12% growth in EBITDA before exceptionals, while at the same time continuing to invest in new businesses and deliver organic growth. The Lettings division contributed the most significant growth rates as its acquisitions contributed an additional £8.0 million in revenue and £3.0 million in EBITDA compared to 2011 but this was offset by an additional EBITDA investment in New Starts of £0.7 million. Estate Agency and Hamptons have reported negative EBITDA growth due to investing in new branch openings.

The Group continued to focus on its targeted acquisition programme acquiring thirteen more Lettings businesses, two branches in Estate Agency and Hamptons and a small Derbyshire based IFA network.

[1] Source: Halifax House Price Index
[2] Bank of England Mortgage Approvals for New House Purchase, not seasonally adjusted

Estate Agency Division

	(audited) Year ended December 31,		
	2012	2011	*Variance*
	£000	£000	%
Total income	**214,287**	215,390	-1
Operating costs	**(201,488)**	(202,209)	n/m
EBITDA before exceptional items	**12,799**	13,181	-3
Depreciation and amortisation	**(3,412)**	(4,177)	-18
Operating profit before exceptional items	**9,387**	9,004	+4
Exceptional costs	**(4,961)**	(2,212)	n/m
Operating profit	**4,426**	6,792	-35
Operational data		(unaudited)	
House sales exchanged	**56,874**	56,108	+1

A relatively flat year-on-year income and profit before exceptionals performance is not a true reflection of the progress made in the Estate Agency Division in 2012.

The UK housing market remains extremely challenging, with Land Registry figures showing that 2012 transaction volumes are expected to be flat or slightly down on 2011 levels, and roughly half of their long term historical average. The year started strongly, assisted by the end of the stamp duty holiday in March which accelerated some transactions. The following six months were very disappointing, with credit markets tightening and economic uncertainty being reinforced by the distractions of the Jubilee and Olympics. However, some momentum returned to the market in the final quarter.

Despite this difficult backdrop, and despite having fewer branches, the Estate Agency Division managed to increase its market share slightly from the prior year.

As a result of tight market conditions, competition for listings remains fierce and average fees were slightly lower in 2012 despite average house price achieved outperforming most indices and increasing by 4% to £205,000. To counter this pressure on fees, the division continues to move forward the collection of upfront fees which totalled £7 million in 2012, an increase of 20% from 2011. The volumes of repossessions continue to fall, affecting the performance of our Asset Management business; Countrywide Corporate Property Services.

The division made significant investments in the year, to position itself strongly for growth in the future:

- We consolidated our regional administration centres into one National Administration Centre in Cheadle, near Manchester. As well as process and quality improvements, this is anticipated to deliver significant ongoing cost savings in future years.
- We invested in our Land & New Homes business, employing 17 more FTE in a market where we see significant growth opportunities in the short to medium term.
- In just over 18 months we have grown UK Sotheby's International Realty from one branch to a network of six branches. Further investments in the London & Prestige market included the opening of three new John D Wood & Co. branches in 2012.
- We continue to grow our Bridgfords brand into West Yorkshire and North East England, while our 2011 acquisition in South Yorkshire, Blundells, has performed strongly and expanded its branch footprint.

Estate Agency continues to play a key role introducing other Countrywide Group services to potential property vendors or purchasers as we capitalise on our integrated service proposition. Highlights of 2012 included increasing the penetration of referrals to our Lettings, Conveyancing and Surveying divisions.

Our key areas of focus remain consistent:

- Client Service – consistently exceeding our clients' expectations
- People – recruitment, retention and development of the best people in our industry
- Marketing – development of online and offline marketing together with innovative National Marketing Campaigns that drive incremental business and help us maintain and grow our market share
- Infrastructure – investment in our network, brands and technology that protects our market leading position
- Costs – an ongoing focus on delivering a higher standard but at a lower cost

At the start of 2013 there is more positive sentiment for the UK housing market than we have seen for several years, due in part to evidence of improving lender sentiment and positive impact from Government initiatives. Whether there is a recovery in transaction volumes or not, the Estate Agency Division is well placed to prosper.

Lettings Division

	(audited) Year ended December 31,		
	2012	2011	Variance
	£000	£000	%
Total income	**95,806**	81,255	+18
Operating costs	**(74,073)**	(65,964)	+12
EBITDA before exceptional items	**21,733**	15,291	+42
Depreciation and amortisation	**(3,669)**	(3,372)	+9
Operating profit before exceptional items	**18,064**	11,919	+52
Exceptional costs	**(1,812)**	(995)	+82
Operating profit	**16,252**	10,924	+49
Operational data	(unaudited)		
Properties under management (retail) (average in the year)	**42,530**	32,787	+30
Properties under management (corporate) (average in the year)	**48,309**	56,087	-14

2012 continued the strong growth in the Group's Lettings business. Income increased by 18% and EBITDA increased by 42%. After netting out the additional costs incurred in setting up new branches the business grew EBITDA by 41%. However, this also includes the contribution from acquisitions during the year.

The business continues to make significant investment in the future

- Our New Start Program has now led to the opening of 176 additional lettings offices within the existing group office network, leveraging the existing infrastructure to create long term additional value and profit streams.
- We have sought and delivered acquisitions of strategically significant businesses to compliment our network, undertaking a total of 13 acquisitions during 2012. Including strategic expansion into the Leeds and Scotland markets.

The lettings market remains tight with limited supply of additional properties although we have been able to increase the number of instructions to the business by 26% and by 10% excluding the New –Start Programme.

The underlying lettings market remains strong with excess of demand over supply and we still register eight applicants for every property let. Increased lending in the Buy-to-Let segment would increase supply of properties which are likely to find ready tenants.

Financial Services Division

	(audited) Year ended December 31,		
	2012	2011	Variance
	£000	£000	%
Total income	**64,749**	62,069	+4
Operating costs	**(54,943)**	(52,671)	+4
EBITDA before exceptional items	**9,806**	9,398	+4
Depreciation and amortisation	**(5,384)**	(5,433)	-1
Operating profit before exceptional items	**4,422**	3,965	+12
Exceptional costs	**(699)**	(1,675)	-140
Operating profit	**3,723**	2,290	+63
Operational data		(unaudited)	
Total mortgages arranged	**53,929**	53,180	+1
Value	**£6.9bn**	£7.2bn	-4
Life insurance policies arranged	**38,168**	35,333	+8
General insurance policies arranged	**36,238**	38,475	-6

The Financial Services division faced a challenging 2012, with strong early momentum falling away quickly during the middle of the year as credit markets tightened and Santander, a large lender through the intermediary channel, pulled back lending volumes significantly. As a result, the intermediary mortgage market in which the Division operates is expected to be smaller versus 2011 levels. Despite this the Division managed to increase both income and EBITDA before exceptionals, and its market share as a result. It was particularly pleasing to consolidate EBITDA performance further after such a strong 2011.

Mortgage advances completed within the core business totalled £3.8 billion with Mortgage Intelligence group completions totalling a further £3.1 billion. The value of completions facilitated by the Group slightly decreased to £6.9 billion of lending. The Financial Services Division produced growth in EBITDA and this was as a result of maintaining market share and introducing a Mortgage Administration Fee and a Buy Smart initiative which increased total revenue.

Highlights of 2012 include the following:

- The Division successfully introduced new products and processes to support the new Gender Directive Legislation and is driving higher average value from its life insurance sales and deployed new systems in both General Insurance and Life/Protection areas.
- Mortgage Intelligence, acquired in 2011, performed strongly in the year. We added to this business in 2012 by acquiring the FYB Network, an intermediary with a very strong track record on insurance products.
- During the year we closed Hurst Independent Financial Services and transferred the pipeline to The Mortgage Store, an Appointed Representative of Mortgage Intelligence.
- Capital Private Finance, our joint venture operation in the High Net Worth financial services sector established in 2011, is growing profitably and has already repaid all of the invested seed capital.
- The application of Mortgage Administration Fees continues to prove very successful, increasing by 38% in the year.

Total headcount closed the year at 906, a reduction from 965 in the prior year. These headcount figures include 638 active Mortgage Consultants down from 643 in the prior year reflecting the slightly smaller market size. Although most lenders are predicting a larger mortgage market in 2013, we will wait until there is more sustained evidence of this before investing significantly in expanding our headcount from its current levels.

Surveying & Valuation Division

	(audited) Year ended December 31,		
	2012	2011	Variance
	£000	£000	%
Total income *(net of panel survey costs)*[1]	**48,959**	47,022	+4
Operating costs	**(38,759)**	(38,430)	+1
EBITDA before exceptional items	**10,200**	8,592	+19
Depreciation and amortisation	**(448)**	(2,361)	n/m
Operating profit before exceptional items	**9,752**	6,231	+57
Exceptional costs	**(18,559)**	(11,104)	31
Operating loss	**(8,807)**	(4,873)	-1
Operational data		(unaudited)	
Valuations and survey instructions completed	**281,189**	271,001	+4

The Surveying Division has continued its impressive year on year EBITDA before exceptional items growth delivering a result 19% above the prior year from a broadly similar market size. The Q4 2012 results show a growth in income by 7% against the prior year. Establishing the National Operations Centre and a general re-engineering of the Business during 2011 and 2012 has been fundamental in delivering the improved financial performance.

The Division continues to focus on the high quality service it provides to its lender clients and has consequently been successful in launching new contracts during 2012 including Tesco and the Co-op Group. The direct to consumer market has also been targeted with pleasing levels of growth in this channel. Management's focus on efficiency spanning both productivity of the in-house and consultant workforce in conjunction with these new contract wins has delivered top line growth of £2.0 million year on year. Careful cost control has helped the Division maintain margins and deliver incremental EBITDA of £1.6 million in 2012.

Throughout the year the Division has also placed significant focus on the risk management and data protection as part of the services it provides. Investment in this area led to the Division becoming the first major residential surveying firm to obtain ISO27001:2005 accreditation in data security.

Conveyancing Division

	(audited) Year ended December 31,		
	2012	2011	Variance
	£000	£000	%
Total income	**26,048**	22,843	+14
Operating costs	**(18,026)**	(15,129)	+19
EBITDA	**8,022**	7,714	+4
Depreciation and amortisation	**(347)**	(337)	+3
Operating profit	**7,675**	7,377	+4
Operational data		(unaudited)	
Total completions	**59,180**	30,604	+93

Our Conveyancing Business generated an EBITDA outturn of £8.0 million for 2012, an improvement of £0.3 million or 4% on 2011. In particular a strong Q4 trading performance saw an EBITDA increase of 23% compared to the same quarter of the prior year.

Income increased by 14% over 2011 mainly due to the HSBC contract win which went live in January 2012. The associated increase in cost of 19% is also largely attributable to costs associated with the implementation of this contract and bedding in of new processes while pipelines built to a steady state. The volume throughput of this contract

[1] The Surveying income has been stated net of panel fees paid £16.4 million (2011: £13.4 million) in order to present a clearer picture of the true increase in revenues and costs. Panel fee income and payments vary in accordance to the volume of panel surveys arranged. The margin earned is small compared to that from surveys performed in-house. The volumes of surveys and valuations reported excludes panel surveys arranged.

is reflected in our completion volumes (an increase of 93% year on year) largely delivered through our market leading Panel Management Business and also through our in house Separate Legal Representation services. While the volume of completions has increased by 93% income only improved by 14% due to lower fees earned from panel management and Separate Legal Representation completions which drove the growth in volume.

Underlying trading, excluding HSBC, was broadly in line with 2011 as the market has remained subdued. While Q1 2012 trading was buoyed by the ending of the first time buyer Stamp Duty holiday, Q2 and Q3 2012 saw challenging market conditions as customers were faced with increased lead times in securing mortgage offers and some disruption with the summer sporting events. Q4 2012 saw a much improved performance, and with additional commercial and operational initiatives implemented the Division is able to report positive EBITDA growth for both the final quarter and the year.

Our Private Conveyancing service continues to build momentum across the branch network and in particular throughout the Hamptons International network, and is attracting excellent customer and agent satisfaction levels in the higher value markets.

Hamptons

	Year ended December 31, (audited)		
	2012	2011	*Variance*
	£000	£000	%
Total income	**72,590**	66,065	+10
Operating costs	**(58,547)**	(51,773)	+13
EBITDA	**14,043**	14,292	-2
Depreciation and amortisation	**(1,809)**	(2,395)	-24
Operating profit	**12,234**	11,897	+3
Operational data		(unaudited)	
House sales exchanged	**3,498**	3,274	+7

Despite the sizeable distractions of the Olympics, the Jubilee and stamp duty changes for £2 million plus properties, Hamptons finished the year strongly. Adjusting for the investment in new branches, Hamptons recorded a record profit year in 2012. The Sales division had a positive end to the year, registering the best income December since 2007 and the Lettings division continued their strong performance in 2012 with another record breaking income and profit year.

Expansion of the Hamptons network continued with seven branches opened in 2012 and more to follow in the new year. The impact of these openings has been to reduce EBITDA by £1.4 million in 2012.

Hamptons finished the Olympic year by taking the Gold award for UK's Best Large Agency at The Sunday Times Estate Agency of the Year awards.

Other segments

Other segments comprise central overheads including centralised Marketing, Online, IT and Corporate Business. These costs have increased year-on-year principally due to additional cost taken centrally as part of the IT outsourcing project.

Depreciation and amortisation

The depreciation and amortisation charge has been split 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 a business combination. The underlying depreciation and amortisation charge decreased by £1.0 million across all categories of assets as the depreciation periods expire. Replacement capital purchases have been limited to necessary items and therefore the depreciation charge has not increased.

In respect of the amortisation of intangible assets recognised through business combinations this has decreased by £1.7 million primarily due to the completion in 2011 of the amortisation of in-house computer software valued in 2007.

Exceptional items

The Group has reported a net exceptional cost for 2012 of £29.2 million. This is made up of unrealised gains of £7.9 million offset by redundancies and restructuring costs of £11.5 million, £0.4 million of acquisitions costs and a further £25.2 million charge in respect of professional indemnity claims.

Exceptional income
In 2011 the Group assessed the fair value of the put options in respect of Capital Private Finance and United Surveyors based on the information available at the time. The fair value is the amount Countrywide is expected to pay to buy out the non-controlling interest in those subsidiaries. Subsequently, these businesses have performed well, although the lack of any significant recovery in the residential property market has delayed the intended expansion plans and consequently the Put Options have been reassessed at a lower amount. In accordance with IAS 39 the reduction in value has been credited to the income statement and disclosed as exceptional income due to the size of the transaction.

In May 2012 Zoopla Ltd merged with The Digital Property Group crystallizing a number warrants, which were granted to the Group under an agreement to list properties on the Zoopla website, which converted to ordinary shares. At the merger date, the Group fair valued these shares at £12.2 million. The shares were consideration for services provided to Zoopla over a period of time to 2015 and therefore recognised as deferred income. The deferred income is being amortised to the Income Statement over the period to 2015; there has been a catch up to the end of 2011 of £2.2 million and credit in respect of 2012 of £2.4 million, both of which are being recognised in 2012. The remaining deferred income will be credited to exceptional income over the next three years.

Exceptional costs
During the latter part of 2012 the Group experienced substantially worsening trends in terms of Professional Indemnity (PI) claims received and losses recognised on the insurance bordereaux. As a consequence of this the Group has recognised a further exceptional charge of £25.2 million. As discussed in note 3 Critical Accounting Judgements and estimates, the Directors base their assessment of the provision on a number of factors; legal and professional advice, historical trends of claims received and losses incurred. During 2012 the rate of claims received increased and the average loss also rose due the closure of the more challenging disputes. The Directors noted that the claims received in 2012 were mainly from prime lenders, who until now had not reported losses. Furthermore, as the six year statute of limitations approached for surveys in 2006 and 2007, the level of claims increased as lenders sought to protect their position. The Directors have reflected the experience changes in the predictive models, taken account of potential worsening of positions in certain legal cases and increased the provision accordingly. Of the £25.2 million charge, £15.3 million relates to claims not yet received or current claims not assessed by the professional legal advisors due to lack of information.

The management team has continued to restructure its cost base and as a result recognised a further exceptional cost of £11.5 million.

During 2012 the management announced the outsourcing of its IT function to CGI. The costs to transition to CGI over the course of 18 months is expected to be £3.4 million. In addition to transitioning to CGI, there are a number of transformational initiatives and investment that will be implemented during the course of 2013. The benefits of both the transition and transformation are expected to be realised from 2014.

In the Estate Agency division, the centralisation of operations and creation of a National Administration Centre incurred redundancy and office closure costs of £1.5 million. The benefits of this strategy will be recognised in 2013 and beyond. Restructuring of the divisions corporate property services operation and the removal of more layers of management increased the one off charge in 2012 by £3.3 million.

The Lettings division has closed some branches as it consolidates its operations within the Estate Agency network in order to benefit from efficiencies and closer working ties in the future, incurring a charge of £0.8 million in 2012. The Financial Services division restructured its Land & New Homes services and restructured some operations at a cost of £0.6 million. The Surveying division took the opportunity to restructure its claims handling operations within its National Operations Center as the contract with external providers expired and further senior management layers were removed, the cost of both was £0.9 million.

Finance costs

These have increased £0.9 million or 3% year on year due to higher amortisation of banking fees as a result of the Revolving Credit Facility signed in September 2011 and the unwind of discount rates relating to the put options. The cash payable interest cost of £27.0 million is unchanged since 2011.

Finance income

Interest earned on the Group's cash balances increased slightly despite average balances being £4 million lower throughout the year because the group was able to earn higher interest rates by better planning cash flow and use of fixed term products.

Taxation

The tax credit of £7.8 million on a loss of £10.8 million has been affected by two significant factors. Firstly, the reduction in the corporation tax rate to 23% resulted in a reduction in net deferred tax liabilities of £3.6 million. Secondly, the exceptional income of £7.9 million is derived from capital assets and liabilities that would have no tax costs or benefits in the future due to availability of capital losses. Excluding the impact of these two items, the underlying tax credit would be £2.3 million producing an effective tax rate of 21.7%.

Liquidity and cash flow analysis

	2012	2011
	£'000	£'000
Cash at December 31	**46,544**	60,636
Trapped cash	**(2,360)**	(4,041)
Cash available for working capital	**44,184**	56,595
Revolving Credit Facility (RCF)	**25,000**	25,000
- Letters of Credit drawn	**(7,641)**	(2,000)
Available facility	**17,359**	23,000

During 2012 the Group's cash balances decreased by £14.1 million (2011: increase £1.7 million). Investment levels remain consistent at £19.0 million (2011: £21.7 million) as the Group continued with its strategic acquisition programme but the main impact on cash flow was a reduction of £19.3 million in cash generated from operations. This principally reflects the unwinding of deferred income received in 2011. As previously reported during 2011, the Group received net £10 million in deferred income which would unwind over the subsequent two years. In 2012 £5.0 million was offset against receipts creating a swing in working capital creditor movements of £15.0 million year on year. In addition to this the Group settled long term bonus liabilities in 2012 amounting to £3.2 million. The amount settled against Professional Indemnity claims during the year was consistent with the previous year.

With cash balances at £46.5 million and undrawn facilities of £17.4 million the Group has sufficient headroom to continue its strategic investment programmes.

Capital expenditure

The Group opened 15 branches in Hamptons, Sotheby's and John D Wood and as a result the investment in leasehold premises and furniture and equipment increased as the branches were refitted to a high specification.

	2012	2011
	£'000	£'000
Leasehold improvements	**2,010**	993
Vehicle, furniture and equipment	**6,343**	4,751
Computer software	**2,177**	1,652
Total	**10,530**	7,396

Contractual obligations

The following table summarises our contractual obligations and payments that we will be obligated to make under our financial obligations as of December 31, 2012. Our contractual obligations also include rent payments in respect of our leased properties, primarily in connection with our estate agency and lettings branch networks, and lease payments in respect of our vehicle fleet.

	Expected cash payments due by period			
	Total	Less than 1 year	2–5 years	After 5 years
	£'000	£'000	£'000	£'000
Contractual obligations				
Property[1]	**81,971**	20,286	46,505	15,180
Vehicles, plant and equipment[2]	**36,527**	17,945	18,582	—
Pension deficit[3]	**11,400**	1,900	7,600	1,900
Obligations under the Notes				
Senior secured fixed rate notes[4]	**250,000**	—	—	250,000
Interest on fixed rate notes[5]	**139,410**	25,347	101,389	12,674
Total	**519,308**	65,478	174,076	279,754

Material commitments

On 30 July 2012 the Group entered into a seven year outsourcing arrangement with CGI. The strategic partnership agreement will see CGI consolidating and upgrading Countrywide's existing IT systems and infrastructure to improve technology service delivery. The transformed IT services will support Countrywide's client-focused business strategy and ensure that it is able to increase its rate of innovation and rapidly develop and roll-out world class IT solutions.

Other than the contract with CGI there has been no other change to material contracts and material commitments since the Group issued the Annual Report for 2011 in February 2012.

G Turner
Chief Executive Officer
20 February 2013

[1] Reflects minimum lease payments on leasehold facilities (including branches).
[2] Principally reflects minimum lease payments on vehicles and IT equipment.
[3] The current pension funding plan commits the Group to contribution of £1.9 million per year for another six years.
[4] Borrowings are stated at their principal.
[5] Reflects the interest expense on the senior secured notes. It assumes that the interest is paid bi-annually in cash.

OUR STRATEGY

Capitalise upon its market leading positions in each of the Group's core businesses
The Group intends to focus on growing profitable market share in each of its core business areas by taking advantage of key areas of market growth or consolidation, developing innovative or differentiated propositions and assuming market leading service and performance positions for both retail and corporate customers.

To deliver an integrated service and product offering, positioned for growth in the current market but substantially levered to recovery
Lettings is a fragmented market and the Group believes there are more opportunities to grow via acquisitions and integrate new lettings businesses at accretive earning levels. The Group believes its ability to identify, fund and execute on new opportunities is a source of competitive advantage.

To continue to re-engineer the business to deliver a scalable, diversified and robust business with significant recurring revenue streams offering a risk-mitigated position in the residential property market.

The Group has re-engineered its processes to lower the fixed cost base and ensure that it remains flexible in order to respond to fluctuations in market volumes. Scalability, quality and cost efficiency have been and will continued to be improved in part as a result of outsourcing core but low value activities.

To build on the track record of consistently and successfully investing in growth to capture the significant opportunities that lie ahead

The Group will continue to ensure its employees have access to, a reliable, economic and scalable infrastructure enabling delivery of a consistently high quality service to colleagues, retail and corporate customers. The Group has entered into a strategic outsourcing agreement with CGI to improve its technology delivery by consolidating and upgrading existing IT processes. The transformed IT services shall continue to support the Group's customer-focused business strategy and facilitate a robust acquisition strategy that delivers immediate benefit.

To continue to build, incentivise and retain a world class management team committed to the business ethos and goals

The management team will continue to focus on being highly data driven, innovative, colleague and customer centric and capable of operating at pace. The success of the Group has been built around recruiting, incentivising and retaining the very best talent drawn from within the industry and from leading organisations in other industries when specific skills, knowledge or expertise are required. It plans to continue to promote talent internally supplemented by recruitment from outside the industry to introduce further innovation or skills that it perceives the property industry has historically lacked.

OUR STRENGTHS

The Group uses a multi-brand approach to build its national representation holding market leading positions within its core businesses. The Group's strong reputation in the market is founded on recognisable, local high-street brands targeting customer segments in every price bracket in the UK property market. The Group supports this with a scalable, integrated infrastructure designed to deliver a wide range of property related products and services targeted to both its retail customers and corporate clients.

The Group aims to achieve superior levels of performance in each of its businesses by utilising its scale, systems and support while focusing on providing excellent customer service to build loyalty.

The Board believes that the Group has a number of key strengths as set out below:

Scale and coverage to deliver through recognisable high-street brands
The Group operates across the UK residential property market, with a significant presence in key areas and property types through locally recognised and respected brands. It holds market leading positions in its core businesses. In addition, several of its brands have national and international awareness.

The Group's scale provides it with significant leverage to negotiate exclusive product arrangements with providers and reduce its costs when procuring products, systems and services from manufacturers on very competitive terms.

The Group is focussed on having the right brand in the right location to target customer segments across all price bands with the most appropriate products and services to match their needs.

The Group's depth and breadth of coverage, combined with its centralised infrastructure, positions management well to capture and analyse real-time data and make informed decisions in response to changing market dynamics.

Focus on recurring and resilient income streams with higher margins

The integrated nature of the Group has allowed it to significantly increase its expansion into more resilient areas of activity such as the London prime market, the lettings market and financial services markets. The lettings market and the re-mortgage sector of the mortgage market are less sensitive to the volume of housing transactions.

The Group is in a commanding position to offer complementary services from other parts of its business including mortgages, insurance, surveying, conveyancing and lettings services, to increase penetration and develop opportunities with retail customers.

Strong management team experienced in transformation and innovative growth

A focus of the management team has been to de-layer the management structure to ensure the senior team remain close to their customers and colleagues. In addition, the creation of more integrated and specialist functions has allowed the Group to hire leading specialists, the impact of which is evident in the areas of Information Technology, Corporate Business, Online Services, Marketing, Human Resources and Financial Services.

Growth, both through acquisitions and organically

The Group has been financially disciplined in its acquisition strategy, acquiring businesses around the country for attractive multiples and integrating these businesses within the overall Tunnel lettings model. This strategy has led to strong growth in the Group's share of the lettings marketplace.

Build retail customer relationship to drive value across the lifetime of the customers' property cycle both through building brand loyalty and maximising complementary services offering

The Group is aware that, for most retail customers, buying a property is the most expensive transaction that they will undertake in their lifetime. As a result, it focuses on ensuring that the customer service and advice that it provides is of the highest quality. The Group has 931 estate agency branches and a number of specialist lettings branches. This scale provides a valuable distribution channel for the introduction of complementary services provided by the Group's other divisions to grow its revenue and profit. The Group's customer-centric approach and centralised processes help the Group in create a more enduring relationship with its customers than is typically the case in the housing market.

Ongoing investment in technology and remote solutions

The Group has continued to invest significantly in technology to implement leading edge innovation in a cost effective way. For example, the Group has focused on online development and the highest proportion of customer leads into its business are now generated by its own websites.

RISKS

Housing market

The UK housing market is highly cyclical and historically has been central to the strength of the UK economy. Our businesses are highly linked to the UK housing market and any changes in volumes and price are immediately realised in the results of our businesses. Even the Lettings division, which has a more stable customer base, is linked to the volume of transactions of houses sold even though it is often counter-cyclical to the rest of the Group. The UK economy is still fragile with little growth recognised in 2012 or expected in the short term. The failure of the government backed initiatives to stimulate the economy and in particular to get credit flowing could give rise to further falls in house prices, beyond those already anticipated, and continuing low volumes of transactions. All of which would have a serious negative impact on the Group. In mitigation we are strengthening our lettings division which, by its nature, is more stable and counter cyclical to the housing market.

Availability of mortgage financing.

The parts of the Group's business that do not relate to the Prestige Market are particularly exposed to the level of mortgage approvals. The number of mortgage approvals can be affected by (i) macro-economic factors, such as the Eurozone crisis, constrained wholesale funding markets, the credit crunch, deleveraging of banks' balance sheets and a

more conservative attitude to risk; (ii) new regulations, especially those increasing the capital requirements of certain banks; and (iii) changes in lenders' approval policies and processes.

The levels of mortgage approvals directly impact the number of homes sold by the Group and consequently affects the revenues and profits of the Group in all its divisions. A reduction in available mortgage finance products at rates and on terms that are acceptable to consumers could therefore have a material adverse effect on the Group's business, prospects, results of operations and financial condition.

Liquidity risk
Our business is highly operationally geared and cash generation broadly follows the profitability of the business. The Group manages its cash balances through a central treasury arrangement. The timing of the Group's cash outflows can be predicted with reasonable accuracy, the major elements being salaries, VAT, rents, car leases, corporation tax and interest.

The Group's ability to take on further debt is restricted under the finance arrangements. However, the Group has secured a £25 million Revolving Credit Facility with a further £25 million accordion option under the terms of the Indenture. There are also provisions for incurring additional debt subject to certain conditions and covenants being met.

These financial results have been prepared on a going concern basis, which assumes that the Group will be able to meet its liabilities when they fall due for the foreseeable future. The board of directors has reviewed cash flow forecasts which have been stress tested with various assumptions regarding the future housing market volumes. Despite the fact that the transaction levels in the UK housing market remain at historically low levels, the directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

Interest rate risk
Increases in interest rates typically have a negative impact on the UK residential property market. A decline in the number of transactions, prices or commission rates in the UK residential property market, whether due to the impact of macroeconomic factors or otherwise, could have a material adverse effect on our business, financial condition and results of operations.

Throughout 2012 the UK base rate remained at a 50 year low of 0.5%, LIBOR rates have decreased also but not to the same level due to liquidity constraints in the financial markets.

In respect of the Group's debt, the Senior Secured Fixed Rates Notes are fixed at 10%; furthermore there is the option to Pay-In-Kind (PIK) the interest in the event that a Negative Fixed Charge Ratio is projected for future interest periods. The Group therefore has little risk from interest rate fluctuations.

Credit risk
We are exposed to credit risk from credit sales. It is our policy, implemented locally, to assess the credit risk of major new customers before entering contracts. The majority of customers use our services as part of a housing transaction and consequently we are paid from the proceeds of the house sale.

The Group treasury function manages the Group's cash balances and seeks to achieve reasonable rates of interest, but preservation of the capital is the overriding priority. A list of accepted deposit institutions is maintained and their credit ratings are kept under review.

Loss of a major customer
There are a number of important commercial relationships which affect more that one business area. The loss of a major contract would have a significant impact on the profitability of the Group. For this reason we have centralised the team responsible for liaising with key customers and developing new contracts.

Infrastructure and IT systems
The business of the Group is dependent on reliable and efficient systems. The Group also routinely transmits and receives personal, confidential and proprietary information by email and other electronic means and therefore relies on the secure processing, storage and transmission of such information. Moreover, the Group's Surveying Division is particularly reliant on the use of recently developed new technologies. As the Group's operations expand, it must make substantial expenditures and efforts to develop and maintain its operational systems and infrastructure.

Professional indemnity claims

The recent downturn in the UK housing market and in particular the related fallout from sub-prime lending, has exposed the group to a higher than normal level of professional insurance claims in our surveying division. We mitigate this risk by monitoring surveyor outputs and targeted use of Automatic Valuation Models in perceived higher risk cases.

CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's consolidated financial information under IFRS requires the directors to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Estimates and judgements are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. A full description of these judgements and estimates is disclosed in note 3 to the consolidated financial statements.

MANAGEMENT

Management of Countrywide Holdings, Ltd

The company is an exempted company incorporated in the Cayman Islands with limited liability.

Board of directors

As at 31 December 2012, the following people were Directors of the Company.

Name	Title	
Caleb Kramer	Director	Oaktree Capital Management
Sanjay Patel	Director	Apollo Management
Oren Peleg	Director	Oaktree Capital Management
Gernot Lohr	Director	Apollo Management
Justin Stevens	Director	Apollo Management
Ian Cash	Director	Alchemy Special Opportunities

All the directors served throughout the year.

Management of Countrywide

The following table provides information regarding certain of the Executive Officers and members of the Operating Committee of Countrywide.

Name	Title
Grenville Turner	Chief Executive Officer
Jim Clarke	Chief Finance Officer
Nick Dunning	Group Commercial Director
Paul Creffield	Corporate Projects Director and Chairman Surveying and Conveyancing Divisions
Robert Scarff	Managing Director, Estate Agency and Financial Services Division
Nigel Stockton	Financial Services Director

Executive Officers Biographies

Grenville Turner has been a member of the board of Countrywide since August 1, 2006, when he joined Countrywide as an executive director. He became Chief Executive Officer on January 1, 2008 and is also a director of Countrywide Estate Agents and Executive Chairman of Hamptons International. Mr Turner qualified as a Chartered Banker in 1982 and holds a master's degree in business administration from Cranfield Business School. He was formerly Chief Executive, Intelligent Finance and Chief Executive, Business to Business at HBOS and previously served as a director of St James Place Capital Plc, Sainsbury's Bank Plc and Rightmove.co.uk Limited.

Jim Clarke joined the Group in November 2007. He was previously Finance Director and company Secretary of JD Wetherspoon and previously worked for David Lloyd Leisure (a division of Whitbread plc) and HP Bulmer Holdings plc. A graduate of Stirling University and qualified as a Chartered Accountant in 1984.

Nick Dunning joined the Group in September 2007, as Commercial Director responsible for the Lettings Division, Marketing, Corporate Development and IT. Previously Vice President and General Manager of Home and Small business, EMEA, for Dell Computers. Graduated from Oxford University in 1985 and is a qualified Chartered Accountant.

Paul Creffield was formerly a director of Countrywide Surveyors and other Group companies. He spent nearly two years at Rightmove.co.uk as one of the operational Managing Directors through a period of major growth before returning to Countrywide plc. Paul Creffield is now responsible for our Surveying and Conveyancing Divisions, is director of Group projects and has extensive domain knowledge across the Group.

Robert Scarff joined Countrywide as a trainee sales negotiator with Taylors Estate Agents in 1978. Mr. Scarff was a Sales Director of the Estate Agency and Financial Services Division. He was instrumental in establishing Countrywide's Conveyancing Division in 1997 and held the position of Managing Director until December 31, 1998, when he was appointed to his current position. Mr. Scarff previously served as Managing Director of Dixons Estate Agents and is a Fellow of the National Association of Estate Agents.

Nigel Stockton joined Countrywide from Lloyds Banking Group where he was the Sales Director for Mortgages. Previous roles include Managing Director of Birmingham Midshires, Managing Director of HBOS Intermediary and HBOS Head of Partnerships, prior to which he held commercial directorships with the Financial Times, FT.com and an internet start up firm. After graduating from York University, Nigel spent the first 12 years of his career with NatWest in various commercial lending, sales and service roles. Nigel holds an MBA from London Business School.

Management compensation

Executive Service Contracts

The Executive Officers of Countrywide served throughout 2012, and their employment is subject to service agreements (the "Service Agreements"). Details of the terms of engagement for our Executive management team are set out below:

The salary of each Executive Officer is reviewed annually by the board. The Executive Officers are entitled to reimbursement of expenses incurred during the course of their duties and are entitled to receive full remuneration and benefits if incapacitated by sickness for up to 26 weeks in any period of 12 months. Countrywide is entitled to pay the Executive remuneration and benefits in lieu of the whole of any part of the notice period.

Notice

The Service Agreement of Mr. Turner is terminable by either Countrywide or Mr Turner giving not less than 12 months' written notice. The employment of each Executive Officer is terminable with immediate effect if such Executive Officer fails or neglects to perform his duties over a period of not less than six months, is guilty of any material or persistent breach of the applicable Service Agreement, is guilty of gross misconduct, is disqualified from holding office, is convicted of a criminal offence (excluding certain road traffic offences), is subject to a bankruptcy/administration order, becomes mentally ill or forms a prohibited addiction or becomes unable to perform his duties by reason of accident, ill-health or otherwise for a period aggregating not less than 26 consecutive weeks in any period of 12 months.

If any of the Executives Officers' employment is terminated as a result of liquidation, reorganisation or reconstruction of Countrywide and he is offered employment by a reconstructed company or by another Countrywide company on terms not less favourable, such Executive Officer shall be obliged to accept such an offer and shall have no claim against Countrywide.

However, if, as a result of a general offer made to members of Countrywide, a third party obtains control of Countrywide, each Executive Officer is entitled to terminate his employment on three months' written notice, provided that such notice is served within one month of the third party obtaining control. In such a case, the restrictive covenants described below will not apply. In addition, the period of notice required to be given by Countrywide to the Executive Officers to terminate their employment will, for a period of 12 months from the date of the third party obtaining control, be 12 months and the restrictive covenants will again not apply following any such termination.

Bonus

Each of the Executive Officers is entitled to participate in the bonus arrangements operated by Countrywide from time to time. Such bonus arrangements shall be determined at the discretion of the board of Countrywide Holdings, Ltd. The bonuses are awarded subject to the achievement of certain targets notified to the Executive Officers at the commencement of each financial year. Bonuses were paid in respect of performance for 2012, 2011 and 2010.

Benefits

Each Executive Officer is entitled to 30 days' holiday per annum (in addition to statutory holidays). Each Executive Officer may elect to receive a car allowance for business and personal travel. Alternatively, each may have a company car for business and personal use for which Countrywide bears all related maintenance, insurance, tax and fuel expenses.

The Executive Officers are entitled to receive pension benefits under the Countrywide Group Pension Scheme which is a defined contribution scheme, with the exception of Mr Turner and Mr Creffield. Mr Clarke receives similar pension benefits, the contributions are made to his personal pension arrangements.

Each Executive is entitled to the benefits of a life assurance policy which provides a benefit of four times the applicable Executive Officer's pensionable salary plus a spouse's benefit of five times the applicable Executive Officer's

pensionable salary. Each Executive Officer is entitled to private medical insurance (for himself and his family), and permanent health insurance.

Each Executive Officer is entitled to be indemnified by Countrywide against liabilities incurred in the course of his employment in defending proceedings in which he is acquitted or judgement is given in his favour. Each Executive Officer is entitled to cover under the Group directors' and Officers' Liability Insurance Policy. The board may at any time substitute any of the remuneration and benefits of any of the Executive Officers (with the exception of salary), provided that the total overall compensation does not disadvantage the applicable Executive Officer. In addition, upon a material change in the circumstances of Countrywide, the board may withdraw or restrict the remuneration and benefits provided to the Executive Officer, except for salary and bonus, on giving not less than 12 months' notice.

Restrictions

The Executive Officers are prohibited, without prior consent from the board, from being directly or indirectly engaged, concerned or interested in business activities which may compete with Countrywide. Each Executive Officer is subject to a confidentiality undertaking without limitation in time and is subject to copyright and intellectual property restrictions in respect of work undertaken in the course of his employment without limitation in time. In addition, each Executive Officer is subject to non-compete and non-solicitation restrictive covenants for a period of six months following termination of his employment and is restricted from soliciting, enticing away or employing any employee of Countrywide engaged in a managerial capacity in a department for which the Executive Officer has had direct or indirect responsibility. Each Executive Officer is also prohibited from assisting, advising or giving any information to any person in connection with the above restrictions.

Management Incentive Plan

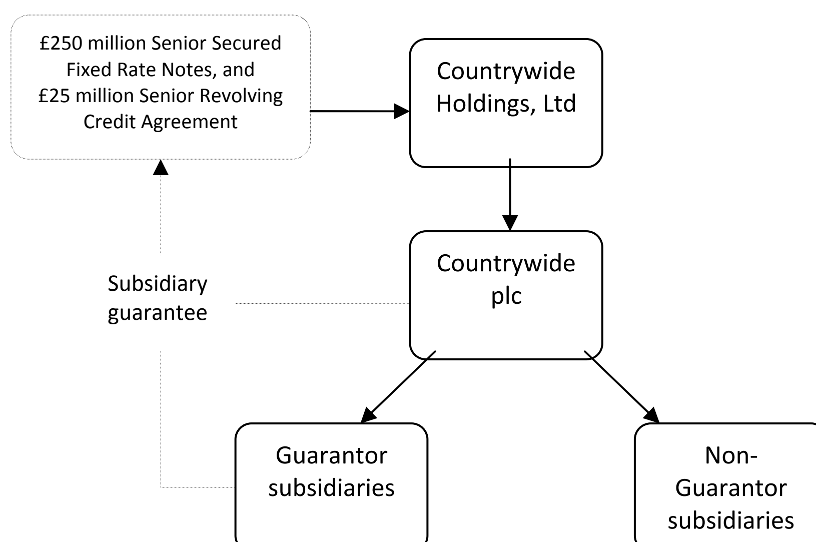
At December 31, 2012 the members of the Executive management team had subscribed to the Management Incentive Plan.

Under the terms of the Management Incentive Plan the Executive directors subscribed for Class C Shares in the company. The plan is designated such that the value of the employees' subscription is realised in the event of a disposal by the investors. There are provisions for leavers in the interim period, subject to the circumstances of that departure.

GROUP STRUCTURE AND OWNERSHIP

Summary Corporate and Financing Structure

Oaktree Capital Management, Apollo Management and Alchemy Special Opportunities each have the right to appoint a director to the board of Countrywide Holdings, Ltd.



The Senior Secured Fixed Rate Notes and Senior Revolving Credit Agreement are secured by a first priority pledge of substantially all of the assets owned by the Group, including the equity interests of Countrywide plc. The Senior Revolving Credit Agreement ranks pari-passu to the Senior Secured Fixed Rate Notes in all respects except, in the event of a default or winding up, the Senior Revolving Credit Facility ranks ahead of the Notes.

Principal shareholders

The following table sets out information on the material beneficial ownership of the shares at 31 December 2012.

Owner	Number of A shares beneficially owned	Number of B shares beneficially owned	Percentage of voting share capital	Number of C shares beneficially owned
Oaktree Capital Management	80,930,660	80,930,660	55.40%	—
Apollo Management	37,039,398	37,039,398	25.40%	—
Alchemy Special Opportunities Fund LP	12,896,834	12,896,834	8.80%	—
Other investors, all less than 10%	15,199,420	15,199,420	10.40%	—
Management team	—	—	—	13,045,223
	146,066,312	146,066,312	100.00%	13,045,223

For further information on share capital please refer to note 22.

Guarantor Information

The following subsidiary companies of Countrywide Holdings, Ltd have guaranteed the obligations under the Notes:

- Countrywide plc, 17 Duke Street, Chelmsford, Essex CM1 1HP, United Kingdom, with registered number 04947152, date of incorporation: October 29, 2003,
- Countrywide Property Lawyers Limited, Lee House, 90 Great Bridgewater Street, Manchester M1 5RR, United Kingdom, with registered number 02066827, date of incorporation: October 23, 1986,
- Balanus Limited, 17 Duke Street, Chelmsford, Essex CM1 1HP with registered number 01837522, date of incorporation: August 1, 1984,
- Countrywide Estate Agents FS Limited, Countrywide House, 88-103 Caldecotte Lake Drive, Caldecotte, Milton Keynes, Bucks, MK7 8JT United Kingdom with registered number 01084123, date of incorporation: November 28, 1972,

- Slater Hogg Mortgages Limited, Countrywide House, 88-103 Caldecotte Lake Drive, Caldecotte, Milton Keynes, Bucks, MK7 8JT, United Kingdom with registered number 04206425, date of incorporation: April 26, 2001,
- Countrywide Estate Agents, Countrywide House, 88-103 Caldecotte Lake Drive, Caldecotte, Milton Keynes, Bucks, MK7 8JT, United Kingdom, with registered number 00789476, date of incorporation: January 27, 1964,
- Countrywide Surveyors Limited, Countrywide House, 88-103 Caldecotte Lake Drive, Caldecotte, Milton Keynes, Bucks, MK7 8JT, United Kingdom with registered number 01954031, date of incorporation: November 4, 1985;
- TitleAbsolute Limited, Churchgate House 2nd Floor, 56 Oxford Street, Manchester M1 6EU, United Kingdom with registered number 03958105, date of incorporation: 28 March 2000;
- Hamptons Group Limited, 32 Grosvenor Square, London, W1K 2HJ, United Kingdom with registered number 03145691, date of incorporation: 12 January 1996;
- Hamptons Estates Limited, 32 Grosvenor Square, London, W1K 2HJ, United Kingdom with registered number 02036215, date of incorporation: 11 July 1986;
- Hamptons International Mortgages Limited 32 Grosvenor Square, London, W1K 2HJ, United Kingdom with registered number 04312137, date of incorporation: 26 January 2001;
- Mortgage Intelligence Holdings Limited, Roddis House, 12 Old Christchurch Road, Bournemouth BH1 1JG, United Kingdom with registered number 06775606, date of incorporation: 17 December 2008;
- Mortgage Intelligence Limited, Roddis House, 12 Old Christchurch Road, Bournemouth BH1 1JG, United Kingdom with registered number 03018519, date of incorporation: 6 February 1995;
- Mortgage Next Limited, Roddis House, 12 Old Christchurch Road, Bournemouth BH1 1JG, United Kingdom with registered number 03175440, date of incorporation: 20 March 1996;
- Blundells Property Services Limited, 17 Duke Street, Chelmsford, Essex CM1 1HP, United Kingdom, with registered number 06446938, date of incorporation: 6 December 2007.

For the year ended 31 December 2012 the guarantors accounted for 96% of the non-FSA group consolidated revenue, 101% of the non-FSA group consolidated EBITDA before exceptionals and 99% of non-FSA group total assets excluding intercompany balances, internally generated goodwill and investments in subsidiaries. Our FSA regulated entities are not guarantors and accounted for approximately 9% of our total group revenue, 14% of our total group EBITDA before exceptionals and 1% of total group assets excluding intercompany balances, internally generated goodwill and investments in subsidiaries.

No significant change

Except as disclosed in these financial statements

- there has been no material adverse change in the financial position of the company or any of the guarantors (the "Companies") since December 31, 2012; and
- the Group is not, and has not been, involved in any governmental, legal or arbitration proceedings that may have or had in the 12 months before the date of this Report, a significant effect on our financial position or profitability. We are not aware that any such proceedings are pending or threatened.

DIRECTORS' RESPONSIBILITIES STATEMENT

The directors are responsible for preparing the non-statutory Group financial statements in accordance with the basis of preparation and accounting policies in note 2, prepared in respect of their stewardship obligations and fiduciary responsibilities in respect of the Company's obligations under the Trust Indenture ('the Indenture') dated 8 May 2009 governing the Senior Secured Notes, issued by Countrywide Holdings, Ltd, which requires the preparation of audited consolidated financial statements. The directors must not approve the non-statutory Group financial statements unless they are satisfied that they have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in note 2 to the non-statutory Group financial statements. In preparing these non-statutory Group financial statements, the directors have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and accounting estimates that are reasonable and prudent;
- stated the basis of preparation and accounting polices applied;
- prepared the non-statutory Group financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE DIRECTORS OF COUNTRYWIDE HOLDINGS, LTD

We have audited the non-statutory consolidated financial statements of Countrywide Holdings, Ltd for the year ended 31 December 2012, which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated Statement of Changes in Equity, the Consolidated Balance Sheet, the Consolidated Cash Flow Statement, and the related notes.

Respective responsibilities of the directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 27 the directors are responsible for the preparation of the non-statutory consolidated financial statements in accordance with the basis of preparation and accounting policies in note 2 to the non-statutory consolidated financial statements. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinion, has been prepared for and only for the Directors and no-one else, to assist the Directors in discharging their stewardship obligations and fiduciary responsibilities in respect of the Company's obligations under the Trust Indenture ('the Indenture') dated 8 May 2009 governing the Senior Secured Notes, issued by Countrywide Holdings, Ltd, which requires the preparation of audited consolidated financial statements and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come including without limitation under any contractual obligations of the company and including without limitation the Trustees for and holders of the Senior Secured Notes issued under the Indenture, save where expressly agreed by our prior consent in writing.

Scope of the audit of the non-statutory consolidated financial statements

An audit involves obtaining evidence about the amounts and disclosures in the non-statutory consolidated financial statements sufficient to give reasonable assurance that the non-statutory consolidated financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the non-statutory consolidated financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the non-statutory consolidated financial statements

In our opinion the non-statutory consolidated financial statements for the year ended 31 December 2012 have been properly prepared, in all material respects, in accordance with the basis of preparation and accounting policies in note 2 to the non-statutory consolidated financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London
20 February 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012	2011	2010
		£'000	£'000	£'000
Revenue		**527,355**	498,855	468,041
Other income	5	**12,493**	10,195	9,881
	4	**539,848**	509,050	477,922
Employee benefit costs	6(a)	**(297,518)**	(283,047)	(270,464)
Depreciation on property, plant & equipment and amortisation on purchased computer software	12/13	**(8,647)**	(9,629)	(9,305)
Other operating costs	7	**(180,794)**	(171,136)	(157,482)
Share of profit from joint venture	14(b)	**774**	314	359
Group operating profit before exceptional items and amortisation of assets recognised through business combinations		**53,663**	**45,552**	**41,030**
Amortisation of intangible assets recognised through business combinations	12	**(7,709)**	(9,445)	(13,271)
Exceptional income	10	**7,867**	—	—
Exceptional costs	10	**(37,060)**	(16,547)	(18,992)
Group operating profit		**16,761**	**19,560**	**8,767**
Finance costs	8	**(28,531)**	(27,658)	(23,812)
Finance income	9	**999**	793	2,014
Net finance costs		**(27,532)**	(26,865)	(21,798)
Loss before taxation		**(10,771)**	(7,305)	(13,031)
Taxation	11	**7,776**	4,664	4,758
Loss for the year		**(2,995)**	(2,641)	(8,273)
Attributable to:				
Owners of the parent		**(3,417)**	(2,842)	(8,273)
Non-controlling interests		**422**	201	—
Loss attributable for the year		**(2,995)**	(2,641)	(8,273)

The notes on pages 36 to 77 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Note	2012	2011	2010
		£'000	£'000	£'000
Loss for the year		**(2,995)**	(2,641)	(8,273)
Other comprehensive loss:				
Foreign exchange rate gain/(losses)		**16**	(15)	(30)
Movement in fair value of available-for-sale financial assets	14(c)	**953**	—	—
Actuarial gain/(loss) arising in the pension scheme net of tax	6(c)	**103**	(1,912)	(244)
Total other comprehensive profit/(loss)		**1,072**	(1,927)	(274)
Total comprehensive loss for the year, net of tax		**(1,923)**	(4,568)	(8,547)
Attributable to:				
Owners of the parent		**(2,345)**	(4,769)	(8,547)
Non-controlling interests		**422**	201	—
		(1,923)	(4,568)	(8,547)

Items in the statement above are disclosed net of tax. The income tax relating to each component of other comprehensive income is disclosed in note 11.

The notes on pages 36 to 77 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to owners of the parent						
		Share capital	Share premium	Capital redemption reserve	Foreign exchange reserve	Retained earnings	Non-controlling interests	Total equity
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2010		**156,703**	**46,086**	**36,474**	**—**	**51,387**	**—**	**290,650**
Loss for the year		—	—	—	—	(8,273)	—	(8,273)
Other comprehensive loss								
Currency translation differences		—	—	—	(30)	—	—	(30)
Actuarial loss in the pension fund	6(c)	—	—	—	—	(336)	—	(336)
Deferred tax movement relating to pension	21	—	—	—	—	92	—	92
Total other comprehensive loss		—	—	—	(30)	(244)	—	(274)
Total comprehensive loss		—	—	—	(30)	(8,517)	—	(8,547)
Transactions with owners								
Issue of new shares for cash	22	3	157	—	—	—	—	160
Repurchase of shares	22	(9,059)	—	9,059	—	(26,015)	—	(26,015)
Transactions with owners		(9,056)	157	9,059	—	(26,015)	—	(25,855)
Balance at 31 December 2010		**147,647**	**46,243**	**45,533**	**(30)**	**16,855**	**—**	**256,248**
(Loss)/profit for the year		—	—	—	—	(2,842)	201	(2,641)
Other comprehensive (loss)/profit								
Currency translation differences		—	—	—	(15)	—	—	(15)
Actuarial loss in the pension fund	6(c)	—	—	—		(2,601)	—	(2,601)
Deferred tax movement relating to pension	21	—	—	—	—	689	—	689
Total other comprehensive loss		—	—	—	(15)	(1,912)	—	(1,927)
Total comprehensive (loss)/income		—	—	—	(15)	(4,754)	201	(4,568)
Transactions with owners								
Options to acquire non-controlling interests		—	—	—	—	(8,389)	—	(8,389)
Issue of new shares for cash	22	10	534	—	—	—	—	544
Cancellation of shares	22	(3)	—	3	—	—	—	—
Movement in non-controlling interests		—	—	—	—	—	37	37
Transactions with owners		7	534	3	—	(8,389)	37	(7,808)
Balance at 31 December 2011		**147,654**	**46,777**	**45,536**	**(45)**	**3,712**	**238**	**243,872**

The notes on pages 36 to 77 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

		Attributable to owners of the parent						
	Note	Share capital	Share premium	Capital redemption reserve	Foreign exchange reserve	Retained earnings	Non-controlling interests	Total equity
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2012		**147,654**	**46,777**	**45,536**	**(45)**	**3,712**	**238**	**243,872**
(Loss)/profit for the year		—	—	—	—	**(3,417)**	**422**	**(2,995)**
Other comprehensive income/(loss)								
Currency translation differences		—	—	—	**16**	—	—	**16**
Movement in fair value of available-for-sale financial	14(c)	—	—	—	—	**953**	—	**953**
Actuarial loss in the pension fund	6(c)	—	—	—	—	**137**	—	**137**
Deferred tax movement relating to pension	21	—	—	—	—	**(34)**	—	**(34)**
Total other comprehensive loss		—	—	—	**16**	**1,056**	—	**1,072**
Total comprehensive loss		—	—	—	**16**	**(2,361)**	**422**	**(1,923)**
Transactions with owners								
Issue of new shares for cash	22	**7**	**502**	—	—	—	—	**509**
Repurchase of shares	22	**(4)**	—	**4**	—	—	—	—
Dividends paid		—	—	—	—	—	**(159)**	**(159)**
Transactions with owners		**3**	**502**	**4**	—	—	**(159)**	**350**
Balance at 31 December 2012		**147,657**	**47,279**	**45,540**	**(29)**	**1,351**	**501**	**242,299**

The notes on pages 36 to 77 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December 2012

	Note	2012	2011
		£'000	£'000
Assets			
Non-current assets			
Goodwill	12(a)	**356,517**	344,944
Other intangible assets	12(b)	**193,700**	198,933
Property, plant and equipment	13	**23,596**	22,508
Investments accounted for using the equity method:			
Investments in joint venture	14(b)	**2,676**	2,650
Available-for-sale financial assets	14(c)	**14,370**	317
Deferred tax asset	21	**16,458**	16,088
Total non-current assets		**607,317**	585,440
Current assets			
Trade and other receivables	15	**68,178**	67,108
Cash and cash equivalents	16	**46,544**	60,636
Total current assets		**114,722**	127,744
Total assets		**722,039**	713,184

The notes on pages 36 to 77 form an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET *(continued)*

As at 31 December 2012

	Note	2012	2011
		£'000	£'000
Equity			
Capital and reserves attributable to the owners of the parent			
Share capital	22	**147,657**	147,654
Share premium		**47,279**	46,777
Capital redemption reserve		**45,540**	45,536
Foreign exchange reserve		**(29)**	(45)
Retained earnings		**1,351**	3,712
Equity shareholder funds		**241,798**	243,634
Non-controlling interest	14(a)	**501**	238
Total equity		**242,299**	243,872
Liabilities			
Non-current liabilities			
Financial liabilities – loans and borrowings	18	**249,774**	249,513
Defined benefit scheme liabilities	6(c)	**6,612**	6,463
Provisions	20	**34,366**	20,211
Deferred income	19	**16,040**	16,667
Trade and other payables due after one year	17	**10,811**	13,029
Deferred tax liability	21	**43,676**	50,489
Total non-current liabilities		**361,279**	356,372
Current liabilities			
Trade and other payables	17	**80,318**	79,849
Deferred income	19	**13,213**	9,850
Provisions	20	**24,222**	21,908
Current tax liabilities		**708**	1,333
Total current liabilities		**118,461**	112,940
Total liabilities		**479,740**	469,312
Total equity and liabilities		**722,039**	713,184

The notes on pages 36 to 77 form an integral part of these consolidated financial statements.

The financial statements on pages 29 to 77 were approved by the Board of Directors and signed on its behalf by:

J Clarke
Chief Finance Officer
20 February 2013

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2012

	Note	2012	2011	2010
		£'000	£'000	£'000
Cash flows from operating activities				
Loss before taxation		**(10,771)**	(7,305)	(13,031)
Adjustments for:				
Depreciation	13	**6,328**	6,969	6,517
Amortisation of intangible assets	12	**10,028**	12,105	16,059
Impairment	13	**133**	—	—
Loss /(profit) on disposal of fixed assets		**35**	(12)	(333)
Unrealised gains (exceptional income)	10	**(7,867)**	—	—
Income from joint venture	14(b)	**(774)**	(314)	(359)
Finance expense	8	**28,531**	27,658	23,812
Finance income	9	**(999)**	(793)	(2,014)
		24,644	38,308	30,651
Changes in working capital (excluding effects of acquisitions and disposals of Group undertakings):				
(Increase)/decrease in trade and other receivables		**(796)**	6,189	4,451
(Decrease)/increase in trade and other payables		**(9,092)**	9,691	(10,748)
Increase/(decrease) in provisions		**16,356**	(3,750)	3,123
Cash generated from operations		**31,112**	50,438	27,477
Interest paid		**(25,564)**	(25,791)	(22,337)
Income tax paid		**(972)**	(552)	(2,918)
Net cash inflow from operating activities		**4,576**	24,095	2,222
Cash flows from investing activities				
Acquisitions net of cash acquired	24	**(10,078)**	(16,328)	(85,718)
Purchase of property, plant and equipment	13	**(8,353)**	(5,775)	(5,348)
Purchase of intangible assets	12	**(2,177)**	(1,652)	(2,718)
Proceeds from sale of property, plant and equipment		**1,097**	381	1,895
Proceeds from sale of a subsidiary		**—**	500	—
Purchase of financial assets available-for-sale	14(c)	**(905)**	—	(303)
Dividend received from joint venture	14(b)	**748**	336	500
Interest received		**650**	886	2,105
Net cash outflow from investing activities		**(19,018)**	(21,652)	(89,587)
Cash flows from financing activities				
Proceeds from issue of share capital		**509**	544	160
Financing fees paid		**—**	(1,258)	(1,920)
Issue of bonds		**—**	—	75,000
Repayment of overseas loan		**—**	—	(1,070)
Dividend paid		**(159)**	—	—
Purchase of own shares		**—**	—	(26,015)
Net cash inflow/(outflow) from financing activities		**350**	(714)	46,155
Net(decrease)/ increase in cash and cash equivalents		**(14,092)**	1,729	(41,210)
Cash and cash equivalents at 1 January		**60,636**	58,907	100,117
Cash and cash equivalents at 31 December		**46,544**	60,636	58,907

The notes on pages 36 to 77 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

Countrywide Holdings, Ltd. (the 'Company') is a company incorporated and domiciled in the Cayman Islands. The address of the registered office is: 190 Elgin Avenue, George Town, Grand Cayman, KY1-9005, Cayman Islands. The company is the holding company of Countrywide plc and its subsidiaries (collectively, the "Group"), whose principal activity is the provision of services to the residential property market in the UK.

2. ACCOUNTING POLICIES

(a) Basis of preparation

The Group's consolidated financial information has been prepared under the historical cost convention and in accordance with International Financial Reporting Standards including International Accounting Standards and Interpretations (collectively 'IFRS') issued by the International Accounting Standards Board ('IASB') and endorsed for use by companies in the EU.

The preparation of the consolidated financial information in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amount of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results may differ from those estimates. These are discussed further in note 3.

The comparative balance sheet has been restated to reclassify £1.0 million loan notes as borrowings. These had previously been classified as non-current trade and other payables. This reclassification has no impact on total value of non-current liabilities as at 31 December 2011. Further details are shown in notes 17 and 18.

(b) Going concern

These financial results have been prepared on a going concern basis, which assumes that the Group will be able to meet its liabilities when they fall due for the foreseeable future. The Board of Directors has reviewed cash flow forecasts which have been stress tested with various assumptions regarding the future housing market volumes. Despite the fact that the transaction levels in the UK housing market remain at historically low levels, the Directors have concluded that it is appropriate to prepare the financial statements on a going concern basis.

(c) New standards, amendments and interpretations

Standards, amendments and interpretations effective and adopted by the Group:
There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the group.

Standards, amendments and interpretations which are not effective or early adopted by the Group:

- **IAS 1 (amendment), 'Financial statement presentation'** (effective 1 July 2012). This amendment changes the disclosure of items presented in other comprehensive income (OCI) in the statement of comprehensive income. The amendment does not have a material impact on the consolidated financial information.

- **IAS 12 (amendment), 'Income taxes' on deferred taxes** (effective 1 January 2013). This amendment introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. The amendment does not have a material impact on the combined financial information.

- **IAS 19, (revised 2011), 'Employee benefits'** (effective 1 January 2013). This amendment makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The amendment is not expected to have a material impact on the consolidated financial information.

- **IFRS 7 (amendment), 'Financial instruments – Disclosures' on asset and liability offsetting** (effective 1 January 2013). This amendment includes new disclosures to facilitate comparison between those entities that prepare IFRS financial statements to those that prepare financial statements in accordance with US GAAP. The amendment does not have a material impact on the consolidated financial information.

2. ACCOUNTING POLICIES *(continued)*

(c) New standards, amendments and interpretations *(continued)*

- **IFRS 13 'Fair value measurement'** (effective 1 January 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard did not have a material impact on the consolidated financial information.

- **Annual improvements 2011** (effective 1 January 2013). These annual improvements include changes to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34. These amendments did not have material impact on the consolidated financial information.

- **IAS 27 (revised 2011), 'Separate financial statements'** (effective 1 January 2014). This clarifies that the consequential amendments from IAS 27 to IAS 21 'The effect of changes in foreign exchanges rates', IAS 28 'Investments in associates', and IAS 31 'Interests in joint ventures', apply prospectively for annual periods beginning on or after 1 July 2009. The amendment is not expected to have a material impact on the consolidated financial information.

- **IAS 28 (revised 2011), 'Investments in associates and joint ventures'** (effective 1 January 2014). This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11. The amendment is not expected to have a material impact on the consolidated financial information.

- **IAS 32 (amendment), 'Financial instruments – Presentation' on asset and liability offsetting** (effective 1 January 2014). This amendment clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet. The Group is yet to assess the impact of IAS 39 on its consolidated financial information.

- **IFRS 10 'Consolidated financial statements'** (effective 1 January 2014). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess. This new standard is not expected to have a material impact on the consolidation of subsidiaries.

- **IFRS 11 'Joint arrangements'** (effective 1 January 2014). This standard provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Proportional consolidation of joint ventures is no longer allowed. The standard is not expected to have a material impact on the consolidated financial information, as the Group has historically applied equity method to account for its joint venture interests.

- **IFRS 12 'Disclosure of interests in other entities'** (effective 1 January 2014). This standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess the impact of IFRS 12 on the consolidated financial information.

- **Amendments to IFRS 10, IFRS 11 and IFRS 12** (effective 1 January 2014). These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. These amendments are not expected to have material impact on the consolidated financial information.

2. ACCOUNTING POLICIES *(continued)*

(c) New standards, amendments and interpretations *(continued)*

- **IFRS 9 'Financial instruments', on 'Classification and measurement'** (effective 1 January 2015). This is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39. IFRS 9 has two measurement categories: amortised cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortised cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. Amortised cost accounting will also be applicable for most financial liabilities, with bifurcation of embedded derivatives. The main change is that in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess the impact of IFRS 9 on its consolidated financial information.

(d) Basis of consolidation

Subsidiaries
Subsidiaries are entities controlled by the company. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. Control is generally accompanied by a shareholding of more than one half of the voting rights. The financial information of subsidiaries is included in the consolidated financial information from the date that control commences until the date that control ceases.

The purchase method of accounting is used to account for acquisitions and the cost of acquisition is measured as the fair value of assets given, equity instruments issued and liabilities incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair value at the acquisition date. Acquisition costs are written off to the income statement. The accounting policies of subsidiaries acquired are changed, where necessary, to ensure consistency with policies operated by the Group.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest’s proportionate share of the recognised amounts of acquiree’s identifiable net assets. If the business combination is achieved in stages, the acquisition date fair value of the acquirer’s previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Jointly controlled entities (Joint ventures)
A jointly controlled entity is an undertaking in which the Group has a long-term interest and over which it exercises joint control. Jointly controlled entities are equity accounted, meaning that the Group’s share of the profits and losses of jointly controlled entities is included in the consolidated income statement and its share of net assets is included in investments in the consolidated balance sheet. When the Group’s share of losses exceeds its interest in a jointly controlled entity, the Group’s carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of a jointly controlled entity. Upon consolidation of the joint entity results, accounting policies are aligned where applicable.

2. ACCOUNTING POLICIES *(continued)*

Transactions eliminated on consolidation
Intra-group balances, and any gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial information. Gains arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Losses are eliminated in the same way as gains, but only to the extent that there is no evidence of impairment.

(e) Foreign currency translation
The functional currency of the Company is pounds sterling because that is the currency of the primary economic environment in which the Group operates. The Group's presentation currency is pounds sterling.

Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or costs'. All other foreign exchange gains and losses are presented in the income statement within 'other income or other operating costs'.

Group companies
The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement presented are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in equity.

The following exchange rates were applied for £1 sterling at 31 December:

	2012	2011	2010
Hong Kong Dollars	12.277	12.040	11.890
Indian Rupees	69.930	69.900	68.000
Euros	1.222	1.165	1.180

2. ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment

Owned assets
Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

Leased assets
Leases under which the Group assumes substantially all the risks and rewards of ownership of an asset are classified as finance leases. Property, plant and equipment acquired under finance leases is recorded at fair value or, if lower, the present value of minimum lease payments at inception of the lease, less depreciation and any impairment.

Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in the other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment under finance leases is depreciated over the shorter of the useful life of the asset and lease term.

Depreciation
Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term. Freehold land is not depreciated. The estimated useful lives are as follows:

- Freehold buildings – 50 years
- Leasehold properties and improvements – over the period of the lease
- Furniture and equipment – 3 to 5 years
- Motor vehicles – 3 to 5 years

The residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

(g) Intangible assets

Goodwill
Goodwill has been recognised on acquisitions of subsidiaries and joint ventures. Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquiree at the date of acquisition and the value of the non-controlling interest in the acquiree. Acquisition costs are written off to the income statement.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units and is not amortised but is tested annually for impairment or more frequently if events or changes in circumstances indicate potential impairment.

2. ACCOUNTING POLICIES *(continued)*

Goodwill (continued)
In respect of joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the associated undertakings and joint ventures.

Excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost arising on an acquisition is recognised in the income statement.

Other intangible assets
Intangible assets other than goodwill that are acquired by the Group, principally acquired brands, customer contracts and relationships, computer software, pipeline and other intangibles, are stated at cost less accumulated amortisation where charged, and impairment losses. Brands are considered to have indefinite lives.

Acquired computer software are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Internal costs that are incurred during the development of significant and separately identifiable computer software for use in the business are capitalised where the software is integral to the generation of future economic benefits. Internal costs that are capitalised are limited to incremental costs specific to the project.

Amortisation
Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. The estimated useful lives are as follows:

- Computer Software - 5 years
- Brand names – indefinite life.
  Assets are tested annually for impairment or more frequently if events or changes in circumstances indicate potential impairment.
- Customer contacts and relationships – 5 to 10 years
- Pipeline (Agreed but un-exchanged house sales at date of acquisition) – 3 months
- Other intangibles – 25 years

(h) Impairment of non-financial assets
The carrying amounts of the Group's non-current assets are reviewed for impairment annually or whenever events and changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

In respect of goodwill, intangible assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each annual balance sheet date. The recoverable amount is the higher of fair value less costs to sell and value in use.

Impairment losses represent the amount by which the carrying value exceeds the recoverable amount; they are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. ACCOUNTING POLICIES *(continued)*

(i) Financial assets

Classification

The Group classifies its financial assets as loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that arise principally through the provision of services to customers. They are recognised are initially recognised at fair value, and are subsequently stated at amortised cost using the effective interest method. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. Loans and receivables comprise mainly cash and cash equivalents and trade and other receivables.

Available-for-sale

Available for sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Recognition and measurement

Regular purchases and sales of financial assets are recognised on the trade-date; the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

Impairment of financial assets

Impairment provisions are recognised when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable.

For trade receivables, which are reported net, such provisions are recorded in a separate provision account with the loss being recognised within other operating costs in the income statement. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

In the case of assets classified as available for sale impairment losses are recognised in the consolidated income statement and arise from objective evidence that these assets have declined in value such as a significant or prolonged decline in the fair value of the security below its cost.

(j) Trade and other receivables

Trade and other receivables are stated initially at fair value and subsequently at their amortised cost less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables.

2. ACCOUNTING POLICIES *(continued)*

(k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows and are presented in current liabilities.

(l) Trade and other payables

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

(m) Borrowings

Borrowings are initially recognised at fair value. Such interest bearing liabilities are subsequently measured at amortised cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs and premia payable on redemption, as well as any interest payable while liability is outstanding.

(n) Options to acquire non-controlling interest

Options to acquire non-controlling interests in the future are initially accounted for at fair value with a corresponding charge directly to equity. Such options are subsequently measured at fair value, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it becomes exercisable. The charge arising is recorded as a finance cost and the liability is shown in other creditors and accruals. The risks and rewards of ownership of the non-controlling interests remain with the sellers and therefore the non-controlling interest is recognised by the Group. The put options are contractual puts at the discretion of the sellers.

(o) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss as incurred.

Defined benefit plans

The Group's net obligation in respect of the defined benefit pension plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in prior periods. That benefit is discounted to determine its present value, and the fair value of the plan assets is deducted. The discount rate is the yield at the balance sheet date of corporate bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

As permitted by IAS 19: Employee Benefits, actuarial gains and losses are recognised immediately in other comprehensive income. The expected return on the scheme's assets and the increase or decrease during the year in the present value of the scheme's liabilities arising from the passage of time are included in the finance costs.

When the benefits of the plan are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.

(p) Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material and provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability. The increase in the provision due to passage of time is recognised in finance costs.

(q) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in share premium as a deduction from the proceeds.

2. ACCOUNTING POLICIES *(continued)*

(r) Revenue

Services rendered

Revenue comprises mainly commission and fees receivable. Commission earned on sales of residential and commercial property is accounted for on the exchange of contracts for such sales. Survey, valuation and conveyancing fees are accounted for on completion of the service being provided. Commission earned on sales of insurance policies, mortgages and related products is accounted for when the policies go on risk or the mortgage is exchanged. Commissions and fees earned under lettings contracts are recognised at the point of delivery of the service.

Deferred income

Where the Group receives an amount upfront in respect of future income streams, the value of the receipt is amortised over the period of the contract as the services are delivered and the unexpired element is disclosed in other liabilities as deferred revenue.

(s) Other income

Other income is recognised when its receipt is assured and the Group has no further obligations to any other party in respect of that income. Rental income from sub-let properties is recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income. Dividend income is recognised when the right to receive payment is established.

(t) Operating lease payments

Payments under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

(u) Finance costs

Finance costs

Finance costs comprise interest payable on borrowings, unwinding of discount rate on pension scheme liabilities, offset by the expected return on scheme assets, and the unwinding of the discount rates in respect of financial liabilities and provisions, premiums payable on settlement or redemption, direct issue costs, and foreign exchange losses.

(v) Finance income

Finance income comprises interest receivable on funds invested, dividend income and foreign exchange gains. Interest income is recognised in profit or loss as it accrues using the effective interest method.

(w) Exceptional items

As permitted by IAS1 ‘Presentation and Disclosure’ certain items are presented separately in the Income Statement as exceptional where, in the judgement of the Directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group’s underlying business performance. Examples of material and non-recurring items which may give rise to disclosure as exceptional items include costs of restructuring and reorganisation of existing businesses, integration of newly acquired businesses, asset impairments and costs associated with acquiring new businesses.

(x) Income tax

Income tax for the years presented comprises current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2. ACCOUNTING POLICIES *(continued)*

(x) Income tax *(continued)*

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of other assets or liabilities that affect neither accounting nor taxable profit; nor differences relating to investments in subsidiaries to the extent that they are unlikely to reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

(y) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting to the Operating Committee which has been identified as the chief operating decision maker. The members of the Operating Committee are identified on page 22.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

Accounting for acquisitions

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

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Impairment of goodwill and indefinite lived intangible assets

Determining whether goodwill and indefinite lived intangible assets are impaired requires an estimation of the value in use of the cash-generating units to which the assets have been allocated. Calculating the cash flows requires the use of judgements and estimates that have been included in our strategic plans and long range forecasts. In addition significant 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 are 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 12.

Post retirement benefits

The actuarial gain or loss attributable to the movement in the deficit of the defined benefit pension scheme that is charged to the consolidated statement of comprehensive income is subject to a number of assumptions and uncertainties. The calculated liabilities of the scheme are based on assumptions regarding inflation rates, discount rates and the long term expected return on the scheme's assets and member longevity. Details of the assumptions used are shown in note 6(c). Such assumptions are based on actuarial advice and are benchmarked against similar pension schemes.

Provisions and other contingencies

Onerous contracts

When any of the Group's businesses vacate a leased property prior to the expiration of the lease, a provision is established to reflect the expected lease payments that the Group will incur prior to the assignment or sublease of the property. Such a calculation requires a judgement as to the timing and duration of the expected vacancy periods. When making these judgements, the directors consider a number of factors including the location and condition of the property, the terms of the lease and current economic environment.

Property repairs

The Group occupies a significant number of leased properties across the country. These leases contain dilapidation obligations. The directors take the advice of the in-house surveyors in assessing the level of the future obligation. When assessing the level of dilapidation required for our retail properties, the likelihood of exiting each property is taken into account.

Clawback provisions

The clawback provision in respect of life insurance commissions earned is calculated using a model that has been developed over several years. The model is based on historical information collating clawback data in quarterly cohorts. The directors use this data, together with latest market trends, to make a judgement as to the future clawback rates to be applied.

Claims and litigations

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

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

- Reserves for known claims. These losses are recommended by our professional claims handlers and approved panel law firms who take into account all the information available on the claims and recorded on our insurance bordereaux. Where there is insufficient information on which to assess the potential losses, initial reserves may be set at an initial level to cover investigative costs or nil. Further provisions are also made for specific large claims which maybe 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 1-2 years for claims to develop since they were initially notified. For this reason the directors create a provision based on historical loss rates for closed claims and average losses for closed claims.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

- Finally the Group also provides for future liabilities arising from claims Incurred But Not Received (IBNR) for mortgage valuation reports and home buyer reports performed by the Surveying & Valuation division. 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, claim liability rate and the average loss per claim. In view of the significant events in the financial markets and the UK property market in recent years, the directors have identified a separate sub-population of claims received which is tracked separately from the normal level of claims. This sub-population has been defined as claims received since 2008 for surveys carried out between 2004 and 2007.

The estimate of these provisions by their nature are judgemental. The 3 key inputs; claim rate, claim liability rate and average loss, are very sensitive to small movements. A 10% increase in the claim rate could lead to a £3.4 million increase in future claims. During 2012, the rate of claims experienced was significantly higher than historical trends and this contributed to a large increase in the charge to the Income Statement in 2012. While, the modelled rate builds on the historic trends and now predicts a 3% increase in the rate of claims for surveys in 2004 – 2007, the Directors did not consider it appropriate to increase the rate further for IFRS provisioning purposes as they believe that these surveys are reaching the end of the statute of limitation for contract claims and that the Jackson reforms in respect of legal fees should create a disincentive for certain claims.

The claim liability rate worsened during the latter part of 2012 but not materially different to the predicted rates. Nevertheless, a 10% increase would result in future claims increasing by £2.2 million and known claims reserves by £0.7 million. The Directors have reviewed the claim liability rates and, as the modelled rate for future claims only increased by 0.1% in 2012, they did not consider it appropriate for IFRS provisioning purposes to assume a further deterioration in the claim liability rate. There is the risk that mortgage interest rates rise and this leads to an increase in repossessions and potential losses being incurred by the lenders. But since there are no macro-economic indicators that this is a reasonable likelihood in the short term, the Directors do not consider it appropriate to provide for additional claims due to macro-economic changes.

The average loss per claim significantly increased during 2012 and this has severely impacted the Group's losses recorded in the year and the resulted in increased provisions at 31 December 2012. A further increase in the average loss of 10% would add a further £1 million to the provisions for claims to increase and future claims. The Directors have concluded that it would be prudent to assume an increase in average settlement costs and the provision has been adjusted accordingly.

Options to acquire non-controlling interests
Options to acquire non-controlling interests in the future have been recognised at fair value in the trade and other payables ('accruals and other creditors'). The fair value is the present value of the future estimates redemption amount and requires management to assess the likely future performance of the business to which the options relate.

Impairment of available-for-sale equity investments
The Group follows the guidance of IAS 39 to determine when an available-for-sale equity investment is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which fair value of an investment is less than its cost; and the financial health of and short-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If, in a subsequent period, the period fair value of a debt increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

Fair value available-for-sale assets

The fair value of available-for-sale financial assets which are not traded on an active market are derived using a combination of valuation techniques and the most recent purchase price for these assets. (See note 14 (c)).

4. SEGMENTAL REPORTING

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

The Operating Committee considers the business to be split into six main types of business generating revenue; Estate Agency, Lettings, Financial Services, Surveying & Valuation, Conveyancing divisions and Hamptons, and all other segments comprise central head office functions.

The Estate Agency division generates commission earned on sales of residential and commercial property. The Lettings division earns fees from the letting and management of residential properties and fees for the management of leasehold properties. The Financial Service division receives commission from the sale of insurance policies, mortgages and related products under contracts with financial service providers. Surveying and valuation fees are received primarily under contracts with financial institutions with some survey fees being earned from home buyers. Conveyancing revenue is earned from conveyancing work undertaken from customers buying or selling houses through our network. Hamptons' revenue is earned from both estate agency commissions and lettings and management fees. Other income generated by head office functions, relates primarily to sub-let rental income or other sundry fees.

Revenue and other income from external customers arising from activities in the UK was £539,492,000 (2011: £508,780,000; 2010: £477,579,000) and arising from activities overseas £356,000 (2011: £270,000; 2010: £343,000).

The assets and liabilities for each operating segment represent those assets and liabilities arising directly from the operating activities of each division. Pension assets and liabilities are not allocated to each operating segment. Liabilities arising from the issue of the Senior Secured Notes are not allocated to operating divisions. All inter-segment pricing is done on an arms length basis. Non-current assets attributable to the UK of £607,261,000 (2011: £585,408,000; 2010: £575,754,000) are included in the total assets in the tables below. Non-current assets of £56,000 (2011: £32,000; 2010: £nil) are attributable to the overseas operations. The equity investment in joint venture is disclosed within other segments; £2,676,000 (2011: £2,650,000; 2010: £2,672,000).

The available-for-sale asset is disclosed within other segments; £14,370,000 (2011: £317,000; 2010: £303,000).

Sales between segments are carried out at arm's length. The revenue from external parties reported to the strategic steering committee is measured in a manner consistent with that in the income statement.

4. SEGMENTAL REPORTING *(continued)*

	2012							
	Estate agency	Lettings	Financial services	Surveying and valuation	Conveyancing	Hamptons	All other segments	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income								
Total income	216,738	95,806	65,697	65,408	26,048	72,590	960	543,247
Inter-segment revenue	(2,451)	—	(948)	—	—	—	—	(3,399)
Total income from external customers	214,287	95,806	64,749	65,408	26,048	72,590	960	539,848
EBITDA before exceptional items	12,799	21,733	9,806	10,200	8,022	14,043	(13,567)	63,036
Management fee	—	—	—	—	—	—	(1,500)	(1,500)
Depreciation and amortisation	(3,412)	(3,669)	(5,384)	(448)	(347)	(1,809)	(1,287)	(16,356)
Share of profit from joint venture							774	774
Exceptional income	—	—	—	—	—	—	7,867	7,867
Exceptional costs	(4,961)	(1,812)	(699)	(18,559)	—	—	(11,029)	(37,060)
Segment operating profit/(loss)	4,426	16,252	3,723	(8,807)	7,675	12,234	(18,742)	16,761
Finance income								999
Finance costs								(28,531)
Loss before tax								(10,771)
Total assets	200,399	69,430	85,168	119,684	51,454	118,886	77,018	722,039
Total liabilities	37,816	23,947	25,894	38,483	3,030	10,700	339,870	479,740
Additions in the year								
Goodwill	329	8,690	2,131	80	—	343	—	11,573
Intangible assets	700	2,927	242	243	373	—	310	4,795
Tangible fixed assets	4,123	1,269	192	366	117	1,936	678	8,681

4. SEGMENTAL REPORTING *(continued)*

2011

	Estate agency	Lettings	Financial services	Surveying and valuation	Conveyancing	Hamptons	All other segments	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income								
Total income	217,841	81,255	63,017	60,391	22,843	66,065	1,037	512,449
Inter-segment revenue	(2,451)	—	(948)	—	—	—	—	(3,399)
Total income from external customers	215,390	81,255	62,069	60,391	22,843	66,065	1,037	509,050
EBITDA before exceptional items	13,181	15,291	9,398	8,592	7,714	14,292	(12,101)	56,367
Management fee	—	—	—	—	—	—	(1,500)	(1,500)
Depreciation and amortisation	(4,177)	(3,372)	(5,433)	(2,361)	(337)	(2,395)	(999)	(19,074)
Share of profit from joint venture							314	314
Exceptional costs	(2,212)	(995)	(1,675)	(11,104)	—	—	(561)	(16,547)
Segment operating profit/(loss)	6,792	10,924	2,290	(4,873)	7,377	11,897	(14,847)	19,560
Finance income								793
Finance cost								(27,658)
Loss before tax								(7,305)
Total assets	296,652	43,205	84,711	118,379	50,632	116,327	3,278	713,184
Total liabilities	42,580	16,779	31,225	30,160	2,696	10,041	335,831	469,312
Additions in the year								
Goodwill	3,466	4,139	3,145	526	—	—	—	11,276
Intangible assets	7,146	2,005	73	186	362	197	338	10,307
Tangible fixed assets	4,070	841	396	295	219	1,275	136	7,232

2010

	Estate agency	Lettings	Financial services	Surveying and valuation	Conveyancing	Hamptons	All other segments	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Income								
Total income	234,797	73,559	58,209	52,621	21,558	40,015	829	481,588
Inter-segment revenue	(2,640)	—	(1,026)	—	—	—	—	(3,666)
Total income from external customers	232,157	73,559	57,183	52,621	21,558	40,015	829	477,922
EBITDA before exceptional items	19,697	14,307	5,654	7,418	8,459	9,474	(13,533)	51,476
Management fee	—	—	—	—	—	—	(1,500)	(1,500)
Depreciation and amortisation	(3,805)	(3,564)	(5,517)	(2,091)	(576)	(6,043)	(980)	(22,576)
Share of profit from joint venture							359	359
Exceptional costs	(870)	(413)	(438)	(10,087)	—	(1,707)	(5,477)	(18,992)
Segment operating profit/(loss)	15,022	10,330	(301)	(4,760)	7,883	1,724	(21,131)	8,767
Finance income								2,014
Finance cost								(23,812)
Loss before tax								(13,031)
Total assets	238,864	106,478	149,580	216,966	49,101	107,733	(165,370)	703,352
Total liabilities	50,329	32,167	24,714	66,306	2,634	15,233	255,721	447,104
Additions in the year								
Goodwill	64	2,786	—	—	—	25,929	—	28,779
Intangible assets	2,356	541	50	34	30	66,564	668	70,243
Tangible fixed assets	3,036	475	86	51	30	6,943	1,221	11,842

5. OTHER INCOME

	2012	2011	2010
	£'000	£'000	£'000
Rent receivable	**1,405**	1,637	1,473
Other operating income	**11,088**	8,558	8,408
	12,493	10,195	9,881

6. EMPLOYEES AND DIRECTORS

(a) Staff costs for the Group during the year:

	2012	2011	2010
	£'000	£'000	£'000
Wages and salaries	**264,154**	250,360	238,686
Other long-term employee benefits	**544**	730	526
Defined contribution pension cost (note 6 (c))	**4,064**	4,612	5,310
Employer's national insurance contributions and similar taxes	**28,756**	27,345	25,942
	297,518	283,047	270,464

Average monthly number of people (including executive directors) employed:

By business segment	**2012 Number**	2011 Number	2010 Number
Estate agency	**3,889**	3,877	4,011
Hamptons	**783**	713	668
Lettings	**1,666**	1,409	1,289
Financial services	**1,000**	974	1,049
Surveying and valuation	**538**	539	565
Conveyancing	**362**	296	306
Head office	**194**	217	217
	8,432	8,025	8,105

(b) Key management compensation

The following table details the aggregate compensation paid in respect of the members of the Operating Committee including the executive directors.

	2012	2011	2010
	£'000	£'000	£'000
Wages and salaries	**2,981**	2,400	2,781
Short-term non-monetary benefits	**47**	30	54
Post employment benefits	**104**	104	83
	3,132	2,534	2,918

(c) Retirement benefits

The Group offers membership of the Countrywide plc Stakeholder Pension Scheme to eligible employees. The pensions cost for the stakeholder pension scheme in the year was £4,064,000 (2011: £4,612,000; 2010: £5,310,000).

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 liked to final pensionable salary and service at the date of retirement or date of leaving the scheme if earlier.

During the year which commenced on 1 January 2013, the employer is expected to pay contributions of £1,900,000.

6. EMPLOYEES AND DIRECTORS *(continued)*

(c) Retirement benefits *(continued)*

The Scheme assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees are required to act in the best interests of the Scheme's beneficiaries.

The liabilities set out in this note have been calculated by an independent actuary based on the results of the most recent full actuarial valuation at 5 April 2012, updated to 31 December 2012. The results of the calculations and the assumptions adopted are shown below.

For the defined benefit scheme, the Group has a funding programme to recover the deficit over the next six years. During the year the Group paid £Nil in contributions to the defined benefit scheme (2011: £1.9 million; 2010: £1.9 million). Further contributions of £1.9 million will be made in each of the next six years.

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

The amounts recognised in the balance sheet are as follows:

	2012	2011	2010
	£'000	£'000	£'000
Present value of funded obligations	**(44,518)**	(44,534)	(39,394)
Fair value of plan assets	**37,906**	38,071	33,888
Net liability recognised in the balance sheet	**(6,612)**	(6,463)	(5,506)

Reconciliation of scheme assets:

	2012	2011	2010
	£'000	£'000	£'000
At 1 January	**38,071**	33,888	31,536
Expected return on scheme assets	**1,731**	1,841	1,517
Actuarial (loss)/gain	**(513)**	1,660	186
Employer contributions	**—**	1,900	1,900
Benefits paid	**(1,383)**	(1,218)	(1,251)
At 31 December	**37,906**	38,071	33,888

The actual return on plan assets was a gain of £1,218,000 (2011: £3,501,000; 2010: £1,703,000). This represents the combination of the expected return on scheme assets of £1,731,000 (2011: £1,841,000; 2010: £1,517,000) and the actuarial (losses)/gains arising on those assets during the year was £(513,000) (2011: £1,660,000; 2010: £186,000).

The weighted averages of asset allocations at the year end were:

	2012	2011	2010
Equities	**21%**	19%	22%
Bonds	**40%**	45%	46%
Other	**39%**	36%	32%

Reconciliation of scheme liabilities:

	2012	2011	2010
	£'000	£'000	£'000
At 1 January	**44,534**	39,394	37,991
Interest cost	**2,017**	2,097	2,132
Actuarial (gain)/loss	**(650)**	4,261	522
Benefits paid	**(1,383)**	(1,218)	(1,251)
At 31 December	**44,518**	44,534	39,394

6. EMPLOYEES AND DIRECTORS *(continued)*

(c) Retirement benefits *(continued)*

The amounts recognised in the income statement are:

	2012	2011	2010
	£'000	£'000	£'000
Unwinding of discount rate on scheme liabilities	**2,017**	2,097	2,132
Expected return on scheme assets	**(1,731)**	(1,841)	(1,517)
Included within finance expense	**286**	256	615
Total charge to profit or loss	**286**	256	615

The amounts recognised in the statement of comprehensive income are:

	2012	2011	2010
	£'000	£'000	£'000
Actuarial (loss)/gain on scheme assets	**(513)**	1,660	186
Actuarial gain/(loss) on scheme liabilities	**650**	(4,261)	(522)
	137	(2,601)	(336)
Deferred tax adjustment arising on the pension scheme assets and liabilities	**(34)**	689	92
	103	(1,912)	(244)
Cumulative actuarial loss recognised in the statement of comprehensive income (after tax)	**(5,735)**	(5,838)	(3,926)

The principal assumptions made by the actuaries were:

	2012	2011	2010
Rate of increase in pensions in payment and deferred pensions			
On benefits earned prior to 1 December 1999	**4.10%**	4.20%	4.30%
On benefits earned after 1 December 1999	**2.60%**	2.90%	3.15%
Discount rate	**4.40%**	4.60%	5.40%
Inflation assumption	**2.60%**	3.00%	3.40%
Expected net return on plan assets	**4.40%**	4.63%	5.10%
Life expectancy at age 65 (years)			
Male Pensioner member	**22.70**	22.40	22.30
Female Pensioner member	**25.00**	24.80	24.70
Male Pensioner non-member (age 45 now)	**24.50**	24.30	24.30
Female Pensioner non-member (age 45 now)	**26.90**	26.70	26.60

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

Defined benefit obligation trends:

	2012	**2011**	**2010**	**2009**	**2008**
	£'000	£'000	£'000	£'000	£'000
Scheme assets	**37,906**	38,071	33,888	31,536	29,719
Scheme liabilities	**(44,518)**	(44,534)	(39,394)	(37,991)	(35,336)
Scheme deficit	**(6,612)**	(6,463)	(5,506)	(6,455)	(5,617)
Experience adjustments on liabilities	**1,156**	(24)	499	(761)	—
Changes in the assumptions	**(506)**	(4,237)	(1,021)	(1,662)	2,583
Experience adjustments on assets	**(513)**	1,660	186	340	(7,198)

6. **EMPLOYEES AND DIRECTORS** *(continued)*

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If the revised standard had been implemented during 2012 there would have been no material impact on the annual accounts.

7. OPERATING COSTS

	2012	2011	2010
	£'000	£'000	£'000
Rent	**26,918**	26,545	26,596
Advertising and marketing expenditure	**17,780**	15,793	15,647
Surveying panel fees paid	**15,120**	12,238	6,838
Vehicles, plant and equipment hire	**14,948**	13,103	13,291
Other motoring costs	**11,925**	11,670	10,847
Repairs and maintenance	**4,985**	5,635	5,137
Trade receivables impairment	**1,840**	923	986
Loss/(profit) on disposal of plant, property and equipment	**35**	(12)	(333)
Other	**87,243**	85,241	78,473
Total operating costs	**180,794**	171,136	157,482

Services provided by the Company's auditors and network firms

During the year the Company (including its overseas subsidiaries) obtained the following services from the Company's auditors at costs as detailed below:

	2012	2011	2010
	£'000	£'000	£'000
Audit services:			
– Non-statutory audit in relation to the consolidated financial statements	**125**	125	121
– Statutory audit in relation to the statutory accounts of the subsidiary companies	**206**	257	196
Fees payable for other services			
Non-audit work	**7**	97	180
Tax services	**28**	10	10
Transaction support services	**6**	—	—
	372	489	507

8. FINANCE COST

	2012	2011	2010
	£'000	£'000	£'000
Interest costs:			
Interest payable on borrowings	**122**	40	59
Interest payable on the notes	**25,515**	25,263	22,821
Interest payable on revolving credit facility	**336**	—	—
Interest arising from finance leases	**9**	16	18
Other interest paid	**1,000**	1,648	—
Cash payable interest	**26,982**	26,967	22,898
Amortisation of loan facility fee	**705**	332	160
Net interest costs arising on the pension scheme	**286**	256	615
Other finance costs	**558**	103	139
Non-cash payable interest	**1,549**	691	914
Finance costs	**28,531**	27,658	23,812

9. FINANCE INCOME

	2012	2011	2010
	£'000	£'000	£'000
Interest income	**999**	793	2,014

10. EXCEPTIONAL ITEMS

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

	2012	2011	2010
	£'000	£'000	£'000
Exceptional income			
Movement in value of put options	**3,252**	—	—
Deferred income amortisation arising from fair valuation of Zoopla shares crystallised upon the merger in May 2012	**4,615**	—	—
	7,867	—	—
Exceptional costs			
Insurance claims and litigations	**25,223**	9,351	11,934
Redundancy costs	**3,066**	4,641	3,117
Property provisions	**2,903**	2,227	1,169
Other restructuring costs	**5,358**	—	657
Impairment of assets	**133**	—	802
Total cost of restructuring	**11,460**	6,868	5,745
Acquisition expenses	**377**	328	1,313
Total exceptional costs	**37,060**	16,547	18,992
Net exceptional costs	**29,193**	**16,547**	**18,992**

Exceptional income

In 2011 the Group assessed the fair value of the put options in respect of Capital Private Finance and United Surveyors based on the information available at the time. The fair value is the amount Countrywide is expected to pay to buy out the non-controlling interest in those subsidiaries. Subsequently, these businesses have performed well, although the lack of any significant recovery in the residential property market has delayed the intended expansion plans and consequently the Put Options have been reassessed at a lower amount. In accordance with IAS 39 the reduction in value has been credited to the income statement and disclosed as exceptional income due to the size of the transaction.

In May 2012 Zoopla Ltd merged with The Digital Property Group crystallizing a number warrants, which were granted to the Group under an agreement to list properties on the Zoopla website, which converted to ordinary shares. At the merger date, the Group fair valued these shares at £12.2 million. The shares were consideration for services provided to Zoopla over a period of time to 2015 and therefore recognised as deferred income. The deferred income is being amortised to the Income Statement over the period to 2015; there has been a catch up to the end of 2011 of £2.2 million and credit in respect of 2012 of £2.4 million, both of which are being recognised in 2012. The remaining deferred income will be credited to exceptional income over the next three years. (Also refer notes 14 (c) and 19)

10. EXCEPTIONAL ITEMS *(continued)*

Exceptional costs

During the latter part of 2012 the Group experienced substantially worsening trends in terms of Professional Indemnity (PI) claims received and losses recognised on the insurance bordereaux. As a consequence of this the Group has recognised a further exceptional charge of £25.2 million. As discussed in note 3 Critical Accounting Judgements and estimates, the Directors base their assessment of the provision on a number of factors; legal and professional advice, historical trends of claims received and losses incurred. During 2012 the rate of claims received increased and the average loss also rose due the closure of the more challenging disputes. The Directors noted that the claims received in 2012 were mainly from prime lenders, who until now had not reported losses. Furthermore, as the six year statute of limitations approached for surveys in 2006 and 2007, the level of claims increased as lenders sought to protect their position. The Directors have reflected the experience changes in the predictive models, taken account of potential worsening of positions in certain legal cases and increased the provision accordingly. Of the £25.2 million charge, £15.3 million relates to claims not yet received or current claims not assessed by the professional legal advisors due to lack of information.

The management team has continued to restructure its cost base and as a result recognised a further exceptional cost of £11.5 million.

During 2012 the management announced the outsourcing of its IT function to CGI. The costs to transition to CGI over the course of 18 months is expected to be £3.4 million. In addition to transitioning to CGI, there are a number of transformational initiatives and investment that will be implemented during the course of 2013. The benefits of both the transition and transformation are expected to be realised from 2014.

In the Estate Agency division, the centralisation of operations and creation of a National Administration Centre incurred redundancy and office closure costs of £1.5 million. The benefits of this strategy will be recognised in 2013 and beyond. Restructuring of the divisions corporate property services operation and the removal of more layers of management increased the one off charge in 2012 by £3.3 million.

The Lettings division has closed some branches as it consolidates its operations within the Estate Agency network in order to benefit from efficiencies and closer working ties in the future, incurring a charge of £0.8 million in 2012. The Financial Services division restructured its Land & New Homes services and restructured some operations at a cost of £0.6 million. The Surveying division took the opportunity to restructure its claims handling operations within its National Operations Center as the contract with external providers expired and further senior management layers were removed, the cost of both was £0.9 million.

11. TAXATION

Analysis of charge/(credit) in year	**2012**	2011	2010
	£'000	£'000	£'000
Current tax on profits for the year	**113**	74	1,184
Adjustments in respect of prior years	**(64)**	(303)	1,276
Total current tax	**49**	(229)	2,460
Deferred tax on profits for the year			
Origination and reversal of temporary differences	**(4,439)**	(2,612)	(3,684)
Impact of change in tax rate	**(3,615)**	(1,775)	(1,505)
Adjustments in respect of prior years	**229**	(48)	(2,029)
Total deferred tax (note 21)	**(7,825)**	(4,435)	(7,218)
Income tax credit	**(7,776)**	(4,664)	(4,758)

Tax on items credited to other comprehensive income	**2012**	2011	2010
	£'000	£'000	£'000
Deferred tax adjustment arising on the pension scheme assets and liabilities	**34**	(689)	(92)

11. TAXATION *(continued)*

The tax charge for the year differs from the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%, 2010: 28%). The differences are explained below:

	2012	2011	2010
	£'000	£'000	£'000
Loss on ordinary activities before tax	**(10,771)**	(7,305)	(13,031)
Loss on ordinary activities multiplied by the rate of corporation tax in the UK of 24.5% (2011: 26.5%, 2010: 28%)	**(2,639)**	(1,936)	(3,649)
Effects of:			
Profits from joint venture	**(190)**	(83)	(101)
Other expenses not deductible	**964**	325	807
Permanent difference relating to depreciation not deductible	**136**	223	276
Tax relief on purchased goodwill	**(517)**	(585)	—
Utilisation of unprovided losses	**(28)**	(21)	(5)
Rate change on deferred tax provision	**(3,615)**	(1,775)	(1,505)
Income not subject to tax due to availability of capital losses	**(1,927)**	(480)	—
Amendments in respect of prior years	**165**	(351)	(755)
Overseas losses	**(125)**	19	174
Total taxation credit	**(7,776)**	(4,664)	(4,758)

The standard rate of Corporation Tax in the UK changed from 26% to 24% with effect from 1 April 2012. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 24.5% and will be taxed at 23% falling to 21% in the future.

In addition to the changes in rates of Corporation tax disclosed above a further change to the UK Corporation tax system was announced in the March 2012 UK Budget Statement. A reduction to the main rate is proposed to reduce the rate by 1% per annum to 22% by 1 April 2014. This further change had not been substantively enacted at the balance sheet date and, therefore, is not included in these financial statements.

The proposed reductions of the main rate of corporation tax by 1% per year to 22% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the change in the tax rate to 22%, if applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by £1.2 million.

12. INTANGIBLE ASSETS

(a) Goodwill

	2012	2011
	£'000	£'000
Cost		
At 1 January	**762,300**	751,024
Arising on acquisitions (note 24)	**11,573**	11,276
At 31 December	**773,873**	762,300
Accumulated impairment		
At 1 January	**417,356**	417,356
Charge for the year	**—**	—
At 31 December	**417,356**	417,356
Net book amount	**356,517**	344,944

12. INTANGIBLE ASSETS *(continued)*

Carrying amount of goodwill by operating unit

	2012	2011
	£'000	£'000
Estate Agency	**3,859**	3,530
Lettings	**76,897**	68,196
Financial Services	**75,900**	73,779
Surveying & Valuation	**132,890**	132,811
Conveyancing	**40,699**	40,699
Hamptons	**26,272**	25,929
Total goodwill in subsidiary companies	**356,517**	344,944

(b) Other intangible assets

	2012					
	Computer software	**Brand names**	**Customer contracts and relationships**	**Pipeline**	**Other intangibles**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January	**43,408**	**187,635**	**86,337**	**4,647**	**1,272**	**323,299**
Acquisitions through business combinations	**—**	**—**	**2,618**	**—**	**—**	**2,618**
Additions	**2,177**	**—**	**—**	**—**	**—**	**2,177**
Disposals	**(231)**	**—**	**—**	**—**	**—**	**(231)**
At 31 December	**45,354**	**187,635**	**88,955**	**4,647**	**1,272**	**327,863**
Aggregate amortisation and impairment						
At 1 January	**38,496**	**33,844**	**47,295**	**4,647**	**84**	**124,366**
Charge for the year	**2,319**	**—**	**7,657**	**—**	**52**	**10,028**
On disposals	**(231)**	**—**	**—**	**—**	**—**	**(231)**
At 31 December	**40,584**	**33,844**	**54,952**	**4,647**	**136**	**134,163**
Net book amount						
At 31 December	**4,770**	**153,791**	**34,003**	**—**	**1,136**	**193,700**

12. INTANGIBLE ASSETS *(continued)*

	2011					
	Computer software	Brand names	Customer contracts and relationships	Pipeline	Other intangibles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January	42,867	181,141	84,428	4,408	1,272	314,116
Acquisitions through business combinations	13	6,494	1,909	239	—	8,655
Additions	1,652	—	—	—	—	1,652
Disposals	(1,124)	—	—	—	—	(1,124)
At 31 December	43,408	187,635	86,337	4,647	1,272	323,299
Aggregate amortisation and impairment						
At 1 January	35,120	33,844	39,971	4,408	42	113,385
Charge for the year	4,500	—	7,324	239	42	12,105
On disposals	(1,124)	—	—	—	—	(1,124)
At 31 December	38,496	33,844	47,295	4,647	84	124,366
Net book amount						
At 31 December	4,912	153,791	39,042	—	1,188	198,933
Net book amount						
At 31 December 2010	7,747	147,297	44,457	—	1,230	200,731

All amortisation charges have been treated as an expense in the income statement. Brand names are treated as having an indefinite life, as a result of the fact that the Group will continue to operate these brands into perpetuity and are therefore subject to annual impairment reviews.

The carrying amounts of various brand names owned by the Group have been disclosed below. No amortisation has been disclosed as brands are considered to have an indefinite life and as such are tested annually for impairment or more frequently if events or changes in circumstances indicate potential impairment.

(b) Other intangible assets

	2012	2011
Brand Names	£'000	£'000
Bairstow Eves	**17,173**	17,173
John D Wood	**14,464**	14,464
Mann & Co	**9,418**	9,418
Slater Hogg & Howison	**9,709**	9,709
Taylors Estate Agents	**10,071**	10,071
Hamptons International	**58,774**	58,774
Blundell Property Services	**6,494**	6,494
	126,103	126,103
Other brands	**27,688**	27,688
	153,791	153,791

12. INTANGIBLE ASSETS *(continued)*

(c) Impairment

Due to the severe financial crisis originating in 2008 the following impairment charges have arisen:

	Goodwill	Brand names	Computer software	Total
	£'000	£'000	£'000	£'000
Estate agency	227,156	33,844	—	261,000
Lettings	16,300	—	—	16,300
Financial services	106,100	—	—	106,100
Surveying & valuation	40,000	—	10,500	50,500
Conveyancing	27,800	—	—	27,800
	417,356	33,844	10,500	461,700

Goodwill and indefinite life intangible assets are allocated to cash generating units and have been allocated to the lowest level of reporting unit. In many cases, the operations of the acquired businesses have been fully integrated with the existing businesses and therefore it is not possible to identify separately the economic flows from those businesses. In these cases the goodwill and indefinite life intangible assets have been tested against the recoverable amount of the cash generating unit reported at the higher level.

The goodwill and indefinite life intangible assets have been allocated to cash generating units as follows:

2012

	Estate agency	**Lettings**	**Financial services**	**Surveying & valuation**	**Convey-ancing**	**Hamptons**	**Total**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Goodwill	**3,859**	**76,897**	**75,900**	**132,890**	**40,699**	**26,272**	**356,517**
Indefinite life intangible assets	**95,017**	**—**	**—**	**—**	**—**	**58,774**	**153,791**
	98,876	**76,897**	**75,900**	**132,890**	**40,699**	**85,046**	**510,308**

2011

	Estate agency	**Lettings**	**Financial services**	**Surveying & valuation**	**Convey-ancing**	**Hamptons**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Goodwill	3,530	68,196	73,779	132,811	40,699	25,929	344,944
Indefinite life intangible assets	95,017	—	—	—	—	58,774	153,791
	98,547	68,196	73,779	132,811	40,699	84,703	498,735

The recoverable amount of all the above operations has been calculated using the value in use calculation determined from cash flow projections from formally approved budgets and forecasts covering a five year period to 2017. These growth rates are based on past experience and outlook. The discount rate used is based on the Group's estimated cost of capital. To evaluate the recoverable amount of each division, a terminal value has been assumed from the fifth year and includes a growth rate in the cash flows of 1% into perpetuity.

Under IAS 36 Impairment of Assets, the company is required to review its intangible assets annually each year or in the event of a significant change in circumstances. The impairment reviews conducted at the end of 2012 concluded that there had been no further impairment of goodwill.

12. INTANGIBLE ASSETS *(continued)*

(c) Impairment *(continued)*

The impairment review for 2012 was conducted in accordance with IAS 36: Impairment of assets by estimating the value in use of each of the operating segments based on the following assumptions which management believe are appropriate given the 2013 budget and forecast for future years:

- There is an 8% increase in housing transaction volumes between 2013-2015, thereafter a growth rate of 1% has been assumed.
- The pre-tax discount rate was calculated to be 9% (2011: 9%).
- The benefits of past restructuring changes have been taken into account where these is appropriate certainty over cost reductions.

At these levels, which management believe are reasonable based on the latest information, there is no impairment charge.

The key assumption is the growth rate of housing market volumes and hence the management also considered:

- Growth rates beyond 2015 of 0%, and
- no growth at all over the next 5 years.

The results indicated that there would be no impairment if there was 0% growth from 2015, but with no growth at all, the Estate Agency division's non-current assets would be impaired by £22.4 million and the Surveying division's would be impaired by £20.7 million. Given the 2013 budget and forecast for future years prepared my management, the Directors believe that this scenario is unlikely.

13. PROPERTY, PLANT AND EQUIPMENT

	2012				
	Land and buildings	**Leasehold improvements**	**Motor vehicles**	**Furniture and equipment**	**Total**
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 January	**5,522**	**22,031**	**134**	**47,860**	**75,547**
Acquisition of subsidiaries (note 24)	**—**	**286**	**13**	**29**	**328**
Additions at cost	**—**	**2,010**	**85**	**6,258**	**8,353**
Transfers	**—**	**(75)**	**—**	**75**	**—**
Disposals	**(1,419)**	**(427)**	**(110)**	**(3,080)**	**(5,036)**
At 31 December	**4,103**	**23,825**	**122**	**51,142**	**79,192**
Accumulated depreciation					
At 1 January	**1,216**	**14,208**	**65**	**37,550**	**53,039**
Charge for the period	**39**	**1,415**	**48**	**4,826**	**6,328**
Transfers	**—**	**(64)**	**—**	**64**	**—**
Impairment	**—**	**—**	**—**	**133**	**133**
Disposals	**(325)**	**(402)**	**(97)**	**(3,080)**	**(3,904)**
At 31 December	**930**	**15,157**	**16**	**39,493**	**55,596**
Net book amount					
At 31 December	**3,173**	**8,668**	**106**	**11,649**	**23,596**

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	2011				
	Land and buildings	Leasehold improvements	Motor vehicles	Furniture and equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 January	5,065	21,646	256	44,256	71,223
Additions at cost	700	436	81	240	1,457
Acquisition of subsidiary	27	993	4	4,751	5,775
Transfers	—	(192)	—	192	—
Disposals	(270)	(852)	(207)	(1,579)	(2,908)
At 31 December	5,522	22,031	134	47,860	75,547
Accumulated depreciation					
At 1 January	1,211	13,361	236	33,801	48,609
Charge for the period	45	1,761	23	5,140	6,969
Transfers	—	(65)	—	65	—
Disposals	(40)	(849)	(194)	(1,456)	(2,539)
At 31 December	1,216	14,208	65	37,550	53,039
Net book amount					
At 31 December	4,306	7,823	69	10,310	22,508
Net book amount					
At 31 December 2010	3,854	8,285	20	10,455	22,614

Finance lease commitments

Under the agreements with CGI, the Group has committed to a computer hardware refresh programme as at the end of 2012. The total amount of financial lease commitments is £5,989,000 paid in an annual sum of £855,555 for the next seven years. At 31 December 2012, no assets had been purchased and capitalised under this arrangement.

14. INVESTMENTS

(a) Principal subsidiary undertakings of the Group

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

Principal subsidiary undertakings of the Group at 31 December 2012 are presented below:

Subsidiary	Nature of business	Country of incorporation	Proportion of ordinary shares held by parent	Proportion of ordinary shares held by the Group
			%	%
Countrywide plc	Holding Company	UK	100	100
Balanus Limited	Holding Company		—	100
Estate Agency and Lettings				
Countrywide Estate Agents	Estate Agency & Lettings	UK	—	100
Sotheby's International Realty Limited	Estate Agency	UK	—	100
Hamptons International				
Hamptons Group Limited	Holding Company	UK	—	100
Hamptons Estates Limited	Estate Agency & Lettings	Hong Kong	—	100
Surveying and Valuation				
Countrywide Surveyors Limited	Surveying & Valuation	UK	—	100
Countrywide Social Housing Limited	Surveying & Valuation	UK	—	58
United Surveyors Limited	Surveying & Valuation	UK	—	60
Financial Services				
Countrywide Principal Services Limited	Financial Services	UK	—	100
Slater Hogg Mortgages Limited	Financial Services	UK	—	100
Mortgage Intelligence Limited	Financial Services	UK	—	100
Mortgage Next Limited	Financial Services	UK	—	100
Capital Private Finance Limited	Financial Services	UK	—	51
Life and Easy Limited	Financial Services	UK	—	100
Conveyancing				
Countrywide Property Lawyers Limited	Conveyancing	UK	—	100
TitleAbsolute Limited	Conveyancing	UK	—	100

Summary financial information for subsidiaries that have non-controlling interests is presented below:

	Countrywide Social Housing Limited		United Surveyors Limited		Capital Private Finance Limited	
	2012	2011	2012	2011	2012	2011
	£'000	£'000	£'000	£'000	£'000	£'000
Current assets	**725**	673	**1,210**	824	**118**	45
Non-current assets	**7**	7	**17**	10	**10**	10
Current liabilities	**(283)**	(293)	**(751)**	(594)	**(60)**	(118)
Net assets/(liabilities)	**449**	387	**476**	240	**68**	(63)
Revenues	**1,142**	1,017	**900**	337	**1,008**	88
Net profit/(loss)	**416**	342	**585**	217	**250**	(176)
Dividends paid	**250**	—	**134**	—	**—**	—

14. INVESTMENTS *(continued)*

(b) Interests in jointly controlled entities

TM Group (UK) Limited

At 31 December 2012 the Group had a 33.3% (2011: 33.3%, 2010: 33.3%) interest in the ordinary share capital TM Group (UK) Limited (TMG) a UK company. TMG is one of the largest companies in the provision of searches to 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 has also started to supply IT applications and products to UK mortgage lenders.

During the year, TMG was a joint venture company.

	2012	2011
	£'000	£'000
At 1 January		
– Net assets excluding goodwill	**1,170**	1,192
– Goodwill	**1,480**	1,480
	2,650	2,672
Dividend received	**(748)**	(336)
Share of profits retained	**774**	314
At 31 December		
– Net assets excluding goodwill	**1,196**	1,170
– Goodwill	**1,480**	1,480
	2,676	2,650

The summarised financial information of TM Group (UK) Limited is presented below.

	2012	2011
	£'000	£'000
Current assets	**5,943**	5,226
Non-current assets	**264**	231
Current liabilities	**(2,622)**	(1,947)
Net assets	**3,585**	3,510
Net assets adjusted for the percentage of ownership	**1,196**	1,170
Income	**42,702**	33,918
Expenses	**(40,380)**	(32,976)
Post tax results	**2,322**	942
Share of post tax results	**774**	314

(c) Available-for-sale financial assets

	2012	2011
	£'000	£'000
At 1 January	**317**	303
Purchased for cash	**905**	36
Shares acquired on crystallisation of warrants	**12,217**	—
Movement in fair value	**953**	—
Amortisation	**(22)**	(22)
At 31 December	**14,370**	317

The Group owns some Wimbledon Debentures which were acquired and amortised over the life of the debenture. The fair value of these debentures at 31 December 2012 was £53,000 (2011: £75,000).

14. INVESTMENTS *(continued)*

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

The Group purchased non-quoted equity instruments in Zoopla Limited in 2010 for £242,000. A further investment of £905,000 was made in 2012. In May 2012, Zoopla Limited merged with The Digital Property Group and as a result crystallised some warrants into shares which were due under an arms length commercial agreement. The fair value of these shares was assessed based on the most recent price paid for shares. At the year end, the Group reviewed the fair value in light of information available, and the fact that there is no market for these shares and they are subject to pre-exemption rights and restrictions up to 2015. Taking into account these factors the Directors concluded there had been no change in fair value that could be reliably measured.

As a result of acquiring the additional shares for a nominal price and the fact that these shares were issued to the Group as part of the commercial agreement signed in 2010 to list the Group's properties for sale and rent on the Zoopla website, the excess in the assessed fair value, of these shares on initial recognition, over the nominal cost has been treated as deferred income and is being released over the period of the contract. The amount released to the income statement is disclosed in note 10 and the amount held on the balance sheet as deferred income is identified in note 19.

The movement in the fair value of the assets is recorded in other comprehensive income. The table below shows how the fair value of the Group's investment in Zoopla has been recorded.

	Fair value at 31 December 2012	Other comprehensive income	Deferred income
	£'000	£'000	£'000
Shares purchased for cash in 2010	392	150	—
Shares acquired on crystallisation of warrants	13,020	803	12,217
Shares purchased for cash in 2012	905	—	—
	14,317	953	12,217
Deferred income credited to exceptional income in 2012			(4,615)
Deferred income as at 31 December 2012			7,602

15. TRADE AND OTHER RECEIVABLES

	2012	2011
	£'000	£'000
Amounts falling due within one year:		
Trade receivables due but not past due	**33,085**	34,859
Trade receivables past due but not impaired	**10,342**	9,454
Trade receivables past due but impaired	**4,993**	5,320
Trade receivables (note 28)	**48,420**	49,633
Less: Provision for impairment of receivables	**(4,993)**	(5,320)
Trade receivables – net	**43,427**	44,313
Other receivables	**9,573**	8,524
Prepayments and accrued income	**15,178**	14,271
	68,178	67,108

Trade and other receivables are all current and any fair value difference is not material. Trade receivables are considered past due once they have passed their contracted due date. Trade receivables are reviewed for impairment if they are past due beyond 90 days for individual customers or 180 days for commercial contracts.

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

	2012	2011
	£'000	£'000
As at 1 January	**5,320**	6,141
Additional provisions	**1,840**	923
Amounts used	**(2,167)**	(1,744)
As at 31 December	**4,993**	5,320

The maximum exposure to credit risk at 31 December 2012 was £4,993,000 (2011: £5,320,000).

16. CASH AND CASH EQUIVALENTS

	2012	2011
	£'000	£'000
Cash and cash equivalents		
Cash at bank and in hand	**16,044**	14,097
Short term bank deposits	**30,500**	46,539
	46,544	60,636

Of the cash at bank and in hand, £2,360,000 (2011: £4,041,000) is not available for use. Part of is held by the insurance cell and the balance being premiums collected on behalf of a client.

Of the short-term deposits, a number were interest-bearing within the following ranges; 2012: 1.00% - 2.80% (2011: 1.95% - 3.00%).

The following amounts were held in foreign currencies:

	2012	2011
	£'000	£'000
Hong Kong Dollars	**76**	117
Indian Rupees	**—**	76
US Dollars	**121**	121
	197	314

17. TRADE AND OTHER PAYABLES

	2012	Restated 2011
	£'000	£'000
Trade payables	**15,290**	13,581
Other financial liabilities	**5,560**	8,389
Obligations under finance leases	**371**	406
Deferred consideration	**1,768**	—
Financial liabilities	**22,989**	22,376
Other tax and social security payable	**22,467**	22,336
Accruals and other payables	**45,673**	48,166
	91,129	92,878
Trade and other payables due within 1 year	**80,318**	79,849
Trade and other payables due after 1 year	**10,811**	13,029
	91,129	92,878

Other payables due after 1 year in 2011 has been reduced by £1,000,000 and reclassified as borrowings and disclosed in note 18.

At 31 December 2012, other financial liabilities comprise call options to acquire the non-controlling interests in entities acquired in 2011. These financial liabilities are held at fair value and the expected liability is based on management's expectation of performance, consistent with operating plans approved.

These options are exercisable as follows:

	2012	2011
	£'000	£'000
Exercisable 2014	**1,790**	3,333
Exercisable 2016	**3,770**	5,056
	5,560	8,389

The fair value of financial liabilities approximates their carrying value due to short maturities.

18. BORROWINGS

	2012	Restated 2011
	£'000	£'000
Non-current		
Secured borrowing	**250,000**	250,000
Unsecured borrowing	**1,000**	1,000
Capitalised banking fees	**(1,226)**	(1,487)
	249,774	249,513

Debt issued by the company and outstanding at 31 December 2012 was follows:

Senior Secured Fixed Rate Notes due 2018 (Notes) - £250,000,000 aggregate principal due 2018. Interest is paid on the Senior Secured Fixed Rate notes at 10% per annum payable on 1 June and 1 December. The effective interest rate on borrowings was 2012: 10% (2011: 10%; 2010: 10%). Throughout 2012 the UK base rate remained at a 50 year low of 0.5%, LIBOR rates have decreased also but not to the same level due to liquidity constraints in the financial markets.

In respect of the Group's debt, the Senior Secured Fixed Rates Notes are fixed at 10%; furthermore there is the option to Pay-In-Kind (PIK) the interest in the event that a Negative Fixed Charge Ratio is projected for future interest periods. The Group therefore has little risk from interest rate fluctuations.

The indenture governing the notes contains certain covenants which limit the company's and its subsidiaries powers, but these covenants are subject to a number of important limitations and exceptions. The debt is secured by fixed and floating charges over all the Group's assets.

Senior Secured Revolving Facility Agreement (RCF) - £25,000,000 aggregate expiring 2016. The RCF is super senior and ranks ahead of the Notes in the event of a default by the Group. The terms of the RCF reflect those contained in the Notes. In order to be able to draw down on the RCF, the total amount drawn under the RCF must be less than two times EBITDA. At 31 December 2012 the Group had drawn £7,640,680 in the form of Letters of Credit (2011: £2,000,000).

Unsecured loan notes - £1,000,000 the Group acquired these loan notes when it purchased Mortgage Intelligence Holdings Limited. The loan notes are repayable in 2029 and do not bear interest.

These loan notes were previously disclosed within other payables due after 1 year (note 17). The comparative balance has been restated to provide consistent disclosure with 2012.

19. DEFERRED INCOME

Deferred income will unwind as follows:

	2012			**2011**
	Cash £'000	**Non-cash £'000**	**Total £'000**	Cash received £'000
Within 1 year	**10,679**	**2,534**	**13,213**	9,850
After 1 year				
Between 1 and 2 years	**4,590**	**2,534**	**7,124**	8,775
Between 2 and 3 years	**2,748**	**2,534**	**5,282**	3,215
Between 3 and 4 years	**2,364**	**—**	**2,364**	2,017
Between 4 and 5 years	**1,270**	**—**	**1,270**	1,623
Over 5 years	**—**	**—**	**—**	1,037
	10,972	**5,068**	**16,040**	16,667
	21,651	**7,602**	**29,253**	26,517

19. DEFERRED INCOME *(continued)*

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

Non-cash proportion of deferred income relates to unamortised income portion created on acquisition of shares in Zoopla Ltd. This deferred income is being amortised over the period of the commercial agreement which gave rise to these assets. (Refer to notes 10 and 14 (c)).

20. PROVISIONS

	2012					
	Onerous contracts	**Property repairs**	**Clawback**	**Claims and litigation**	**Other**	**Total**
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	**4,007**	**4,819**	**2,964**	**26,052**	**4,277**	**42,119**
Utilised in the year	**(1,389)**	**(1,529)**	**(4,056)**	**(14,032)**	**(3,032)**	**(24,038)**
Charged to income statement	**1,168**	**804**	**4,372**	**28,524**	**5,526**	**40,394**
Unwind of discount rate	**113**	**—**	**—**	**—**	**—**	**113**
At 31 December	**3,899**	**4,094**	**3,280**	**40,544**	**6,771**	**58,588**
Due within one year or less	**993**	**1,726**	**1,744**	**17,123**	**2,636**	**24,222**
Due after more than one year	**2,906**	**2,368**	**1,536**	**23,421**	**4,135**	**34,366**
	3,899	**4,094**	**3,280**	**40,544**	**6,771**	**58,588**

	2011					
	Onerous contracts	Property repairs	Clawback	Claims and litigation	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	4,236	5,914	2,783	27,549	2,660	43,142
Acquired on acquisition	—	20	461	75	—	556
Transfers from other creditors	272	—	—	164	732	1,168
Utilised in the year	(1,733)	(1,291)	(3,528)	(13,207)	(2,389)	(22,148)
Charged to income statement	1,074	176	3,248	11,471	3,274	19,243
Unwind of discount rate	158	—	—	—	—	158
At 31 December	4,007	4,819	2,964	26,052	4,277	42,119
Due within one year or less	1,800	2,745	2,299	10,787	4,277	21,908
Due after more than one year	2,207	2,074	665	15,265	—	20,211
	4,007	4,819	2,964	26,052	4,277	42,119

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

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

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

20. PROVISIONS *(continued)*

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 Incurred But Not Received claims and any amounts that might be payable as a result of any legal disputes. The provisions represent the director's 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 Incurred But Not Received (IBNR) for mortgage valuation reports and home buyer reports provided by the Surveying & Valuation division. The basis for calculating this provision is outlined further in note 3: Critical Accounting Judgements and Estimates. 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 the operational reorganisation including some business closure costs.

The expected maturity of the provisions is included within the analysis in note 20.

21. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 23% (2011: 26%, 2010: 28%).

The movement on the deferred tax account is shown below:

	2012	2011	2010
	£'000	£'000	£'000
Deferred tax liability at 1 January	**(34,401)**	(37,875)	(28,116)
Credited to income statement	**7,825**	4,435	7,218
Acquired on acquisition of subsidiary	**(608)**	(1,590)	(17,069)
Assets removed on disposal of subsidiary	**—**	(60)	—
Credited to equity	**(34)**	689	92
Net deferred tax liability at 31 December	**(27,218)**	(34,401)	(37,875)
Deferred tax asset	**16,458**	16,088	15,766
Deferred tax liability	**(43,676)**	(50,489)	(53,641)
Net deferred tax liability at 31 December	**(27,218)**	(34,401)	(37,875)
Deferred tax asset expected to unwind within one year	**3,724**	2,685	702
Deferred tax asset expected to unwind after one year	**12,734**	13,403	15,064
	16,458	16,088	15,766
Deferred tax liability expected to unwind within one year	**(1,662)**	(3,714)	(5,093)
Deferred tax liability expected to unwind after one year	**(42,014)**	(46,775)	(48,548)
	(43,676)	(50,489)	(53,641)

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences giving rise to deferred tax assets to the extent that it is probable that these assets will be recovered through future taxable profits.

The movements in deferred tax assets and liabilities (prior to the offsetting of balances within the same jurisdiction as permitted by IAS 12) during the year are shown below. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

21. DEFERRED TAX *(continued)*

	2012		
	Asset/ (liability)	**(Charged)/ credited to income**	**Credited to equity**
	£'000	£'000	£'000
Origination and reversal of temporary differences			
Capital allowances	**9,825**	**1,520**	**—**
Employee pension liabilities	**1,521**	**(126)**	**(34)**
Trading losses	**3,303**	**(344)**	**—**
Intangible assets	**(42,786)**	**7,392**	**—**
Gain deferred by roll over relief	**(887)**	**—**	**—**
Other temporary and deductible differences	**1,806**	**(617)**	**—**
	(27,218)	**(7,825)**	**(34)**

	2011		
	Asset/ (liability)	(Charged)/ credited to income	Credited to equity
	£'000	£'000	£'000
Origination and reversal of temporary differences			
Capital allowances	8,334	521	—
Employee pension liabilities	1,680	(512)	689
Trading losses	3,650	(697)	—
Intangible assets	(49,602)	5,093	—
Gain deferred by roll over relief	(887)	—	—
Other temporary and deductible differences	2,424	30	—
	(34,401)	4,435	689

	2010		
	Asset/ (liability)	(Charged)/ credited to income	Credited to equity
	£'000	£'000	£'000
Origination and reversal of temporary differences			
Capital allowances	7,733	(658)	—
Employee pension liabilities	1,503	(756)	92
Trading losses	4,099	2,678	—
Intangible assets	(52,754)	5,638	—
Gain deferred by roll over relief	(887)	—	—
Other temporary and deductible differences	2,431	316	—
	(37,875)	7,218	92

A deferred tax asset has not been recognised in respect of unused capital losses of £21,974,000 (2011: £24,841,000, 2010: £26,948,000) and £22,250,000, (2011: £24,351,000, 2010: £25,756,000) in respect of non-trading loan relationships, and £411,000 in respect of trading losses (2011: 467,000, 2010: nil).

Deferred tax liabilities have not been recognised in respect to the unrealised capital gain of £2,995,000 arising from the revaluation of available-for-sale financial assets because the unrecognised losses above, would offset any future gain.

22. CALLED UP SHARE CAPITAL

	2012					
	Class A £1 Ordinary shares		**Class B 1p Ordinary shares**		**Class C 1p Ordinary shares (non-voting)**	
	Shares	£'000	Shares	£'000	Shares	£'000
Authorised	**340,000,000**	**340,000**	**340,000,000**	**3,400**	**50,000,000**	**500**
Issued and fully paid						
At 1 January 2012	**146,066,312**	**146,067**	**146,066,312**	**1,460**	**12,634,929**	**127**
Shares issued to management	**—**	**—**	**—**	**—**	**784,265**	**7**
Shares redeemed in the year	**—**	**—**	**—**	**—**	**(373,962)**	**(4)**
At 31 December 2012	**146,066,312**	**146,067**	**146,066,312**	**1,460**	**13,045,232**	**130**

During the year the company redeemed, at no cost, those shares that were held by employees who had since left the Group.

	2011					
	Class A £1 Ordinary shares		Class B 1p Ordinary shares		Class C 1p Ordinary shares (non-voting)	
	Shares	£'000	Shares	£'000	Shares	£'000
Authorised	340,000,000	340,000	340,000,000	3,400	50,000,000	500
Issued and fully paid						
At 1 January 2011	146,066,312	146,067	146,066,312	1,460	12,042,187	120
Shares issued to management	—	—	—	—	931,916	10
Shares redeemed in the year	—	—	—	—	(339,174)	(3)
At 31 December 2011	146,066,312	146,067	146,066,312	1,460	12,634,929	127

Description of shares

The A shares do not have voting rights but have the right to receive upto their aggregate par value the payment of a dividend or liquidity event (including any other distribution, a liquidation, return of capital or disposal proceeds), the shareholders will receive upto their aggregate par value in priority to any other shareholders (the "Priority Distribution"). Following receipt of the Priority Distribution in full, the A shares will not attract any further entitlement to distributions.

The B shares are voting shares and entitled to receive dividends and distributions from the company when properly declared and made after full payment of the Priority Distribution to the holders of A shares. The B shares are stapled to the A shares.

The C shares were created to be issued at the discretion of the board of directors to implement a management incentive plan for the management team. Under the terms of the plan, members purchase C shares which are non-voting but entitled to receive similar distributions to the B shares.

The company has authorised D shares. These are deferred shares which would be issued in consideration of A shares redeemed once the Priority Distribution has been paid. No D shares have been issued to date.

23. RESERVES

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

Share premium
The amount subscribed for share capital in excess of nominal value less any costs directly attributable to the issue of new shares.

Capital redemption reserve
The capital redemption represents the cancellation of the original share capital and share premium of the company and the par value of any shares repurchased.

Foreign exchange reserve
The foreign exchange reserve represents the difference arising from the changes to foreign exchange rates upon assets and liabilities of overseas subsidiaries.

Retained earnings
Cumulative net gains and losses recognised in the Group income statement and pension scheme gains and losses recognised in the statement of recognised income and expense.

24. ACQUISITIONS DURING THE YEAR

	Fair Values		
	Life and Easy	**Other**	**Total**
	£'000	£'000	£'000
Intangible assets	—	2,618	**2,618**
Property, plant & equipment	—	328	**328**
Trade and other receivables	—	728	**728**
Cash at bank	405	1,095	**1,500**
Trade and other payables	(52)	(2,686)	**(2,738)**
Corporation tax	(105)	(200)	**(305)**
Deferred tax	—	(608)	**(608)**
Net assets	248	1,275	**1,523**
Goodwill	2,132	9,441	**11,573**
Consideration	2,380	10,716	**13,096**
Settled by:			
Initial consideration	1,587	9,991	**11,578**
Deferred consideration	793	725	**1,518**
	2,380	10,716	**13,096**
Cash paid	1,587	9,991	**11,578**
Cash at bank	(405)	(1,095)	**(1,500)**
Net cash flow arising from acquisitions	1,182	8,896	**10,078**
Revenue post acquisition	188	4,242	**4,430**
Profit post acquisition	148	1,436	**1,584**
Pro-forma revenue to 31 December 2012	693	7,548	**8,241**
Pro-forma profit to 31 December 2012	317	2,006	**2,323**

On 11 September 2012 the Group acquired 100% of the equity share capital of Life and Easy, trading as FYB Network, further increasing the Group's financial services footprint in the UK following the Mortgage Intelligence Holdings Limited acquisition in 2011.

24. ACQUISITIONS DURING THE YEAR *(continued)*

During 2012 the Group completed the purchase of thirteen lettings businesses in accordance with a strategy to increase the Groups footprint in under represented geographical areas.

The acquired receivables for all acquired businesses are all current and their fair value is not materially different. Furthermore there are no contractual cash flows that are not expected to be collected. The goodwill recognised by the Group upon acquisition has no impact on tax deductions.

The costs of these acquisitions amounted to £377,000 and have been written off to profit and loss.

25. ACQUISITIONS DURING THE PRIOR YEAR

During the prior year the Group acquired Blundells Property Services Limited, Mortgage Intelligence Holdings Limited and a number of small lettings businesses. The total consideration paid was £18.3 million and goodwill recognised was £11.3 million. The pro-forma revenue and EBITDA generated by businesses in 2011 was £17.5 million and £3.3 million respectively.

26. OPERATING LEASE COMMITMENTS – MINIMUM LEASE PAYMENTS

Commitments under non cancellable operating leases due are as follows:

	2012		2011	
	Property	**Vehicles, plant and equipment**	**Property**	**Vehicles, plant and equipment**
	£'000	£'000	£'000	£'000
Within one year	**20,286**	**17,945**	21,648	15,409
Later than one year and less than five years	**46,505**	**18,582**	42,876	29,124
After five years	**15,180**	**—**	15,851	—
	81,971	**36,527**	80,375	44,533

At 31 December 2012, the Group had subleased a number of surplus premises and was entitled to receive rents under non-cancellable leases as follows:

SUB LEASES	**2012**	2011
	£'000	£'000
Within one year	**996**	1,024
Later than one year and less than five years	**1,953**	1,785
After five years	**1,364**	1,434
	4,313	4,243

27. CLIENT MONIES

At 31 December 2012, client monies held by subsidiaries in approved bank and building society accounts amounted to £158,453,000 (2011: £145,137,000). Neither this amount nor the matching liabilities to the clients concerned are included in the Group balance sheet.

28. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

The Group is exposed through its operations to one or more of the following financial risks:

- Cash flow interest rate risk
- Liquidity risk
- Counterparty credit risk

The policy for managing these risks is set by the Board following recommendations from the Chief Finance Officer. Certain risks are managed centrally, while others are managed locally following guidelines communicated from the centre.

The policy for each of the above risks is described in more detail below.

28. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(continued)*

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

	2012	2011
	£'000	£'000
Floating rate assets	**29,044**	35,597
Fixed rate assets	**17,500**	25,039
Interest free assets	**53,000**	52,837
Total financial assets	**99,544**	113,473
Floating rate liabilities	**—**	—
Fixed rate liabilities	**250,000**	250,000
Interest free	**46,972**	61,846
Total financial liabilities	**296,972**	311,846

The average rate at which the fixed rate liabilities were fixed in 2012 was 10% (2011: 10%) and the average period for which the liabilities were fixed was 366 days (2011: 365 days).

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

Interest rate risk

The interest payable on the Senior Secured Fixed Rate Notes is fixed; therefore the Group is not exposed to the risk of cash flow risk arising from changes in the interest rates.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's liabilities secured on a floating basis which are managed on a central basis. The following table demonstrates the sensitivity to a reasonably possible change in interest rates on the portion of liabilities exposed to the floating rates.

	2012	2011
	£'000	£'000
Increase in basis points	**+100**	+100
Effect on profit before tax £'000	**(99)**	(99)
Decrease in basis points	**-50**	-50
Effect on profit before tax £'000	**50**	50

The interest rate under the Senior Secured Revolving Credit Facility is based on Base Rate plus a margin between 3 and 4% dependent on Group Financial performance. The Group had drawn down £7.4 million under the Senior Secured Revolving Credit facility in order to provide Letters of Credit.

Liquidity risk

The liquidity risk of each Group entity is managed centrally by the Group treasury function. The Group's cash requirement is monitored closely.

The Group aims to mitigate liquidity risk by managing cash generation by its operations and acquisition strategy. Acquisitions are carefully selected with authorisation limits operating up to Group Board level and cash payback periods as applied as part of the investment appraisal process. The Group is also very cash generative as demonstrated by the cash from operations. The requirement to pay creditors is managed through future cash generation and if required revolving credit facility.

The Group monitors its risk to a shortage of funds by daily cash reporting. This reporting considers maturity of both its financial investments and financial assets (e.g. accounts receivable and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility for potential acquisitions.

28. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(continued)*

Liquidity risk (continued)

The table below demonstrates the sensitivity of the interest payable based on LIBOR increasing/(decreasing) by 0.5% on the amount currently drawn down at the 31 December 2012, £7,640,680, note 18.

	2012	2011
Increase in LIBOR	**+0.5%**	+0.5%
Effect on interest payable £000	**+38**	+38
Decrease in LIBOR	**-0.5%**	-0.5%
Effect on interest payable	**-38**	-38

All surplus cash is held centrally to maximise the returns on deposits through economies of scale. The type of cash instrument used and its maturity date will depend on the Group's forecast cash requirements. The Group maintains an overdraft facility with a major banking corporation to manage any unexpected short-term cash shortfalls.

The Group has £250 million of Senior Secured Notes which incur interest payments half yearly. The Chief Finance Officer may elect to pay the interest in kind in certain circumstances thus providing a level of flexibility. The Group has secured a £25.0 million Senior Revolving Facility Agreement which gives additional liquidity resource.

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

	2012	2011
	£'000	£'000
Trade payables	**15,290**	13,581
Obligations under finance leases	**371**	406
Put options	**5,560**	8,389
Deferred consideration	**1,768**	—
Borrowings	**249,774**	249,513
Accruals and other creditors	**22,892**	37,084
	295,655	308,973

The table below analyses the Group's financial liabilities into relevant maturity Groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are contractual undiscounted cash flows (except for derivative financial liabilities (call options)).

	2012	2011
	£'000	£'000
In less than one year	**40,322**	51,071
In more than one year but not more than two years	**1,800**	—
In more than two years but less than three years	**—**	4,000
In more than three years but not more than four years	**3,850**	—
In more than four years but less than five years	**—**	5,775
Over five years	**251,000**	251,000
	296,972	311,846

Counterparty credit risk

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

	2012	2011
	£'000	£'000
Cash and cash equivalents	**46,544**	60,636
Trade receivables	**43,427**	44,314
Other debtors	**9,573**	8,523
	99,544	113,473

28. FINANCIAL INSTRUMENTS – RISK MANAGEMENT *(continued)*

As stated in note 15 trade and other receivables are current assets and expected to convert to cash over the next twelve months.

The Group is exposed to credit risk from credit sales. It is Group policy, implemented locally, to assess the credit risk of major new customers before entering contracts. The majority of customers use the Group's services as part of a housing transaction and consequently the sales are paid from the proceeds of the house sale. The following table presents a breakdown of the gross trade receivables between the three main types of customer:

The Group treasury function manages the Group's cash balances and seeks to achieve reasonable rates of interest, but preservation of the capital is the overriding priority. A list of accepted deposit institutions is maintained and their credit ratings are kept under review.

	2012	2011
	£'000	£'000
Individual customers	**27,995**	27,696
Major lenders	**11,391**	11,036
Other commercial customers	**9,038**	10,901
	48,424	49,633

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Indenture dated 8 May 2009 places restrictions on the Group's ability to raise additional debt. However, the Group is able issue new shares and extend the Revolving Credit Facility by a further £25 million. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or renegotiate facilities to reduce debt. Further debt may be taken on with an acquisition if the pro-forma net debt to EBITDA ratio does not exceed 4:1.

29. RELATED PARTY TRANSACTIONS

Key management compensation is given in note 6 (b). Other related party transactions are as follows:

Trading transactions

		Transaction amount		**Balance owed/(owing)**	
Related party relationship	**Transaction type**	**2012**	2011	**2012**	2011
		£'000	£'000	£'000	£'000
Joint venture	Purchases by Group	**(2,278)**	(3,430)	**97**	30
Joint venture	Rebate received	**1,059**	264	—	—
Joint venture	Dividend received	**748**	336	—	—
Apollo Management	Management fee paid	**750**	750	—	—
Oaktree Capital Management	Management fee paid	**750**	750	—	—

With the exception of dividends and management fees, these transactions are trading relationships which are made at market value. 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 2012 regarding related party transactions.

Oaktree Capital Management and Apollo Management LP both own in excess of 20% of the share capital of the Group. Alchemy Special Opportunities Fund LP has a director on the board of the company and is therefore deemed to have significant control even though their shareholding falls below 20%.

During 2012 the Group incurred £1,500,000 split equally between Apollo Management and Oaktree Capital Management, in respect of management fees for the period 15 December 2011 to 14 December 2012.

29. RELATED PARTY TRANSACTIONS *(continued)*

At the end of 2012 the following related parties had an interest in the Group's debt:

	Face value	Interest received
	£000	£000
Related party debt	80,724	8,108

30. CONTROLLING ENTITIES

Oaktree Capital Management is the controlling entity of the Group.

31. EVENTS AFTER THE REPORTING PERIOD

During the first few weeks of the year the Group acquired two lettings businesses for £3.3 million. At the time of preparing these financial statements, management is in the process of assessing the impact of these acquisitions on the Group.