Countrywide Holdings, Ltd

Financial Results for the Year Ended December 31, 2011

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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, 2011, December 31, 2010 and December 31, 2009, 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 which are shown as exceptional expenses 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 2011.

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

- Progress continues across all parts of the Group
- Significant investment in key areas
- Structural cost savings continue
- Further significant contract wins underpin future performance

However

- 2011 housing transaction volumes were lower than in 2010
- Macro-economic concerns remain (Euro zone / UK unemployment)
- No obvious catalyst for any major short term improvement in market conditions

Results	Year ended December 31, (audited)		
	2011	2010	Variance
	£'000	£'000	%
Total income	**509,050**	477,922	+7
EBITDA before exceptional items[1]	**56,367**	51,476	+10
Operating profit before exceptional items	**35,793**	27,400	+31
Operating profit	**19,246**	8,408	+129
	(unaudited)		
	Number	Number	
House sales exchanged			
- Estate Agency division	**56,108**	58,984	-5
- Hamptons	**3,274**	2,181	n/m
Life policies arranged	**35,333**	31,387	+13
Mortgages arranged	**53,180**	37,324	+42
Valuations and survey instructions	**271,001**	250,816	+8
Total conveyances completed	**30,604**	31,827	-4
Headcount – average	**8,025**	8,105	-1
Headcount at year end	**8,188**	7,872	+4
Segment results	(audited)		
Total income	£'000	£'000	
Estate Agency	**215,390**	232,157	-7
Lettings	**81,255**	73,559	+10
Financial Services	**62,069**	57,183	+9
Surveying & Valuation	**60,391**	52,621	+15
Conveyancing	**22,843**	21,558	+6
Hamptons	**66,065**	40,015	n/m
Other segments	**1,037**	829	+25
	509,050	477,922	+7
EBITDA before exceptional items			
Estate Agency	**13,181**	19,697	-33
Lettings	**15,291**	14,307	+7
Financial Services	**9,398**	5,654	+66
Surveying & Valuation	**8,592**	7,418	+16
Conveyancing	**7,714**	8,459	-9
Hamptons	**14,292**	9,474	n/m
Segment EBITDA before exceptional items	**68,468**	65,009	+5
Other segments	**(12,101)**	(13,533)	-11
Group EBITDA before exceptional items	**56,367**	51,476	+10

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

CONSOLIDATED INCOME STATEMENT

	(audited)	(unaudited)	(audited)	
	Actual results for the year ended December 31	*Pro forma[1] results for the year ended December 31*	Actual results for the year ended December 31	
	2011	*2010*	2010	As restated 2009
Continuing operations	£'000	*£'000*	£'000	£'000
Revenue	**498,855**	*490,488*	468,041	439,105
Other income	**10,195**	*9,995*	9,881	6,884
	509,050	*500,483*	477,922	445,989
Employee benefit costs	**(283,047)**	*(282,965)*	(270,464)	(255,277)
Depreciation and amortisation	**(19,074)**	*(25,108)*	(22,576)	(19,125)
Other operating expenses	**(171,136)**	*(164,350)*	(157,482)	(147,726)
Exceptional expenses	**(16,547)**	*(19,107)*	(18,992)	(27,749)
Other expenses	**(187,683)**	*(183,457)*	(176,474)	(175,475)
Group operating profit before exceptional items	**35,793**	*28,060*	27,400	23,861
Exceptional items	**(16,547)**	*(19,107)*	(18,992)	(27,749)
Group operating profit/(loss)	**19,246**	*8,953*	8,408	(3,888)
Cash payable finance costs	**(26,967)**	*(22,999)*	(22,898)	(13,205)
Non-cash payable finance costs	**(691)**	*(1,850)*	(914)	(14,310)
Finance costs	**(27,658)**	*(24,849)*	(23,812)	(27,515)
Cash receivable finance income	**793**	*2,227*	2,014	1,884
Non-cash receivable finance income[2]	**—**	*—*	—	704,427
Finance income	**793**	*2,227*	2,014	706,311
Net finance (expense)/income	**(26,865)**	*(22,622)*	(21,798)	678,796
Share of profit post tax from joint venture	**314**	*359*	359	343
(Loss)/profit before taxation	**(7,305)**	*(13,310)*	(13,031)	675,251
Taxation	**4,664**	*5,296*	4,758	4,316
(Loss)/profit for the year	**(2,641)**	*(8,014)*	(8,273)	679,567
Attributable to:				
Owners of the company	**(2,842)**	*(8,014)*	(8,273)	679,567
Non-controlling interests	**201**	*—*	—	—
	(2,641)	*(8,014)*	*(8,273)*	679,567

1 The pro-forma results for the year ended December 31, 2010 include the full year trading results of the Hamptons group acquired with effect from June 1, 2010, together with the costs of acquisition and the amortisation of the intangible assets acquired.

2 The non-cash receivable income in 2009 has been restated by £353.2 million (per notes 4 and 9 to the consolidated financial statements), as a result of adopting IFRIC 19 'Extinguishing financial liabilities with equity instruments'.

CONDENSED CONSOLIDATED BALANCE SHEET

		(audited)	
	2011	2010	2009
	£'000	£'000	£'000
Assets			
Non-current assets			
Intangible assets:			
Goodwill	**344,944**	333,668	304,889
Other intangible assets	**198,933**	200,731	146,551
Property, plant and equipment	**22,508**	22,614	18,851
Investments accounted for using the equity method:			
Investments in joint venture	**2,650**	2,672	2,813
Other investments	**317**	303	—
Deferred tax asset	**16,088**	15,766	12,697
Total non-current assets	**585,440**	575,754	485,801
Current assets			
Trade and other receivables	**67,108**	68,691	59,575
Cash and cash equivalents	**60,636**	58,907	100,117
Total current assets	**127,744**	127,598	159,692
Total assets	**713,184**	703,352	645,493
Non-current liabilities			
Financial liabilities – loans and borrowings	**248,513**	248,240	175,000
Defined benefit scheme liabilities	**6,463**	5,506	6,455
Provisions	**20,211**	27,090	21,764
Deferred income	**16,667**	12,342	12,901
Other liabilities due after one year	**14,029**	6,295	5,769
Deferred tax liability	**50,489**	53,641	40,813
Total non-current liabilities	**356,372**	353,114	262,702
Current liabilities			
Trade and other payables	**79,849**	72,579	70,406
Deferred income	**9,850**	3,795	3,396
Provisions	**21,908**	16,052	15,990
Current tax liabilities	**1,333**	1,564	2,349
Total current liabilities	**112,940**	93,990	92,141
Total liabilities	**469,312**	447,104	354,843
Net assets	**243,872**	256,248	290,650

CONSOLIDATED CASH FLOW

		(audited)	
	2011	2010	2009
	£'000	£'000	£'000
Cash flows from operating activities			
Cash generated from operations	**50,438**	27,477	38,122
Interest paid	**(25,791)**	(22,337)	(11,847)
Tax (paid)/refund	**(552)**	(2,918)	5,926
Net cash inflow from operating activities	**24,095**	2,222	32,201
Cash flows from investing activities			
Acquisitions net of cash acquired	**(16,328)**	(85,718)	(2,530)
Purchase of property, plant and equipment	**(5,775)**	(5,348)	(2,727)
Purchase of intangible assets	**(1,652)**	(2,718)	(3,794)
Proceeds from sale of property, plant and equipment	**381**	1,895	112
Proceeds from disposal of a subsidiary	**500**	—	—
Purchase of investments	**—**	(303)	—
Dividend received from joint venture	**336**	500	500
Interest received	**886**	2,105	2,427
Net cash outflow from investing activities	**(21,652)**	(89,587)	(6,012)
Cash flows from financing activities			
Proceeds from issue of share capital	**544**	160	112,617
Repayment of financial derivative	**—**	—	(3,120)
Financing fees paid	**(1,258)**	(1,920)	(12,381)
Issue of bonds net of fees	**—**	75,000	—
Repayment of Revolving Credit Facility	**—**	—	(90,000)
Repayment of overseas loan	**—**	(1,070)	—
Purchase of own shares	**—**	(26,015)	(15,750)
Net cash (outflow)/inflow from financing activities	**(714)**	46,155	(8,634)
Net increase/(decrease) in cash and cash equivalents	**1,729**	(41,210)	17,555
Cash and cash equivalents at 1 January	**58,907**	100,117	82,562
Cash and cash equivalents at 31 December	**60,636**	58,907	100,117

OTHER FINANCIAL DATA

	(unaudited) For the year ended December 31,		
	2011	2010	2009
	£'000	£'000	£'000
EBITDA before exceptionals[1]	**56,367**	54,599	44,082
Cash and cash equivalents	**60,636**	58,907	100,117
Gross debt	**250,000**	250,000	175,000
Net debt	**189,364**	191,093	74,883
Consolidated interest expense[2]	**26,865**	24,332	15,955
Consolidated leverage ratio[3]	**3.36**	3.50	1.70
Fixed charge ratio[4]	**2.10**	2.24	2.76

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

	(audited)		
	2011	2010	2009
	£'000	£'000	£'000
Consolidated net (loss)/profit	**(2,641)**	(8,273)	679,567
Finance income	**(793)**	(2,014)	(706,311)
Share of profit post tax from joint venture	**(314)**	(359)	(343)
Depreciation and amortisation	**19,074**	22,576	19,125
Share based payments	**—**	—	129
Management fee	**1,500**	1,500	967
Finance expense	**27,658**	23,812	27,515
Taxation	**(4,664)**	(4,758)	(4,316)
EBITDA	**39,820**	32,484	16,333
Financial restructuring costs	—	—	18,220
Other exceptional items	**16,547**	18,992	9,529
EBITDA before exceptionals	**56,367**	51,476	44,082

[1] The EBITDA for 2010 is pro-forma as it includes the full 12 months results for Hamptons International. The results for 2009 and 2011 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 2009 and 2011 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

We are the leading estate agency-based residential property service provider in the United Kingdom, measured by both revenue and transaction volumes. We operate in five complementary businesses: (i) Estate Agency for residential property sales, (ii) Residential Lettings for residential property lettings and property management, (iii) Financial Services for arranging mortgages, insurance and related financial products for participants in residential property transactions, (iv) Surveying Services for mortgage lenders and prospective homebuyers and (v) Conveyancing Services for residential property conveyancing. Our business operates in approximately 700 towns throughout the United Kingdom, including almost every major UK population centre. More than 82% (2010: 86%)of the revenue and more than 66% (2010: 65%) of the operating profit of our Estate Agency Division was generated outside of the London market, in the year ended December 31, 2011. We believe that the strength of our broad product offering allows our business to capture revenue streams across every stage of a typical residential property transaction from listing to completion.

Business review

There was no real improvement in overall market trends during 2011 which continue to present a challenging environment for Countrywide and the rest of the industry. Average house prices were marginally lower than at the end of 2010 and market transactions were broadly flat. Fortunately interest rates remain low, mortgages affordable and some lenders returned to 90% Loan to Value products. The enduring Euro-zone crisis, public sector spending cuts and rising unemployment continue to impact consumer confidence and there are no indications of significant changes in the near future.

Although 2011 was a fourth successive year with housing transactions a around 50% of previous long term averages, Countrywide has generated EBITDA growth of 10%, primarily as a result of its strategic investments in London and prestige markets and expansion of our financial services capability. Towards the end of 2011, major new contracts went live helping the group towards a strong finish in the last quarter of the year, in which all our divisions out performed the last quarter of 2010.

Despite a flat market the group continued its strategic investment programme; buying target lettings and estate agency operations to broaden the group's footprint in under represented areas; acquiring the Mortgage Intelligence IFA network to strengthen its financial services base; investing in a consultant network maximise productivity through a more flexible cost base; and developing Propertywide.co.uk, our internet based property website, which continues to grow in presence and functionality with traffic increasing by 60% year on year, generating significant leads for our branch based sales staff.

Countrywide, through the commitment of its staff who have risen to the challenging trading conditions, has delivered growth, expanded its distribution base and enhanced its profile with innovative marketing strategies and success at industry awards. The group is well positioned to benefit from the recovery of market volumes although the timing of the recovery is difficult to predict at this stage.

Estate Agency Division

	(audited) Year ended December 31,		
	2011	2010	*Variance*
	£000	£000	%
Total income	**215,390**	232,157	-7
Operating costs	**(202,209)**	(212,460)	-5
EBITDA before exceptional items	**13,181**	19,697	-33
Depreciation, amortisation and share based payments	**(4,177)**	(3,805)	+10
Operating profit before exceptional items	**9,004**	15,892	-43
Exceptional expenses	**(2,212)**	(870)	+154
Operating profit	**6,792**	15,022	-55
Operational data		(unaudited)	
House sales exchanged	**56,108**	58,984	-5

The housing market continues to deliver a number of challenges to the Estate Agency Division. When released, the Land Registry and Register of Scotland data is expected to show a decline in housing transactions of 3-4% compared to 2010 making 2011 the second worst housing market in living memory in terms of the number of transactions. This market has had an adverse impact on our revenue performance in 2011, which overall has fallen by 7%.

The difficult market conditions resulted in more intense price competition for listings. In addition, although outperforming most house price indices, our average house price on sale fell by 1% to £199,000. Despite this we managed to maintain our average fee at close to record levels, assisted by an increased level of upfront fees (covered further below).

Additionally, a decline in the number of repossessions reduced income by approximately £4.75 million in 2011 compared to the previous year. This was compounded by the full year impact of the abolishment of HIPs during 2010, reducing income by a further £1.9 million in 2011. However, this shortfall was recouped entirely by the implementation of a strategy in certain parts of the country whereby clients are charged a marketing fee upfront.

Despite the above, together with the closure of a further 25 loss-making branches during the year and a relatively aggressive approach to fees, the division managed to hold its market share at or around record levels on a like for like basis.

Although the Prestige London and surrounding South Eastern housing market remain more robust than other parts of the country, both in terms of house prices and volume of transactions, 2011 did see a small improvement for our business in North England and Scotland in terms of number of transactions, whereas Eastern England and the South Coast fell further from 2010 levels.

We continue to focus on our cost base, cutting costs and improving efficiency wherever appropriate. Operating costs reduced by £10 million in 2011 compared to the prior year. Average Headcount (FTE equivalent) fell by 7.5% to 3,705, excluding acquisitions.

Strategic investment in selected parts of our business continued, including:

- The acquisition of Blundells, the market leading property services business in Sheffield and South Yorkshire where we previously had a limited presence in an area of high population density
- In the Prestige housing markets, opening 3 new Faron Sutaria branches in Central London, the acquisition of Edward d’Arc in Chiswick on behalf of John D Wood & Co, and the opening of 3 new UK Sotheby’s International Realty branches in Chelsea, Canford Cliffs and Stratford upon Avon
- Investment in our Land and New Homes business, which continues to be the market leader and sold 13% more properties in 2011 than the prior year. We also signed an exciting new working partnership with CBRE, the world’s largest Property Services Company and a significant Commercial Agent in the UK.
- Expansion of our Bridgfords brand into North Yorkshire and North East England

Our key areas of focus remain consistent:

- 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

The outlook for the 2012 housing market is an uncertain one, with a significant recovery to historical levels of transactions unlikely given the macroeconomic headwinds. However the Estate Agency Division is now in a better position than ever to face these challenges and prosper.

Lettings Division

	(audited) Year ended December 31,		
	2011	2010	Variance
	£000	£000	%
Total income	**81,255**	73,559	+10
Operating costs	**(65,964)**	(59,252)	+11
EBITDA before exceptional items	**15,291**	14,307	+7
Depreciation, amortisation and share based payments	**(1,758)**	(3,564)	-51
Operating profit before exceptional items	**13,533**	10,743	+26
Exceptional expenses	**(995)**	(413)	+141
Operating profit	**12,538**	10,330	+21
Operational data		(unaudited)	
Properties under management (retail) (average in the year)	**32,787**	30,486	+8
Properties under management (corporate) (average in the year)	**56,087**	62,773	-11

2011 proved to be an extremely strong year for the Lettings Division with growth in both income (10%) and EBITDA (7%). After netting out the additional costs incurred in setting up new branches the business grew EBITDA by 13%. However, this also includes the contribution from acquisitions during the year.

The business has made significant investment in the future

- Our New Start Program led to the opening of 113 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 12 acquisitions during 2011.

The market remained tight during 2011 with supply of rental properties flat, not helped by the limited availability of financing for the Buy-to-let market. Nonetheless the business has increased the number of retail rental properties under management by 8% year on year. Increase in availability of mortgage finance in 2012 could help improve market dynamics.

Demand for properties remained strong reflecting increased propensity of people to rent, partly impacted by the availability of mortgage finance and higher initial deposit requirements.

The outlook for 2012 remains positive for the lettings market.

Financial Services Division

	(audited) Year ended December 31,		
	2011	2010	Variance
	£000	£000	%
Total income	**62,069**	57,183	+9
Operating costs	**(52,671)**	(51,529)	+2
EBITDA before exceptional items	**9,398**	5,654	+66
Depreciation, amortisation and share based payments	**(5,433)**	(5,517)	-2
Operating profit before exceptional items	**3,965**	137	n/m
Exceptional expenses	**(1,675)**	(438)	+282
Operating profit/(loss)	**2,290**	(301)	n/m
Operational data	(unaudited)		
Total mortgages arranged	**53,180**	37,324	+42
Value	**£7.2bn**	£4.3bn	+67
Life insurance policies arranged	**35,333**	31,387	+13
General insurance policies arranged	**38,475**	36,100	+7

The Financial Services Division has performed very strongly with an increase in EBITDA before exceptional items of 66% considerably outperforming a flat market which continues to be challenging. The drivers of this were continued focus on cost control, the roll out of Mortgage Administration Fees across the business and the successful acquisition of Mortgage Intelligence group during April 2011. The latter of which has increased our market share and transaction volumes thereby considerably adding value to our lender proposition and potential for cross sales throughout the group. However, this has not been directly translated into revenue growth at the same rate due to the revenue recognition accounting policies for the IFA network recognise marginal income only.

Mortgage advances completed within the core business totalled £4.10 billion, which is marginally below prior year £4.23 billion. We have sacrificed a small amount of market share volume in exchange for a fee charging structure that has lead to the Financial Services division producing the strong growth in EBITDA shown above. Mortgage Intelligence group completions totalled £3.06 billion, ahead of forecast. Our total lending of £7.16 billion has led to considerable increased market share for group at circa 6%.

Our mortgage pipeline continues to hold up well and has increased 21% since 1st January, now standing at 11,400 mortgages entering 2012 over 23% up on prior year.

Total headcount closed the year at 925 which is a reduction from 1,004 in the prior year. These headcount figures include 643 active Mortgage Consultants down from 659 in the prior year. The division is actively recruiting with a view to adding a further 5% next year.

Cross sales of life and general insurance continue at similar rates to prior year and this is an area receiving increased management focus to improve further.

Countrywide set up a new business venture, Capital Private Finance Limited, with the Mortgage Advice Bureau to service our High Net Worth client base throughout London and the South East.

OPERATING AND FINANCIAL REVIEW

Surveying & Valuation Division

	(audited) Year ended December 31,		
	2011	2010	Variance
	£000	£000	%
Total income *(net of panel survey costs)*[1]	**47,022**	44,897	+5
Operating costs	**(38,430)**	(37,479)	+3
EBITDA before exceptional items	**8,592**	7,418	+16
Depreciation and amortisation	**(2,361)**	(2,091)	+13
Operating profit before exceptional items	**6,231**	5,327	+17
Exceptional expenses	**(11,104)**	(10,087)	+10
Operating loss	**(4,873)**	(4,760)	+2
Operational data		(unaudited)	
Valuations and survey instructions completed	**271,001**	250,816	+8

Our Surveying and Valuations Division has delivered a 2011 EBITDA trading result 16% above the prior year. Despite the UK housing market not showing signs of improvement with transactional and remortgage volumes remaining largely static on 2010 levels, the Total Income for our Division has increased by over £2.1 million in 2011. This growth has been delivered by (a) the impact of new contract wins; (b) the group's continued focus on other routes to market via the groups' Estate Agency and online presence; and (c) improved operational efficiencies and capacity.

2011 has seen continued re-investment in the Surveying Division, both in terms of its people and its processes. The Division has undergone significant change in 2011 at a senior level with three new board directors appointed to continue driving the growth of the business. Changes in remuneration incentive schemes and improvements to working practices have been critical in delivering the highest recorded productivity by our in house surveyor team, an 8% increase in 2011 of volumes of instruction completed over the prior year. Contract wins and associated growth means that we are now recruiting surveyors in selected geographies and an investment in mid-2011 in our Consultant Network allows a scalable and profitable solution for our UK wide geographical coverage.

The centralisation project running throughout the year has seen the creation of our National Operations Centre located near Derby. This centre not only delivers financial benefits in the form of cost savings but more importantly allows enhanced control and a scalable support structure which will underpin the business through its projected growth plans. In 2012, we will see further benefit to the business from the National Operations Centre in the form of additional efficiencies while delivering an excellent service both to customers and the surveying workforce it manages.

[1] The Surveying income has been stated net of panel fees paid £13.4 million (2010: £7.7 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.

Conveyancing Division

	(audited) Year ended December 31,		
	2011	2010	Variance
	£000	£000	%
Total income	**22,843**	21,558	+6
Operating costs	**(15,129)**	(13,099)	+15
EBITDA before exceptional items	**7,714**	8,459	-9
Depreciation, amortisation and share based payments	**(337)**	(576)	-41
Operating profit	**7,377**	7,883	-6
Operational data		(unaudited)	
Total completions	**30,604**	31,827	-4

Despite a challenging year our Conveyancing Business generated an EBITDA outturn of £7.7 million for 2011. Both income and operating costs have increased £1.4 million from 2010 levels as a result of increased search costs charged on to customers. Eliminating the gross impact of additional search fees, income has fallen £0.4 million in the year as a result of the reduced level of completions. Reduced opening pipelines from suppressed instruction activity in Q4 2010 led to a challenging first half of the year though activity and financial performance improved in the second half of 2011 with the seasonal market uplift. While there was a 4% shortfall in total completions, profitability was protected to a large degree by maintaining the in house pipeline and completion volumes and reducing volumes of instructions sent to the panel network.

In terms of operating costs, a portion of the year on year increase has been as a result of further investment in our Panel Management operation in readiness for the launch of the HSBC panel management contract in early January 2012. This was a significant win for the Conveyancing Division and establishes us as a market leader in panel management services. The Private Conveyancing proposition has firmly established itself, imparting high value transactions and we anticipate further growth in this product in 2012 in particular through the Hamptons and high value brands network.

Q4 2011 saw an improvement in instruction activity on the prior year and consequently opening pipelines are above prior year levels. We are continuing to work closely and deliver outstanding customer service with our Estate Agency and Financial Services divisions which, coupled with the launch of the third party work means that the business is well positioned for growth in 2012.

Hamptons

	Year ended December 31,		
	(audited)	(unadited) Pro-forma[1]	
	2011	2010	*Variance*
	£000	£000	%
Total income	**66,065**	62,575	+6
Operating costs	**(51,773)**	(49,908)	+4
EBITDA before exceptional items	**14,292**	12,667	+13
Depreciation and amortisation	**(2,395)**	(4,069)	-41
Operating profit before exceptional items	**11,897**	8,598	+38
Exceptional expenses	**—**	(1,822)	n/m
Operating profit	**11,897**	6,776	+76
Operational data		(unaudited)	
House sales exchanged	**3,274**	3,448	-5

Hamptons International had their most successful ever year in 2011 in the first full year of Countrywide ownership. Despite weakness in the broader UK market, Hamptons' strong presence in London and the South East drove performance and profitability.

[1] The pro-forma results 2010 comprise the full twelve months of that year.

The Residential Sales division was dominated by the performance of London in 2011 with prime central London offices having a record year. Eurozone and stock market volatility impacted on sentiment in the second half of 2011, however the year ended with a strong pipeline heading into 2012.

The Lettings division had a record year in terms of income and profit with continuing strong demand in London and the key commuter areas matched by improved stock levels compared to 2010.

The Residential Development and Investment (New Homes) division had their most profitable year since 2006, selling high profile developments and winning key new instructions for 2012 onwards.

2011 saw investment in expansion of the estate agency network with a number of new locations opened and more secured to launch in early 2012.

2011 also saw the realisation of cost savings identified through synergies with Countrywide Group.

Hamptons was recognised at The Sunday Times Awards 2011 winning four silver awards for: Best Large Agency, Best for Innovation, Best for Marketing and Best for New Homes.

Other segments

Other segments comprise the senior management team and some central functions including online marketing and corporate business development. The costs for 2011 were £1.4 million lower than in 2010 owing to reduced bonus accruals of £0.6 million and other non-recurring costs recognised in 2010.

Exceptional items

Against the back drop of a reduction in market volumes and uncertainty on the timing of any significant recovery, management have continued to focus on further structured cost saving initiatives. This has resulted in additional restructuring including some branch closures and the acceleration of the plan to consolidate surveyors local offices into a National Operations Centre.

In common with others in the industry we continue to experience professional indemnity insurance claims in our Surveying division arising from the property market between 2004 and 2007. An estimate of these exceptional losses was established at the end of 2010 and further data and trends have resulted in an exceptional charge of £9.4 million in 2011. The circumstances giving rise to these claims during 2004 and 2007 were relatively unique and all trends from 2008 onwards confirm our view that these losses will not continue at these exceptional levels.

A break down of the costs is as follows:

	2011	2010	2009
	£'000	£'000	£'000
Redundancies	**4,641**	3,117	6,458
Property provisions	**2,227**	1,971	1,448
Insurance claims and litigation	**9,351**	11,934	—
Acquisition expenses	**328**	1,313	—
Other	**—**	657	1,623
	16,547	18,992	9,529

Depreciation and amortisation

The underlying depreciation and amortisation charges remain consistent year on year. The reduction in the charge of £3.5 million for 2011 is entirely due to the amortisation of the whole value of the pipeline of houses under offer acquired with Hamptons in 2010.

Finance expense

The finance expense 2011 has risen by £3.8 million to £27.7 million, £2.5 million of which relates to a full year's charge in respect of the £75 million bonds issued at the end of April 2010 and notional interest on deferred income.

Finance income

Average cash balances held during 2011 amounted to £64.3 million (2010: £97.6 million) and the average rate of interest earned amounted to 1.2% (2010: 1.9%). Although interest rates remained low throughout 2011 the proportion

of cash not required for intra-month working capital movements also reduced thus affecting the proportion of cash that could placed on deposit at better rates.

Taxation

Overall the group is reporting a tax credit of £4.7 million against a loss of £7.3 million an effective tax rate of 63%. In reality, there is small amount of corporation tax payable on the results for 2011 and the rest of the movements are in deferred tax. The reduction in the corporation tax rate from 28% to 26% has created a deferred tax credit of £1.9 million. After taking this into effect and the additional £0.3 million corporation tax credits in respect of 2010, the effective tax rate reduces to 34.2%.

Liquidity and cash flow analysis

	2011	2010	2009
	£'000	£'000	£'000
Cash at December 31	**60,636**	58,907	100,117
Trapped cash (cash held by the insurance cell)	**(2,526)**	(4,891)	(6,393)
Cash available for working capital	**58,110**	54,016	93,724
Revolving Credit Facility (RCF)	**25,000**	—	—
- Letters of Credit	**(2,000)**	—	—
Available facility	**23,000**	—	—

During 2011 the group generated a cash in flow of £18.0 million before investing £16.3 million in new businesses, this compares to a small outflow of £4.4 million in 2010 excluding acquisitions, share buybacks and the receipt of new finance. The increase year on year is driven by improved working capital management and a receipt of deferred income which will unwind over the next two years.

The new revolving credit facility is a welcome boost to the group's liquidity enabling the group to take advantage of business opportunities during the continuing challenging trading conditions. That, plus the flexibility to elect to pay the interest on the bonds in kind under certain circumstances, gives the group sufficient headroom to weather a potential hardening of the market.

Capital expenditure

Capital expenditure remains tightly controlled with every request for investment scrutinized. We have spent more money 2011 investing in five new branches for Hamptons and three new branches for Sotheby's each of which require a higher specification of re-fit compared to the majority of our branch network.

	2011	2010
	£'000	£'000
Leasehold improvements	**993**	1,557
Furniture and equipment	**4,751**	3,791
Computer software	**1,652**	1,446
Total	**7,396**	6,794

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, 2011. 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]	**80,375**	21,648	42,876	15,851
Vehicles, plant and equipment[2]	**44,533**	15,409	29,124	—
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]	**164,757**	25,347	101,389	38,021
Total	**551,065**	64,304	180,989	305,772

Material commitments

There has been no change to material contracts and material commitments since we issued our Annual Report for 2010 in February 2011.

[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.

OPERATING AND FINANCIAL REVIEW

WHAT WE DO

At Countrywide we strive to provide corporate clients and individual customers with a wide range of property services that are delivered to the highest standards of quality.

We recognise that Countrywide operates in an extremely competitive market where service standards are a key differentiator. Whilst the majority of our services are geared towards serving the needs of the residential market, assisting home movers every step of the way, we also operate a number of commercial and corporate property services for lenders, commercial agents, insurance brokers and pension funds alike.

In an increasingly competitive environment, with growing customer expectations, we've diversified and grown our market share in existing and new sectors.

Countrywide is at the heart of the property industry offering a range of services to help home movers with virtually every aspect of their move. Our comprehensive coverage and distribution network helps more home buyers and sellers than any other business in the UK.

Countrywide's service offering is equally well positioned to serve the needs of residential customers seeking home moving expertise and corporate clients looking to distribute their mortgage products and assets management portfolios.

OUR STRATEGY

Our business strategy is focused on the following initiatives:

Capitalise on our position as the United Kingdom's largest estate agency group

We believe that scale is a key success factor in the UK residential property market. We therefore intend to focus on further consolidating our leading market position by building on our extensive UK-wide footprint and increasing market share through organic growth and opportunistic acquisitions. We have historically grown our estate agency business through acquisitions and we will continue to make acquisitions in areas where there is potential for growth or that otherwise serve our overall long-term strategy and goals. Because there are few remaining large estate agency operations we intend to make opportunistic acquisitions, where possible and at a reasonable cost, of smaller regional and local estate agency businesses.

Exploit consolidation and growth opportunities in the UK lettings market

In the UK lettings market, which has yet to experience substantial consolidation, we have implemented a targeted acquisition program to increase the scale of our operations and an organic growth programme which has so far increased our network by 113 offices. We believe that given the highly fragmented nature of the lettings market and the intensity of our focus on this sector, our Lettings Division will be able to increase its leading market share and achieve the same level of market penetration in the lettings market as our Estate Agency Division has in the residential property sales market.

Build market share in core business and reach within financial services division

In 2011 we significantly increased our presence in the market through the acquisition of Mortgage Intelligence-Mortgage Next. This added a network to our service proposition and over £3.0 billion of lending, making Countrywide the UK's third largest intermediary for mortgage distribution and dramatically improving our position with our lending partners. Despite the expectation of a flat 2012 mortgage market we will continue to grow our market share, now over 6% of the gross mortgage market lending, within our Financial Services Division. We plan to grow our Countrywide salesforce organically and expect to add over 15% growth to Mortgage Intelligence–Mortgage Next network in 2012.

Scalable surveyor coverage delivering exceptional client service supported by a new centralised operational structure

The restructuring of the division will be completed in 2012, with the new centralised National Operations Centre supporting all of our field based staff and our client base from early in the second quarter. We will continue to invest in technology to enable us to continue to deliver market leading customer service and an enhanced product suite. Our Consultant network which has been bolstered considerably through acquisition in 2011 will continue to grow in 2012 and beyond and is a key part of our strategy on optimal geographic coverage. The division will continue to gain market share through maintaining our trend of winning new client contracts, exploiting additional routes to market and building on existing trusted client relationships.

Expanding routes to market, with new products and services forecast to deliver material growth
Our Conveyancing Division has developed considerably in 2011 having invested in our market leading panel management proposition and supporting infrastructure. The investment has already generated success through the high profile award and launch of the HSBC panel management contract with further opportunities within the lender market being targeted in 2012 and beyond. As well as continuing to develop our third party proposition, we will work closely with the Estate Agency Division, and increase the quantum of lead referrals through outstanding customer service and also through building scale around our innovative Private Conveyancing offering through the high value brands and the Hamptons network.

Improve operational performance and capture the benefits of synergies
As a result of our significant and growing market share and geographical presence we believe we will be able to successfully develop and implement group-wide best practices resulting in improved operational performance. We are also reviewing the infrastructure of the group with a view to further streamlining non-customer facing services and capitalising on efficiencies of scale within the business. Furthermore, each time the group acquires new businesses, a synergies project is implemented to maximise the returns achieved through the scale of the group.

OUR STRENGTHS

Our key competitive strengths include:

The largest UK estate agency. We are the largest estate agency in the United Kingdom, with a network of around 900 branches as at December 31, 2011. We operate through a variety of established estate agency brands, including Bairstow Eves, John D Wood & Co., Hamptons International, Sotheby's International, Mann & Co., Dixons, Bridgfords, Taylors, Slater Hogg & Howison and Gascoigne-Pees. The scale of our estate agency operations gives our management the ability to negotiate favourable terms with our insurance providers, mortgage lenders and other third parties and to readily ascertain market changes in supply, demand, transaction volumes and prices and react accordingly.

Synergistic provision of residential property services. In addition to traditional estate agency and lettings services, we offer ancillary services to buyers, sellers, landlords, mortgage lenders and other third parties. The interplay between the services that we offer leads to significant synergies as it allows us to capture revenue on all aspects of a typical residential property sale or rental. We believe that our ability to provide service at every stage of a typical UK residential property sale or rental provides a significant competitive advantage over our competitors that do not offer such a comprehensive set of services.

High cash flow conversion due to limited capital expenditure. Our ability to convert trading results into cash generation due to limited capital expenditure requirements, comprising principally information technology expenditures and branch expansion and refurbishment expenditures, is a strength of this group. In addition, our capital expenditure is scalable and allows us to accelerate or delay our spending based on market conditions.

Flexible cost base. We believe that our cost structure provides the financial flexibility that the cyclical residential property market demands. Our variable costs include marketing expenses and estate agents' commissions, both of which fluctuate with revenue. In addition, due to the high turnover of our estate agents, when we forecast that a downturn in the UK residential property market is impending, we are able to reduce the number of our employees (by not replacing departing estate agents) in order to counter the reduced revenue that results from a market downturn. We believe that our variable cost structure, coupled with our ability to manage our headcount, allows us to better respond to fluctuations in the residential property market. However, the effective flexibility of the cost base is limited to normal fluctuations in the housing market, in the case of a severe downturn, the fixed cost base can not be removed as quickly without damaging the groups' ability to recover during the upturn.

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 2011 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.

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 2011 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. 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 significant 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 group's business is dependent on reliable and efficient systems to process transactions, produce management information and publish financial statements. The failure of the systems could result in significant loss to the group both financial and reputational. IT Projects and performance are closely monitored by the senior group management and by operational management within the IT function, where strict protocols for change and risk management are followed.

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 2011, 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 2011, 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 favorable, 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 Officers 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 2011, 2010 and 2009.

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

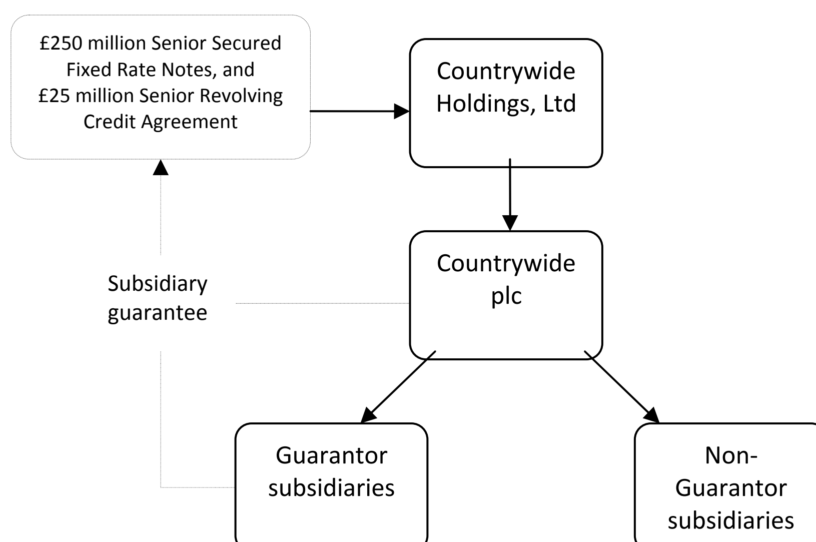
At December 31, 2011 the members of the Executive management team had subscribed to the Management Incentive Plan.

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 2011.

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	73,100,653	73,100,653	50.05%	—
Apollo Management	37,039,398	37,039,398	25.36%	—
Alchemy Special Opportunities Fund LP	12,896,834	12,896,834	8.83%	—
Management team	—	—	—	12,634,929
Other investors, all less than 10%	23,029,427	23,029,427	15.76%	—
	146,066,312	146,066,312	100.0%	12,634,929

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 2011 the guarantors accounted for 88% of the consolidated revenue, 84% of consolidated EBITDA before exceptionals and 97% of total assets excluding intercompany balances, internally generated goodwill and investments in subsidiaries. Our FSA regulated entity is not a guarantor and accounted for approximately 3% of our revenue, 12% of EBITDA before exceptionals and 1.5% of total 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, 2011; and
- we are not, and have 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 2011, 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 2011 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
1 March 2012

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Note	2011	2010	As restated[1] 2009
		£'000	£'000	£'000
Revenue		**498,855**	468,041	439,105
Other income	6	**10,195**	9,881	6,884
	5	**509,050**	477,922	445,989
Employee benefit costs	7	**(283,047)**	(270,464)	(255,277)
Depreciation and amortisation		**(19,074)**	(22,576)	(19,125)
Other operating expenses		**(171,136)**	(157,482)	(147,726)
Exceptional items	10	**(16,547)**	(18,992)	(27,749)
Other expenses		**(187,683)**	(176,474)	(175,475)
Group operating profit before exceptional items		**35,793**	27,400	23,861
Exceptional items	10	**(16,547)**	(18,992)	(27,749)
Group operating profit/(loss)		**19,246**	8,408	(3,888)
Cash payable finance costs	8	**(26,967)**	(22,898)	(13,205)
Non-cash payable finance costs	8	**(691)**	(914)	(14,310)
Finance costs		**(27,658)**	(23,812)	(27,515)
Cash receivable finance income		**793**	2,014	1,884
Non-cash receivable finance income		—	—	704,427
Finance income	9	**793**	2,014	706,311
Net finance (expense)/income		**(26,865)**	(21,798)	678,796
Share of profit post tax from joint venture	15(b)	**314**	359	343
(Loss)/profit before taxation	10	**(7,305)**	(13,031)	675,251
Taxation	11	**4,664**	4,758	4,316
(Loss)/profit for the year		**(2,641)**	(8,273)	679,567
Attributable to:				
Owners of the company		**(2,842)**	(8,273)	679,567
Non-controlling interests		**201**	—	—
(Loss)/profit attributable for the year		**(2,641)**	(8,273)	679,567

[1] Refer to note 4 for an explanation of the restatement of the 2009 results.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	2011	2010	As restated 2009
		£'000	£'000	£'000
(Loss)/profit for the year		**(2,641)**	(8,273)	679,567
Other comprehensive loss:				
Foreign exchange rate losses		**(15)**	(30)	—
Actuarial loss arising in the pension scheme net of tax	**7(d)**	**(1,912)**	(244)	(1,500)
Total other comprehensive loss		**(1,927)**	(274)	(1,500)
Total comprehensive (loss)/income for the year, net of tax		**(4,568)**	(8,547)	678,067
Attributable to:				
Owners of the company		**(4,769)**	(8,547)	678,067
Non-controlling interests		**201**	—	—
		(4,568)	(8,547)	678,067

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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Attributable to equity holders of the company					
		Share capital	As restated Share premium	Other reserves	Foreign exchange reserve	As restated Retained earnings	Total equity
		£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2009		155	30,405	—	—	(612,612)	(582,052)
Comprehensive income							
Profit for the year as previously reported		—	—	—	—	326,326	326,326
Impact of restatement	4	—	—	—	—	353,241	353,241
Other comprehensive income/(loss)							
Actuarial loss in the pension fund	7(d)	—	—	—	—	(2,083)	(2,083)
Deferred tax movement on pension reserve	22	—	—	—	—	583	583
Total other comprehensive loss		—	—	—	—	(1,500)	(1,500)
Total comprehensive income		—	—	—	—	678,067	678,067
Transactions with owners							
Employee share option scheme:							
- Value of employee services		—	—	—	—	1,682	1,682
Cancellation of shares under Court Approved Scheme of Arrangement		(155)	(30,405)	30,560	—	—	—
Issue of new shares as part of debt for equity swap as previously reported		50,000	416,778	—	—	—	466,778
Impact of restatement		—	(353,241)	—	—	—	(353,241)
Write off capitalised banking fees relating to cancelled debt		—	(17,451)	—	—	—	(17,451)
Issue of new shares for cash		112,617	—	—	—	—	112,617
Repurchase of shares		(5,914)	—	5,914	—	(15,750)	(15,750)
Transactions with owners		156,548	15,681	36,474	—	(14,068)	194,635
Balance at 31 December 2009 as restated	**4**	**156,703**	**46,086**	**36,474**	**—**	**51,387**	**290,650**
Loss for the year		—	—	—	—	(8,273)	(8,273)
Other comprehensive income/(loss)							
Currency translation differences		—	—	—	(30)	—	(30)
Actuarial loss in the pension fund	7(d)	—	—	—	—	(336)	(336)
Deferred tax movement on pension reserve	22	—	—	—	—	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	23	3	157	—	—	—	160
Repurchase of shares	23	(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 as restated	**4**	**147,647**	**46,243**	**45,533**	**(30)**	**16,855**	**256,248**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

	Note	Attributable to equity holders of the company						
		Share capital	As restated Share premium	Other reserves	Foreign exchange reserve	As restated Retained earnings	Non-controlling interests	Total equity
		£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 January 2011 as restated	4	**147,647**	**46,243**	**45,533**	**(30)**	**16,855**	**—**	**256,248**
(Loss)/profit for the year		—	—	—	—	(2,842)	201	(2,641)
Other comprehensive (loss)								
Currency translation differences		—	—	—	(15)	—	—	(15)
Actuarial loss in the pension fund	7(d)	—	—	—		(2,601)	—	(2,601)
Deferred tax movement on pension reserve	22	—	—	—	—	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	26	—	—	—	—	(8,389)	—	(8,389)
Issue of new shares for cash	23	10	534	—	—	—	—	544
Cancellation of shares	23	(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

CONSOLIDATED BALANCE SHEET

As at 31 December 2011

	Note	2011	As restated 2010	As restated 2009
		£'000	£'000	£'000
Assets				
Non-current assets				
Intangible assets:				
Goodwill	**12**	**344,944**	333,668	304,889
Other intangible assets	**13**	**198,933**	200,731	146,551
Property, plant and equipment	**14**	**22,508**	22,614	18,851
Investments accounted for using the equity method:				
Investments in joint venture	**15(b)**	**2,650**	2,672	2,813
Other investments	**15(c)**	**317**	303	—
Deferred tax asset	**22**	**16,088**	15,766	12,697
Total non-current assets		**585,440**	575,754	485,801
Current assets				
Trade and other receivables	**16**	**67,108**	68,691	59,575
Cash and cash equivalents	**17**	**60,636**	58,907	100,117
Total current assets		**127,744**	127,598	159,692
Total assets		**713,184**	703,352	645,493

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2011

	Note	2011	2010	2009
		£'000	£'000	£'000
Cash flows from operating activities				
Cash generated from operations	25	**50,438**	27,477	38,122
Interest paid		**(25,791)**	(22,337)	(11,847)
Tax (paid)/refund		**(552)**	(2,918)	5,926
Net cash inflow from operating activities		**24,095**	2,222	32,201
Cash flows from investing activities				
Acquisitions net of cash acquired	26	**(16,328)**	(85,718)	(2,530)
Purchase of property, plant and equipment	14	**(5,775)**	(5,348)	(2,727)
Purchase of intangible assets	13	**(1,652)**	(2,718)	(3,794)
Proceeds from sale of property, plant and equipment		**381**	1,895	112
Proceeds from sale of a subsidiary		**500**	—	—
Purchase of investments		**—**	(303)	—
Dividend received from joint venture	15(b)	**336**	500	500
Interest received		**886**	2,105	2,427
Net cash outflow from investing activities		**(21,652)**	(89,587)	(6,012)
Cash flows from financing activities				
Proceeds from issue of share capital		**544**	160	112,617
Repayment of financial derivative		**—**	—	(3,120)
Financing fees paid		**(1,258)**	(1,920)	(12,381)
Issue of bonds		**—**	75,000	—
Repayment of Revolving Credit Facility		**—**	—	(90,000)
Repayment of overseas loan		**—**	(1,070)	—
Purchase of own shares		**—**	(26,015)	(15,750)
Net cash (outflow)/inflow from financing activities		**(714)**	46,155	(8,634)
Net increase/(decrease) in cash and cash equivalents		**1,729**	(41,210)	17,555
Cash and cash equivalents at 1 January		**58,907**	100,117	82,562
Cash and cash equivalents at 31 December		**60,636**	58,907	100,117

1. GENERAL INFORMATION

The directors are responsible for the preparation of non-statutory financial statements on the basis set out below.

Countrywide Holdings, Ltd. is a company incorporated in the Cayman Islands. The address of the registered office is: Walkers House, 87 Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands. The company is the holding company of Countrywide plc group, whose principal activity is the provision of services to the residential property market in the UK.

The functional currency of the group is pounds sterling because that is the currency of the primary economic environment in which the group operates.

2. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the consolidated financial information are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

(a) New and amended standards adopted by the group

The following interpretations to existing standards have been published and have been adopted by the group during the year.

- **IFRIC 19 'Extinguishing financial liabilities with equity instruments'** (effective for accounting periods beginning on or after 1 July 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. The impact of this restatement on the consolidated financial statements is shown in note 4.

- **IAS 1 'Presentation of financial statements'** (effective 1 January 2011). This clarifies that an entity will present an analysis of other comprehensive income for each component of equity, in either the statement of changes in equity or in the notes to the financial statements. There has been no impact on the presentation of the consolidated financial statements arising from the adoption of these amendments.

(b) New and amended standards, and interpretations mandatory for the first time for the financial year beginning 1 January 2011 but not currently relevant to the group (although they may affect the accounting for future transactions and events)

- **IAS 24 (revised) 'Related party disclosures'** (effective 1 January 2011) This amendment removes the requirement for government related entities to disclose details of all transactions with the government and other government-related entities and it clarifies and simplifies the definition of a related party.

- **IAS 32 (amendment) 'Financial instruments'** (effective 1 February 2010). Presentation on classification of rights issues. This amendment allows rights, options or warrants to acquire a fixed number of the entity's own equity instruments for a fixed amount of any currency to be classified as equity instruments provided the entity offers the rights, options or warrants pro-rata to all of its existing owners of the same class of its own non-derivative equity instruments.

- **IFRS 1 (amendment), 'First time adoption'** (effective 1 July 2010). This amendment provides the same relief to first-time adopters as was given to current users of IFRSs upon adoption of the amendments to IFRS 7. It also clarifies the transition provisions of the amendments to IFRS 7.

- **IFRIC 14 (amendment), 'Pre-payments of a Minimum Funding Requirement'** (effective 1 January 2011). This amendment removes the unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement. It results in prepayments of contributions in certain circumstances being recognised as an asset rather than an expense.

2. Accounting policies *(continued)*

(c) New standards, amendments and interpretations issued but not yet effective.

The group's assessment of the impact of these new standards and interpretations is set out below. The new guidance is not expected to have a material impact on the group's financial statements.

- **IAS 19, (revised 2011), 'Employee benefits'** (effective 1 July 2012).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 changes will affect most entities that apply IAS 19. Principally, these amendments eliminate the corridor approach and calculate finance costs on a net funding basis.

- **IAS 27 (revised), 'Separate financial statements'** (effective 1 January 2013). 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.

- **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 IASB originally proposed that all entities should present profit or loss and OCI together in a single statement of comprehensive income. The proposal has been withdrawn and IAS 1 will still permit profit or loss and OCI to be presented in either a single statement or in two consecutive statements.

- **IFRS 7 (amendment), 'Financial instruments: Disclosures on derecognition'** (effective 1 July 2011). The amendments will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial asset.

- **IFRS 1 (amendment), 'First time adoption on hyperinflation and fixed dates'** (effective 1 July 2011). The first amendment replaces references to a fixed date of '1 January 2004' with 'the date of transition to IFRSs', thus eliminating the need for companies adopting IFRSs for the first time to restate derecognition transactions that occurred before the date of transition to IFRSs. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with IFRSs after a period when the entity was unable to comply with IFRSs because its functional currency was subject to severe hyperinflation.

- **IAS 12 (amendment), 'Income taxes'** (effective 1 January 2012). Currently IAS 12, 'Income taxes', requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40 Investment Property. Hence 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. As a result of the amendments, SIC 21, 'Income taxes- recovery of revalued non-depreciable assets', would no longer apply to investment properties carried at fair value.

- **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.

2. Accounting policies *(continued)*

(c) New standards, amendments and interpretations issued but not yet effective *(continued)*

- **IFRS 10 'Consolidated financial statements'** (effective 1 January 2013). 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 might impact the entities that the group consolidates as its subsidiaries.

- **IFRS 11 'Joint arrangements'** (effective 1 January 2013). 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. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed.

- **IFRS 12 'Disclosure of interests in other entities'** (effective 1 January 2013). 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.

- **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 requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP.

- **IAS 28 (revised), 'Investments in associates and joint ventures'** (effective 1 January 2013). This standard includes the requirements for joint ventures, as well as associates, to be equity accounted following the issue of IFRS 11.

(d) 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.

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.

2. ACCOUNTING POLICIES *(continued)*

(e) 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. 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.

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.

Transactions eliminated on consolidation

Intragroup balances, and any gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial information. Gains arising from transactions with associated and 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.

2. ACCOUNTING POLICIES *(continued)*

(e) Basis of consolidation *(continued)*

Foreign currency translation

- 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, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

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

  Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are included in the fair value reserve in other comprehensive.

- 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 presentational 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.

(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. 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.

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. 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 value is reassessed annually.

2. ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment *(continued)*

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

(g) Intangible assets

Goodwill

Goodwill has been recognised on acquisitions of subsidiaries, associates 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 acquired subsidiary at the date of acquisition. 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. In respect of associated undertakings and joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the associated undertakings and joint ventures.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

Other intangible assets

Intangible assets other than goodwill that are acquired by the group, principally acquired brands, customer contracts and relationships, are stated at cost less accumulated amortisation where charged, and impairment losses.

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 estate agency pipeline of agreed (but unexchanged) house sales at the date of acquisition has a very short life and it is charged to profit or loss over the period that it unwinds, which is typically 3 to 4 months. All goodwill and intangible assets with an indefinite useful life are tested systematically for impairment at each annual balance sheet date. Internally generated and acquired computer software is amortised over 3 to 5 years. Customer relationships on contracts are amortised over the life of the contract typically 5 to 10 years.

(h) 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.

(i) 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.

2. ACCOUNTING POLICIES *(continued)*

(j) Impairment

The carrying amounts of the group's assets are reviewed annually to determine whether there is any indication of impairment. 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.

(k) 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 the consolidated statement of 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 other 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.

Share-based payment transactions

Certain members of the management team have participated in the management equity plan. The fair value of options purchased under the plan is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial lattice model, taking into account the terms and conditions upon which the options were granted. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

2. ACCOUNTING POLICIES *(continued)*

(k) Employee benefits *(continued)*

Share-based payment transactions (continued)

Where the terms and conditions of options are modified before they vest, the increase or decrease in the fair value of the options measured immediately before and after the modification is also charged to the income statement over the remaining vesting period.

(l) 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, 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.

(m) Trade and other payables

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

(n) Revenue

Services rendered

Revenue, which arises wholly in the United Kingdom, comprises 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 earnt under lettings contracts is recognised at the point of delivery of the service.

Deferred revenue

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 delievered and the unexpired element is disclosed in other liabilities as deferred revenue.

(o) 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.

(p) Expenses

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.

Net financing costs

Net financing costs comprise interest payable on borrowings, calculated using the effective interest rate method, interest receivable on funds invested, dividend income and foreign exchange gains and losses. Interest income is recognised in profit or loss as it accrues using the effective interest method.

(q) Exceptional items

Exceptional items are material items which derive from events or transactions that fall within the ordinary activities of the group and which, individually or, if of a similar type, in aggregate, need to be disclosed by virtue of their size or nature in the consolidated financial information is to give a true and fair view. Further detail of the group's exceptional items is disclosed in note 10.

2. ACCOUNTING POLICIES *(continued)*

(r) Income tax

Income tax on the profit or loss 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.

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.

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

(s) 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.

(t) Financial assets

The group classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The group's accounting policy for each category is as follows:

- Loans and receivables: These assets are non-derivative financial assets with fixed or determinable payments that arise principally through the provision of services to customers (trade receivables). They are recognised at cost less any provision for impairment. Loans and receivables also include cash and cash equivalents which include cash in hand, deposits held at call with banks, or other short term highly liquid investments with original maturities of three months or less.
- 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 administrative expenses 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.

2. ACCOUNTING POLICIES *(continued)*

(u) Financial liabilities

The group has the following financial liabilities carried at amortised cost:

- Trade payables and other short-term monetary liabilities.
- Bank 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: and
- Provisions and accruals: These are estimates of future payables and liabilities held at cost or discounted value.
- 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 amortised cost, 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.

(v) Financing costs

Interest bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis in profit or loss using the effective interest rate method and are added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

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.

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.

Accounting for acquisitions

We account for all acquisitions and business combinations under the purchase method. Under the purchase method, the cost of an acquired business is assigned to tangible and intangible assets purchased and the liabilities assumed on the basis of their fair values at the date of acquisition. The determination of fair values requires us to make estimates and use valuation techniques when market values are not readily available. Any excess of purchase price over the fair value of the tangible and intangible assets acquired is allocated to goodwill.

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.

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

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 7 (d). Such assumptions are based on actuarial advice and are benchmarked against similar pension schemes.

Provisions and other contingencies

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.

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.

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.

When evaluating the impact of potential liabilities arising from claims against the company, the directors take 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. These provisions have been prepared on the advice of external insurance claims managers and based on the group's historical claims experience. The directors have taken legal advice in respect of the larger claims.

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 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 and managements best estimate of future likely trends. 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.

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

Provisions and other contingencies *(continued)*
The estimate of the provision required for IBNR is highly subjective and the results are sensitive to small changes to the assumptions. The directors consider a number of reasonable scenarios of the projection using different assumptions before deciding on the final provision to recognise in the financial statements.

Options to acquire non-controlling interests
Options to acquire non-controlling interests in the future have been recognised at fair value in the 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.

4. PRIOR PERIOD RESTATEMENT

In 2011 the group adopted the accounting treatment set out in IFRIC 19 'Extinguishing financial liabilities with equity instruments'. As a consequence the accounting treatment of the debt for equity swap at the time of the financial restructuring in 2009 has been restated.

Originally, the difference between the face value of the liabilities, under the original Notes issued by the company that were extinguished in exchange for new Notes and/or equity, and the face value of the new Notes and equity was credited to the share premium account. The new guidance requires that the difference between the fair value of equity and the debt extinguished is credited to profit or loss. As a result of change in accounting treatment the profit after tax reported for the year ended 31 December 2009 increased by £353.2 million and the amount credited to share premium reduced by £353.2 million. There has been no impact on the net assets or liabilities of the group.

5. 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 five main types of business generating revenue; Estate Agency, Lettings, Financial Services, Surveying & Valuation and Conveyancing divisions. All other segments comprise central head office functions. At present management consider Hamptons to be a separate operating segment and has been reported separately in these financial statements.

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.

Total income from external customers arising from activities in the UK was £508,780,000 (2010: £477,579,000, 2009: £445,989,000) and arising from activities overseas £270,000 (2010: £343,000 and 2009: nil).

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 £569,352,000 (2010: £559,988,000; 2009: £474,104,000) are included in the total assets in the tables below. The equity investment in joint ventures is disclosed within other segments; £2,650,000 (2010: £2,672,000; 2009: £2,813,000).

5. 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)**	**(1,758)**	**(5,433)**	**(2,361)**	**(337)**	**(2,395)**	**(2,613)**	**(19,074)**
Exceptional expenses	**(2,212)**	**(995)**	**(1,675)**	**(11,104)**	—	—	**(561)**	**(16,547)**
Segment operating profit/(loss)	**6,792**	**12,538**	**2,290**	**(4,873)**	**7,377**	**11,897**	**(16,775)**	**19,246**
Share of profit from joint venture							**314**	**314**
Finance income								**793**
Finance expense								**(27,658)**
Loss before tax								**(7,305)**
Total assets	**296,652**	**43,205**	**84,711**	**118,379**	**50,632**	**116,327**	**1,769**	**711,675**
Total liabilities	**42,580**	**16,779**	**31,225**	**30,160**	**2,696**	**10,041**	**334,322**	**467,803**
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**

5. SEGMENTAL REPORTING *(continued)*

	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)
Exceptional expenses								
Restructuring 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	(21,490)	8,408
Share of profit from joint venture							359	359
Finance income								2,014
Finance expense								(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

	2009						
	Estate agency	Lettings	Financial services	Surveying and valuation	Conveyanc-ing	All other segments	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income							
Total income	243,900	67,469	56,928	60,400	20,235	1,025	449,957
Inter-segment revenue	(2,758)	—	(1,210)	—	—	—	(3,968)
Total income from external customers	241,142	67,469	55,718	60,400	20,235	1,025	445,989
EBITDA before exceptional items	26,355	12,620	2,150	7,368	8,190	(12,601)	44,082
Share based payments charge	(35)	(3)	—	(13)	—	(78)	(129)
Management fee	—	—	—	—	—	(967)	(967)
Depreciation and amortisation	(4,960)	(2,583)	(5,745)	(4,970)	(631)	(236)	(19,125)
Exceptional expenses	(3,737)	(2,387)	(403)	(1,333)	—	(1,669)	(9,529)
Restructuring costs	—	—	—	—	—	(18,220)	(18,220)
Segment operating profit/(loss)	17,623	7,647	(3,998)	1,052	7,559	(33,771)	(3,888)
Share of profit from joint venture						343	343
Finance income							706,311
Finance expense							(27,515)
Profit before tax							675,251
Total assets	254,035	91,533	104,148	130,494	52,439	12,844	645,493
Total liabilities	51,217	12,574	22,600	12,440	3,923	252,079	354,843
Additions in the year							
Goodwill	—	2,324	—	—	—	—	2,324
Intangible assets	40	749	81	67	41	3,712	4,690
Tangible fixed assets	1,945	552	113	32	77	346	3,065

6. OTHER INCOME

	2011	2010	2009
	£'000	£'000	£'000
Rent receivable	**1,637**	1,473	2,033
Other operating income	**8,558**	8,408	4,851
	10,195	9,881	6,884

7. EMPLOYEES AND DIRECTORS

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

	2011	2010	2009
	£'000	£'000	£'000
Wages and salaries	**250,360**	238,686	226,538
Other long-term employee benefits	**730**	526	1,483
Defined contribution pension cost (note 7 (d))	**4,612**	5,310	2,005
Share-based payment expense (note 7 (c))	—	—	129
Employer's national insurance contributions and similar taxes	**27,345**	25,942	25,122
	283,047	270,464	255,277

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

By business segment

	2011 Number	2010 Number	2009 Number
Estate agency	**3,877**	4,011	3,992
Hamptons	**713**	668	—
Lettings	**1,409**	1,289	1,282
Financial services	**974**	1,049	1,174
Surveying and valuation	**539**	565	666
Conveyancing	**296**	306	271
Head office	**217**	217	199
	8,025	8,105	7,584

(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.

	2011	2010	2009
	£'000	£'000	£'000
Wages and salaries	**2,400**	2,781	4,472
Other long term employee benefits	—	—	586
Short-term non-monetary benefits	**30**	54	118
Post employment benefits	**104**	83	—
Share-based payment expense	—	—	847
	2,534	2,918	6,023

The other long term employee benefits relate to the cash bonus entitlement arising from the executives' investment in the former management equity plan.

7. EMPLOYEES AND DIRECTORS *(continued)*

(c) Share-based payments

As a result of the implementation of the Court Approved Scheme of Arrangement in May 2009, the value of equity instruments of Castle Holdco, 1 Ltd was worthless as that company no longer had any interest in the company. As a result the options outstanding under the management equity plan introduced in May 2007 became null and void.

Options in Castle Holdco 1, Ltd	2009 Number
At 1 January	1,956,910
Lapsed during the year	(1,956,910)
Outstanding at 31 December	—

The cessation of the management equity plan resulted in an acceleration of the remaining fair value of the scheme in 2009.

	2011	2010	2009
	£'000	£'000	£'000
The share-based remuneration expense comprises:			
Castle Holdco 1, Ltd Equity-settled schemes			
- charged to employee benefit costs	—	—	129
- charged to exceptional items	—	—	1,553
	—	—	1,682

The group did not enter into any share-based payment transactions with parties other than employees during any of the periods presented.

(d) Retirement benefits

The group offers membership of the Countrywide plc Pension Scheme to eligible employees. The Scheme has two sections of membership, defined contribution and defined benefit. The defined benefit section is now closed to new entrants and future accrual.

The pensions cost for defined contribution schemes in the year was £4,612,000 (2010: £5,310,000, 2009: £2,005,000). For the defined benefit scheme, the group has a funding programme to recover the deficit over the next eight years. During the year the group paid £1.9 million contribution to the defined benefit scheme (2010: £1.9 million; 2009: £2.0 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:

	2011	2010	2009
	£'000	£'000	£'000
Present value of funded obligations	**(44,534)**	(39,394)	(37,991)
Fair value of plan assets	**38,071**	33,888	31,536
Net liability recognised in the balance sheet	**(6,463)**	(5,506)	(6,455)

Reconciliation of scheme assets:

	2011	2010	2009
	£'000	£'000	£'000
At 1 January	**33,888**	31,536	29,719
Expected return on scheme assets	**1,841**	1,517	1,253
Actuarial gains	**1,660**	186	340
Employer contributions	**1,900**	1,900	2,000
Benefits paid	**(1,218)**	(1,251)	(1,776)
At 31 December	**38,071**	33,888	31,536

7. EMPLOYEES AND DIRECTORS *(continued)*

(d) Retirement benefits *(continued)*

The actual return on plan assets was a gain of £3,501,000 (2010: £1,703,000, 2009: £1,593,000). This represents the combination of the expected return on scheme assets of £1,841,000 (2010: £1,517,000, 2009: £1,253,000) and the actuarial losses arising on those assets during the year was £1,660,000 (2010: £186,000, 2009: £340,000).

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

	2011	2010	2009
Equities	**19%**	22%	21%
Bonds	**45%**	46%	72%
Other	**36%**	32%	7%

Reconciliation of scheme liabilities:

	2011	2010	2009
	£'000	£'000	£'000
At 1 January	**39,394**	37,991	35,336
Interest cost	**2,097**	2,132	2,008
Actuarial losses	**4,261**	522	2,423
Benefits paid	**(1,218)**	(1,251)	(1,776)
At 31 December	**44,534**	39,394	37,991

The amounts recognised in the income statement are:

	2011	2010	2009
	£'000	£'000	£'000
Unwinding of discount on scheme liabilities	**2,097**	2,132	2,008
Expected return on scheme assets	**(1,841)**	(1,517)	(1,253)
Included within finance expense	**256**	615	755
Total charge to profit or loss	**256**	615	755

The amounts recognised in the statement of comprehensive income are:

	2011	2010	2009
	£'000	£'000	£'000
Actuarial gain on scheme assets	**1,660**	186	340
Actuarial loss on scheme liabilities	**(4,261)**	(522)	(2,423)
	(2,601)	(336)	(2,083)
Deferred tax adjustment arising on the pension scheme assets and liabilities	**689**	92	583
	(1,912)	(244)	(1,500)
Cumulative actuarial loss recognised in the statement of comprehensive income (after tax)	**(5,838)**	(3,926)	(3,682)

7. EMPLOYEES AND DIRECTORS *(continued)*

(d) Retirement benefits *(continued)*

The principal assumptions made by the actuaries were:

	2011	2010	2009
Rate of increase in pensions in payment and deferred pensions			
On benefits earned prior to 1 December 1999	**4.20%**	4.30%	4.30%
On benefits earned after 1 December 1999	**2.90%**	3.15%	3.60%
Discount rate	**4.60%**	5.40%	5.70%
Inflation assumption	**3.00%**	3.40%	3.70%
Expected net return on plan assets	**4.63%**	5.10%	4.90%
Life expectancy at age 65 (years)			
Male Pensioner member	**22.40**	22.30	22.20
Female Pensioner member	**24.80**	24.70	24.60
Male Pensioner non-member (age 45 now)	**24.30**	24.30	24.10
Female Pensioner non-member (age 45 now)	**26.70**	26.60	26.50

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:

	2011	**2010**	**2009**	**2008**	**2007**
	£'000	£'000	£'000	£'000	£'000
Scheme assets	**38,071**	33,888	31,536	29,719	53,960
Scheme liabilities	**(44,534)**	(39,394)	(37,991)	(35,336)	(56,735)
Scheme deficit	**(6,463)**	(5,506)	(6,455)	(5,617)	(2,775)
Experience adjustments on liabilities	**(24)**	499	(761)	—	—
Changes in the assumptions	**(4,237)**	(1,021)	(1,662)	2,583	5,275
Experience adjustments on assets	**1,660**	186	340	(7,198)	939

8. FINANCE EXPENSE

	2011	2010	2009
	£'000	£'000	£'000
Interest expense:			
Interest payable on bank borrowings	**40**	59	1,168
Interest payable on bonds - cash	**25,279**	22,839	11,569
Other interest paid	**1,648**	—	339
Fees and commissions	**—**	—	129
Cash payable interest	**26,967**	22,898	13,205
Interest chargeable on bonds – PIK	**—**	—	1,077
Amortisation of loan facility fee	**332**	160	1,165
Interest expense on loan from parent company	**—**	—	10,130
Interest expense arising in the pension scheme	**256**	615	755
Change in fair value of financial derivative	**—**	—	1,183
Other finance expenses	**103**	139	—
Non-cash payable interest	**691**	914	14,310
Finance expense	**27,658**	23,812	27,515

9. FINANCE INCOME

	2011	2010	As restated 2009
	£'000	£'000	£'000
Interest income:			
Interest receivable on bank deposits	**793**	2,014	1,249
Other interest receivable	**—**	—	635
	793	2,014	1,884
Credit arising on the release of a debt	**—**	—	704,427
	793	2,014	706,311

The credit arising on the release of a debt in 2009 relates to the loans from the former parent companies and Noteholders of the group that were waived as part of the financial restructuring in May 2009. As a result of adopting IFRIC 19 (see note 4 in the financial statements), the reported credit has increased by £353,241,000 to £704,427,000.

10. (LOSS)/PROFIT BEFORE TAXATION

	2011	2010	2009
	£'000	£'000	£'000
The following items have been included in arriving at loss before taxation:			
Depreciation of property, plant and equipment:			
– Owned assets	**6,969**	6,517	5,879
Amortisation of intangibles	**12,105**	16,059	13,246
(Profit)/loss on disposal of property, plant and equipment	**(12)**	(333)	9
Other operating lease rentals payable:			
– Vehicles, plant and equipment	**15,786**	15,930	15,938
– Property	**26,545**	26,538	25,233
Repairs and maintenance expenditure on property, plant and equipment	**6,591**	5,044	3,670
Trade receivables impairment	**923**	986	1,124
Exceptional items:			
– Financial restructuring costs	**—**	—	18,220
– Other exceptional items	**16,547**	18,992	9,529

The following table provides a breakdown of the other exceptional items:

	2011	2010	2009
	£'000	£'000	£'000
Redundancies	**4,641**	3,117	6,458
Property provisions	**2,227**	1,971	1,448
Insurance claims and litigation	**9,351**	11,934	—
Acquisition expenses	**328**	1,313	—
Other	—	657	1,623
	16,547	18,992	9,529

Against the back drop of a reduction in market volumes and uncertainty on the timing of any significant recovery, management have continued to focus on further structured cost saving initiatives. This has resulted in additional restructuring including some branch closures and the acceleration of the plan to consolidate surveyors local offices into a National Operations Centre.

In common with others in the industry we continue to experience professional indemnity insurance claims in our Surveying division arising from the property market between 2004 and 2007. An estimate of these exceptional losses was established at the end of 2010 and further data and trends have resulted in an exceptional charge of £9.4 million in 2011. The circumstances giving rise to these claims during 2004 and 2007 were relatively unique and all trends from 2008 onwards confirm our view that these losses will not continue at these exceptional levels.

10. (LOSS)/PROFIT BEFORE TAXATION *(continued)*

Services provided by the group's auditors and network firms

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

	2011	2010	2009
	£'000	£'000	£'000
Audit services:			
– Non-statutory audit in relation to the consolidated financial statements	**125**	121	108
– Statutory audit in relation to the statutory accounts of the subsidiary companies	**257**	196	175
Fees payable for other services			
Non-audit work	**97**	180	—
Tax services	**10**	10	7
Transaction support services	**—**	—	267
	489	507	557

11. TAXATION

Analysis of credit in year	**2011**	2010	2009
	£'000	£'000	£'000
Current tax on profits for the year	**74**	1,184	—
Adjustments in respect of prior years	**(303)**	1,276	(686)
Total current tax	**(229)**	2,460	(686)
Deferred tax on profits for the year			
Origination and reversal of temporary differences	**(2,612)**	(3,684)	(862)
Impact of change in tax rate	**(1,775)**	(1,505)	—
Adjustments in respect of prior years	**(48)**	(2,029)	(2,768)
Total deferred tax (note 22)	**(4,435)**	(7,218)	(3,630)
Income tax credit	**(4,664)**	(4,758)	(4,316)

Tax on items credited to other comprehensive income	**2011**	2010	2009
	£'000	£'000	£'000
Deferred tax adjustment arising on the pension scheme assets and liabilities	**(689)**	(92)	(583)

The tax charge for the year differs from the standard rate of corporation tax in the UK 26.5% (2010: 28%, 2009: 28%). The differences are explained below:

	2011	2010	As restated 2009
	£'000	£'000	£'000
(Loss)/profit on ordinary activities before tax	**(7,305)**	(13,031)	675,251
(Loss)/profit on ordinary activities multiplied by the rate of corporation tax in the UK of 26.5% (2010: 28%, 2009: 28%)	**(1,936)**	(3,649)	189,070
Effects of:			
Profits from joint venture	**(83)**	(101)	(96)
Share options	**—**	—	539
Other expenses not deductible	**325**	807	6,821
Depreciation not deductible	**223**	276	513
Tax relief on purchased goodwill	**(585)**	—	—
Utilisation of unprovided losses	**(21)**	(5)	(470)
Rate change on deferred tax provision	**(1,775)**	(1,505)	—
Income not subject to tax	**(480)**	—	(197,239)
Amendments in respect of prior years	**(351)**	(755)	(3,454)
Overseas tax losses	**19**	174	—
Total taxation credit	**(4,664)**	(4,758)	(4,316)

11. TAXATION *(continued)*

The standard rate of Corporation Tax in the UK changed from 28% to 26% with effect from 1 April 2011. Accordingly, the company's profits for this accounting period are taxed at an effective rate of 26.5% and will be taxed at 26% in the future.

In addition to the changes in rates of Corporation tax disclosed above a number of further changes to the UK Corporation tax system were announced in the March 2011 UK Budget Statement. Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 23% by 1 April 2014. These further changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The proposed reductions of the main rate of corporation tax by 1% per year to 23% by 1 April 2014 are expected to be enacted separately each year. The overall effect of the change in the tax rate to 23%, if applied to the deferred tax balance at the balance sheet date, would be to reduce the deferred tax liability by £4.0 million.

12. GOODWILL

	2011		
	Subsidiary companies	**Joint venture**	**Total**
	£'000	**£'000**	**£'000**
Cost			
At 1 January	**751,024**	**1,480**	**752,504**
Arising on acquisitions (note 26)	**11,276**	**—**	**11,276**
At 31 December	**762,300**	**1,480**	**763,780**
Impairment			
At 1 January	**417,356**	**—**	**417,356**
Charge for the year	**—**	**—**	**—**
At 31 December	**417,356**	**—**	**417,356**
Net book amount	**344,944**	**1,480**	**346,424**

	2010		
	Subsidiary companies	Joint venture	Total
	£'000	£'000	£'000
Cost			
At 1 January	722,245	1,480	723,725
Arising on acquisitions	28,779	—	28,779
At 31 December	751,024	1,480	752,504
Impairment			
At 1 January	417,356	—	417,356
Charge for the year	—	—	—
At 31 December	417,356	—	417,356
Net book amount	333,668	1,480	335,148

12. GOODWILL *(continued)*

Carrying amount of goodwill by operating unit

	2011	2010
	£'000	£'000
Estate Agency	**3,530**	64
Lettings	**68,196**	64,057
Financial Services	**73,779**	70,634
Surveying & Valuation	**132,811**	132,285
Conveyancing	**40,699**	40,699
Hamptons	**25,929**	25,929
Total goodwill in subsidiary companies	**344,944**	333,668

	2011	2010
	£'000	£'000
TM Group (UK) Limited	**1,480**	1,480
Total goodwill in joint ventures	**1,480**	1,480

Impairment

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:

	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	95,047	—	—	—	—	58,744	153,791
	98,577	68,196	73,779	132,811	40,699	84,673	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 2016. These growth rates are based on past experience. 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 if 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 2011 concluded that there had been no further impairment of goodwill.

The impairment review for 2011 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:

- There is only a modest increase in housing transaction volumes in 2012 from 2011 but transaction volumes increase by 50% over the five years to a level which is still some 20% below long term average market transactions.
- The pre-tax discount rate was calculated to be 9%.
- The benefits of past restructure changes have been taken into account.

13. OTHER INTANGIBLE ASSETS

	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**

	2010					
	Computer software	Brand names	Customer contracts and relationships	Pipeline	Other intangibles	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Cost						
At 1 January	41,174	122,368	81,656	—	—	245,198
Acquisitions through business combinations	1,572	58,773	2,772	4,408	—	67,525
Additions	1,446	—	—	—	1,272	2,718
Disposals	(1,325)	—	—	—	—	(1,325)
At 31 December	42,867	181,141	84,428	4,408	1,272	314,116
Aggregate amortisation and impairment						
At 1 January	32,272	33,844	32,531	—	—	98,647
Charge for the year	4,169	—	7,440	4,408	42	16,059
On disposals	(1,321)	—	—	—	—	(1,321)
At 31 December	35,120	33,844	39,971	4,408	42	113,385
Net book amount						
At 31 December	7,747	147,297	44,457	—	1,230	200,731

13. OTHER INTANGIBLE ASSETS *(continued)*

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.

	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

14. PROPERTY, PLANT AND EQUIPMENT

	2011				
	Freehold 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**
Acquisition of subsidiary	**700**	**436**	**81**	**240**	**1,457**
Additions at cost	**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**

	2010				
	Freehold land and buildings	Leasehold improvements	Motor vehicles	Furniture and equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost or valuation					
At 1 January	6,925	17,738	380	41,429	66,472
Additions at cost	—	1,557	—	3,791	5,348
Acquisition of subsidiary	—	3,126	—	3,368	6,494
Transfers	—	401	—	(401)	—
Disposals	(1,860)	(1,176)	(124)	(3,931)	(7,091)
At 31 December	5,065	21,646	256	44,256	71,223
Accumulated depreciation					
At 1 January	1,684	12,580	337	33,020	47,621
Charge for the period	55	1,668	16	4,778	6,517
Transfers	—	137	—	(137)	—
Disposals	(528)	(1,024)	(117)	(3,860)	(5,529)
At 31 December	1,211	13,361	236	33,801	48,609
Net book amount					
At 31 December	3,854	8,285	20	10,455	22,614

15. INVESTMENTS

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

(a) Principal subsidiary undertakings of the group

Countrywide plc – directly held
Balanus Limited

Estate Agency and Lettings

Countrywide Estate Agents (Incorporated with Unlimited Liability) trading as:

Abbotts, Alan de Maid, Austin & Wyatt, Bairstow Eves, Beresford Adams, Bridgfords, Buckell & Ballard, Carsons, Chappell & Matthews, Countrywide North, Dixons, Entwistle Green, Faron Sutaria, Frank Innes, Freeman Forman, Fulfords, Gascoigne-Pees, Hetheringtons, John D Wood, King & Chasemore, Locke & England, Mann & Co, Miller Countrywide, Morris Dibben, Palmer Snell, R A Bennett & Partners, Rentons Countrywide, Slater Hogg & Howison, Spencers, Stratton Creber, Taylors, Watson Bull & Porter, Wilson Peacock, Countrywide Property Auctions, Countrywide Corporate Property Services, *Lettings*: Ashton Burkinshaw, Countrywide Residential Lettings, Countrywide Managing Agents, Letmore group, PKL

Sotheby's International Realty Limited,
Blundells Property Services Limited

Hamptons International

Hamptons Group Limited
Hamptons Estates Limited

Financial Services

Countrywide Principal Services Limited
Countrywide Estate Agents FS Limited
Slater Hogg Mortgages Limited
Hurst Independent Financial Services Limited
Mortgage Intelligence Limited
Mortgage Next Limited
Capital Private Finance Limited – 51% held

Surveying and Valuation

Countrywide Surveyors Limited
Countrywide Social Housing Limited – 58% held
United Surveyors Limited – 60% held

Conveyancing

Countrywide Property Lawyers Limited
TitleAbsolute Limited

(b) Interests in jointly controlled entities

TM Group (UK) Limited

At 31 December, 2011 the group had a 33.3% (2010: 33.3%) interest in the ordinary share capital TM Group (UK) Limited (TMG) a UK company. During the year, TMG was a joint venture company.

	2011	2010
	£'000	£'000
At 1 January		
– Net assets excluding goodwill	**1,192**	1,333
– Goodwill	**1,480**	1,480
	2,672	2,813
Dividend received	**(336)**	(500)
Share of profits retained	**314**	359
At 31 December		
– Net assets excluding goodwill	**1,170**	1,192
– Goodwill	**1,480**	1,480
	2,650	2,672

15. INVESTMENTS *(continued)*

(b) Interests in jointly controlled entities *(continued)*

TM Group (UK) Limited

	2011	2010
	£'000	£'000
Current assets	**1,742**	1,804
Non-current assets	**77**	117
Current liabilities	**(649)**	(729)
	1,170	1,192
Income	**11,306**	10,667
Expenses	**(10,992)**	(10,308)
Share of post tax results	**314**	359

(c) Other investments

	2011	2010
	£'000	£'000
Other financial assets	**317**	303

Other investments relate to unlisted securities and assets held at original cost. These investments are not held for sale and their fair value is not expected to be materially different from original cost.

16. TRADE AND OTHER RECEIVABLES

	2011	2010
	£'000	£'000
Amounts falling due within one year:		
Trade receivables due but not past due	**34,859**	33,241
Trade receivables past due	**14,774**	15,812
Trade receivables	**49,633**	49,053
Less: Provision for impairment of receivables	**(5,320)**	(6,141)
Trade receivables – net	**44,313**	42,912
Other receivables	**8,524**	8,507
Prepayments and accrued income	**14,271**	17,272
	67,108	68,691

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:

	2011	2010
	£'000	£'000
As at 1 January	**6,141**	6,048
Additional provisions	**923**	986
Amounts used	**(1,744)**	(893)
As at 31 December	**5,320**	6,141

17. CASH AND CASH EQUIVALENTS

	2011	2010
	£'000	£'000
Cash and cash equivalents		
Cash at bank and in hand	**14,097**	19,018
Short term bank deposits	**46,539**	39,889
	60,636	58,907

Of the cash at bank and in hand, £2,526,000 (2010: £4,891,000) is held by the insurance cell and not available for use as working capital.

18. TRADE AND OTHER PAYABLES

	2011	2010
	£'000	£'000
Trade payables	**13,581**	9,620
Other tax and social security payable	**22,336**	18,651
Accruals and other creditors	**57,555**	50,134
Obligations under finance leases	**406**	469
	93,878	78,874
Liabilities due within 1 year	**79,849**	72,579
Liabilities due after 1 year	**14,029**	6,295
	93,878	78,874

Trade and other payables are stated at cost and any difference to fair value is not material.

19. FINANCIAL LIABILITIES – BORROWINGS

	2011	2010
	£'000	£'000
Non-current		
Secured	**250,000**	250,000
Capitalised banking fees	**(1,487)**	(1,760)
	248,513	248,240

Debt issued by the company and outstanding at 31 December 2011 was follows:-
Senior Secured Fixed Rate Notes due 2018 - £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 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.

20. DEFERRED INCOME

Deferred income will unwind as follows:

	2011	2010
	£'000	£'000
Within 1 year	**9,850**	3,795
After 1 year		
Between 1 and 2 years	**8,775**	3,057
Between 2 and 3 years	**3,215**	2,634
Between 3 and 4 years	**2,017**	2,129
Between 4 and 5 years	**1,623**	1,623
Over 5 years	**1,037**	2,899
	16,667	12,342
	26,517	16,137

Deferred income relates to 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 being amortised over the life of the contracts to which they relate.

21. PROVISIONS

	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**

21. PROVISIONS *(continued)*

	2010					
	Onerous contracts	Property repairs	Clawback	Claims and litigation	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January	6,442	6,801	2,288	20,126	2,097	37,754
Acquired on acquisition	632	634	766	—	94	2,126
Utilised in the period	(2,541)	(801)	(3,342)	(6,618)	(2,296)	(15,598)
Charged to income statement	(436)	(720)	3,071	14,041	2,765	18,721
Unwind of discount rate	139	—	—	—	—	139
At 31 December	4,236	5,914	2,783	27,549	2,660	43,142
Due within one year or less	979	1,889	2,331	8,193	2,660	16,052
Due after more than one year	3,257	4,025	452	19,356	—	27,090
	4,236	5,914	2,783	27,549	2,660	43,142

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

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

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

Claims and litigation provisions comprise the amounts set aside to meet claims by customers below the level of any Professional Indemnity insurance excess, the estimation of 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 31.

22. DEFERRED TAX

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 26% (2010: 28%, 2009: 28%).

The movement on the deferred tax account is shown below:

	2011	2010	2009
	£'000	£'000	£'000
Deferred tax liability at 1 January	**(37,875)**	(28,116)	(31,216)
Credited to income statement	**4,435**	7,218	3,630
Acquired on acquisition of subsidiary	**(1,590)**	(17,069)	(226)
Assets removed on disposal of subsidiary	**(60)**	—	—
Transferred from corporation tax	**—**	—	(887)
Credited to equity	**689**	92	583
Net deferred tax liability at 31 December	**(34,401)**	(37,875)	(28,116)
Deferred tax asset	**16,088**	15,766	12,697
Deferred tax liability	**(50,489)**	(53,641)	(40,813)
Net deferred tax liability at 31 December	**(34,401)**	(37,875)	(28,116)
Deferred tax asset expected to unwind within one year	**2,685**	702	449
Deferred tax asset expected to unwind after one year	**13,403**	15,064	12,248
	16,088	15,766	12,697
Deferred tax liability expected to unwind within one year	**(3,714)**	(5,093)	(5,639)
Deferred tax liability expected to unwind after one year	**(46,775)**	(48,548)	(35,174)
	(50,489)	(53,641)	(40,813)

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.

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.

	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**

22. DEFERRED TAX *(continued)*

	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)	5,639	—
Gain deferred by roll over relief	(887)	—	—
Other temporary and deductible differences	2,431	315	—
	(37,875)	7,218	92

	2009		
	Asset/ (liability)	(Charged)/ credited to income	Credited to equity
	£'000	£'000	£'000
Origination and reversal of temporary differences			
Capital allowances	6,993	2,843	—
Employee pension liabilities	2,167	(703)	583
Trading losses	1,421	(2,282)	—
Intangible assets	(39,926)	2,871	—
Gain deferred by roll over relief	(887)	—	—
Other temporary and deductible differences	2,116	901	—
	28,116	3,630	583

A deferred tax asset has not been recognised in respect of unused capital losses of £24,841,000 (2010: £26,948,000, 2009: £26,964,000) and £24,351,000, (2010: £25,756,000, 2009: £24,130,000) in respect of non-trading loan relationships, and £467,000 in respect of trading losses (2010: nil, 2009: nil).

23. CALLED UP SHARE CAPITAL

	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**

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

	2010					
	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 2010	155,035,532	155,036	155,035,532	1,550	11,740,699	117
Shares issued to Management	—	—	—	—	301,488	3
Shares repurchased in the year	(8,969,220)	(8,969)	(8,969,220)	(90)	—	—
At 31 December 2010	146,066,312	146,067	146,066,312	1,460	12,042,187	120

The directors bought back shares during 2010 as part of the longer term strategy in respect of maximising shareholder value.

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 issued in consideration of A shares redeemed once the Priority Distribution has been paid.

24. 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.

25. CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of loss before taxation to cash generated from/(used by) operations:

Cash generated from operations

	2011	2010	As restated 2009
	£'000	£'000	£'000
(Loss)/profit before taxation	**(7,305)**	(13,031)	675,251
Adjustments for:			
Depreciation	**6,969**	6,517	5,879
Amortisation of intangible assets	**12,105**	16,059	13,246
Share-based payments	**—**	—	129
Exceptional charge re: refinancing	**—**	—	18,220
Write down of investment	**—**	—	17
(Profit)/loss on disposal of fixed assets	**(12)**	(333)	9
Income from joint venture	**(314)**	(359)	(343)
Movement on provisions	**(3,750)**	3,123	61
Finance expense	**27,658**	23,812	27,515
Finance income	**(793)**	(2,014)	(706,311)
	34,558	33,774	33,673
Changes in working capital (excluding effects of acquisitions and disposals of group undertakings):			
Decrease/(increase) in trade and other receivables	**6,189**	4,451	(7,255)
Increase/(decrease) in trade and other payables	**9,691**	(10,748)	11,704
Cash generated from continuing operations	**50,438**	27,477	38,122

26. ACQUISITIONS DURING THE YEAR

	Fair values			
	Blundells	Mortgage Intelligence	Other	Total
	£'000	£'000	£'000	£'000
Intangible assets	7,072	13	1,570	**8,655**
Property, plant & equipment	1,147	165	145	**1,457**
Trade and other receivables	536	1,392	1,063	**2,991**
Cash at bank	—	233	870	**1,103**
Trade and other payables	(853)	(1,490)	(1,066)	**(3,409)**
Corporation tax	(420)	—	(199)	**(619)**
Provisions	—	(481)	(75)	**(556)**
External loans	—	(1,000)	—	**(1,000)**
Deferred tax	(1,786)	352	(156)	**(1,590)**
Net assets/(liabilities)	5,696	(816)	2,152	**7,032**
Net assets attributable to non-controlling interest	—	—	(32)	**(32)**
Net assets/(liabilities) acquired	5,696	(816)	2,120	**7,000**
Goodwill	2,900	3,146	5,230	**11,276**
Consideration	8,596	2,330	7,350	**18,276**
Settled by:				
Initial consideration	8,596	2,330	6,505	**17,431**
Deferred consideration	—	—	845	**845**
	8,596	2,330	7,350	**18,276**
Cash paid	8,596	2,330	6,505	**17,431**
Cash at bank	—	(233)	(870)	**(1,103)**
Net cash flow arising from acquisitions	8,596	2,097	5,635	**16,328**
Revenue post acquisition	3,531	2,877	2,933	9,341
Profit post acquisition	571	292	1,152	2,015
Pro-forma revenue to 31 December 2011	6,630	3,371	7,459	17,460
Pro-forma profit to 31 December 2011	565	176	2,511	3,252

On 5 April 2011 the group acquired 100% of the equity share capital of Mortgage Intelligence Holdings Limited in order to expand its financial services footprint in the UK.

On 18 July 2011 the group acquired 100% of the equity share capital of Blundells Property Services Limited, a successful network of 12 branches in the South Yorkshire, an area of the country in which the group previously had little presence. In addition to the initial consideration paid, deferred consideration is payable over the subsequent three years but this is dependant upon the performance of the business and therefore will be treated as employee benefit costs paid to the former shareholders who remain in senior management positions.

Furthermore the group acquired several small lettings businesses, 60% of the voting share capital of United Surveyors Limited and invested in 51% of the equity of a new enterprise; Capital Private Finance Ltd. The non-controlling interests arising carry options which require the group to acquire the non-controlling interests at a future date. These liabilities are carried at £8,389,000 on the group balance sheet and the corresponding entry has been taken to equity reserves.

The acquired receivables for all the 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 £328,000 and have been written off to profit and loss.

27. ACQUISITIONS DURING THE PRIOR YEAR

During the prior year the group acquired Hamptons International. The total consideration paid was £86.7 million and goodwill recognised was £25.9 million. The revenue and EBITDA generated by Hamptons in the twelve months prior to acquisition was £62.6 million and £8.5 million respectively.

28. OPERATING LEASE COMMITMENTS – MINIMUM LEASE PAYMENTS

Commitments under non cancellable operating leases due are as follows:

	2011		2010	
	Property	Vehicles, plant and equipment	Property	Vehicles, plant and equipment
	£'000	£'000	£'000	£'000
Within one year	**21,648**	**15,409**	21,354	10,101
Later than one year and less than five years	**42,876**	**29,124**	55,242	19,975
After five years	**15,851**	—	36,521	—
	80,375	**44,533**	113,117	30,076

29. CLIENT MONIES

At 31 December 2011, client monies held by subsidiaries in approved bank and building society accounts amounted to £145,137,000 (2010: £132,051,000). Neither this amount nor the matching liabilities to the clients concerned are included in the group balance sheet.

30. 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

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.

Cash flow interest rate risk
The interest payable on the Senior Secured Fixed Rate Notes is fixed. During 2011, the group entered into a Senior Revolving Facility Agreement which charges interest based on LIBOR. At the end of 2011 no funds had been drawn down under the facility and since the expected level of interest payable, should the balance be drawn is not material, no hedging products have been considered to fix the interest cost.

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.

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. During the year the group secured a £25.0 million Senior Revolving Facility Agreement which gives provides additional liquidity resource.

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

Counterparty credit risk
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.

	2011	2010
	£'000	£'000
Individual customers	**27,696**	29,708
Major lenders	**11,036**	11,410
Other commercial customers	**10,901**	7,935
	49,633	49,053

31. FINANCIAL ASSETS AND LIABILITIES – NUMERICAL INFORMATION

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

	2011	2010
	£'000	£'000
Cash and cash equivalents	**60,636**	58,907
Trade receivables	**44,314**	42,912
Other receivables	**8,523**	8,507
	113,473	110,326

As stated in note 16 trade and other receivables are current assets and expected to convert to cash over the next twelve months.

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

	2011	2010
	£'000	£'000
Trade payables	**13,581**	9,620
Accruals and other creditors	**62,183**	44,308
Provisions	**42,119**	43,142
Borrowings	**250,000**	250,000
Commitments payable after one year in respect of management incentives	**4,639**	6,295
	372,522	353,365

Maturity of financial liabilities
The undiscounted carrying amounts of financial liabilities, all of which are exposed to cash flow or fair value interest rate risk, are repayable as follows:

	2011	2010
	£'000	£'000
In less than one year	**89,372**	70,026
In more than one year but not more than two years	**12,281**	8,144
In more than two years but less than three years	**14,053**	5,802
In more than three years but not more than four years	**790**	7,444
In more than four years but less than five years	**7,225**	4,453
Over five years	**250,608**	258,224
	374,329	354,093

31. FINANCIAL ASSETS AND LIABILITIES – NUMERICAL INFORMATION *(continued)*

Interest rate risk

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

	2011	2010
	£'000	£'000
Floating rate assets	**35,597**	29,018
Fixed rate assets	**25,039**	29,889
Interest free assets	**52,837**	51,419
Total financial assets	**113,473**	110,326
Floating rate liabilities	—	—
Fixed rate liabilities	**250,000**	250,000
Interest free liabilities	**124,329**	104,093
Total financial liabilities	**374,329**	354,093

The average rate at which the fixed rate liabilities were fixed in 2011 was 10% (2010: 10%) and the average period for which the liabilities were fixed was 365 days (2010: 365 days).

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

32. RELATED PARTY TRANSACTIONS

Key management compensation is given in note 7 (b). Other related party transactions are as follows:

Trading transactions

		Transaction amount		**Balance owed/(owing)**	
Related party relationship	**Transaction type**	**2011**	2010	**2011**	2010
		£'000	£'000	£'000	£'000
Joint venture	Sales from group	**(3,430)**	(2,403)	**30**	45
Joint venture	Rebate received	**264**	419	—	—
Joint venture	Dividend received	**336**	(500)	—	—
Apollo Management	Management fee paid	**750**	750	—	—
Oaktree Capital Management	Management fee paid	**750**	750	—	—

With the exception of dividends, 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 2011 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 2011 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 2010 to 14 December 2011.

At the end of 2011 the following related parties had an interest in the group's debt:

	Face value	Interest received
	£000	£000
Related party debt	75,164	7,392

33. CONTROLLING ENTITIES

The group does not have any single controlling entity.