**Another year of strong growth with returns ahead of expectation**

Countryside, a leading UK home builder and regeneration partner, today announces its results for the year ended 30 September 2018.

**Results highlights**

| | **2018** | 2017 | Change |
|---|---|---|---|
| **Completions** | **4,295** | 3,389 | +27% |
| **Adjusted revenue[1]** | **£1,229.5m** | £1,028.8m | +20% |
| **Adjusted operating profit[2, 6]** | **£211.4m** | £165.3m | +28% |
| **Adjusted operating margin[3, 6]** | **17.2%** | 16.1% | +110bps |
| **Adjusted basic earnings per share[4, 6]** | **36.0p** | 27.7p | +30% |
| **Return on capital employed[5, 6]** | **37.1%** | 30.6% | +650bps |
| **Dividend per share** | **10.8p** | 8.4p | +29% |
| **Reported revenue** | **£1,018.6m** | £845.8m | +20% |
| **Reported operating profit** | **£149.3m** | £128.9m | +16% |
| **Basic earnings per share[6]** | **33.1p** | 27.2p | +22% |

**Group highlights**

- Sector-leading growth with 27% increase in completions and 28% growth in adjusted operating profit
- Operating margin, return on capital employed and cash all ahead of expectations
- Net reservation rate of 0.80 (2017: 0.84) from 60 sales outlets (2017: 47 sales outlets)
- Private Average Selling Price ("ASP") of £402,000 (2017: £430,000) reflecting geographical mix, with underlying house price inflation of 2%
- Westleigh integration underway with new regional structure in place for future growth
- Group forward order book up 40% to £900m (2017: £644m) of which private forward order book £215m (2017: £242m)

**Partnerships highlights**

- Completions: 3,019 homes (2017: 2,192) up 38%, 465 homes from Westleigh
- Adjusted operating profit: £110.6m (2017: £79.4m) up 39%
- Adjusted operating margin: 17.4% (2017: 16.7%) up 70 bps
- Land bank plus preferred bidder: 29,878 plots (2017: 19,223) up 55%

**Housebuilding highlights**

- Completions: 1,276 homes (2017: 1,197) up 7%
- Adjusted operating profit: £109.6m (2017: £91.5m) up 20%
- Adjusted operating margin: 18.4% (2017: 16.6%) up 180bps
- Land bank: 19,778 plots (2017: 19,826) of which 85% has been strategically sourced

**Outlook and current trading**

Net reservation rates for the first seven weeks of the year are in line with the same period last year and towards the top of our expected range. Our guidance for the medium term remains on track, including 10% to 15% completions growth. In 2019, we expect completions growth in excess of 30%, in part due to the acquisition of Westleigh. This growth will be largely PRS and affordable, reducing our exposure to private for sale homes to around 35% of total completions in the coming year. With our forward order book up 40% to £900m, we remain well positioned to deliver current year expectations.

**Commenting on the results, Ian Sutcliffe, Group Chief Executive, said:**

"We have continued our strong growth trajectory during the past year and have exceeded our expectations in operating margins, return on capital employed and cash generation. Our differentiated Partnerships division continues to go from strength to strength, while our Housebuilding division is benefitting from operational efficiency and continued capital discipline to deliver improved returns. With strong demand from first-time buyers and ongoing political support, the Board looks forward to delivering continued growth from both of our operating divisions."

**COUNTRYSIDE PROPERTIES PLC**
**Audited results for the full year ended 30 September 2018**

There will be an analyst and investor meeting at 9.00am GMT today at Chartered Accountants Hall, One Moorgate Place, London, EC2R 6EA hosted by Group Chief Executive, Ian Sutcliffe. The presentation will also be available via a live webcast through the Countryside corporate website http://investors.countrysideproperties.com/

A playback facility will be provided shortly after the presentation has finished.
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**Note to editors:**
Countryside is a leading UK home builder and regeneration partner specialising in place making and urban regeneration. Our business is centred around two complementary divisions, Partnerships and Housebuilding. Our Partnerships division specialises in urban regeneration of public sector land, delivering private and affordable homes by partnering with local authorities and housing associations. The Housebuilding division, operating under Countryside and Millgate brands, develops sites that provide private and affordable housing, on land owned or controlled by the Group. Countryside was founded in 1958. It operates in locations across outer London, the South East, the North West of England and the Midlands.

For further information, please visit the Group's website: www.countrysideproperties.com

**Cautionary statement regarding forward-looking statements**
Some of the information in this document may contain projections or other forward-looking statements regarding future events or the future financial performance of Countryside Properties PLC and its subsidiaries (the Group). You can identify forward-looking statements by terms such as "expect", "believe", "anticipate", "estimate", "intend", "will", "could", "may" or "might", the negative of such terms or other similar expressions. Countryside Properties PLC (the Company) wishes to caution you that these statements are only predictions and that actual events or results may differ materially. The Company does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in projections or forward-looking statements of the Group, including among others, general economic conditions, the competitive environment as well as many other risks specifically related to the Group and its operations. Past performance of the Group cannot be relied on as a guide to future performance.

"Countryside" or the "Group" refers to Countryside Properties PLC and its subsidiary companies.

[1] Adjusted revenue includes the Group's share of revenue of joint ventures and associate of £210.9m (2017: £183.0m).
[2] Adjusted operating profit includes the Group's share of operating profit from joint ventures and associate of £46.4m (2017: £33.6m) and excludes non-underlying items of £15.7m (2017: £2.8m).
[3] Adjusted operating margin is defined as adjusted operating profit divided by adjusted revenue.
[4] Adjusted basic earnings per share is defined as adjusted profit attributable to ordinary shareholders, net of attributable taxation, divided by the weighted average number of shares in issue for the period.
[5] Return on capital employed ("ROCE") is defined as adjusted operating profit for the last 12 months divided by average of opening and closing tangible net operating asset value ("TNOAV") for the 12-month period. TNOAV is calculated as net assets excluding net cash or debt less intangible assets net of deferred tax.
[6] Prior year comparatives have been restated, as described in Note 3 to the financial statements.

The Directors believe that the use of adjusted measures is necessary to understand the trading performance of the Group.

**Dividend Reinvestment Plan**
The final dividend, subject to approval at the Annual General Meeting on 24 January 2019, will be paid as a cash dividend on 8 February 2019 and shareholders are again being offered the opportunity to reinvest some or all of their dividend under the Dividend Reinvestment Plan ("DRIP"), details of which are available from our Registrars and on our website. Elections to join the DRIP must reach the Registrars by 18 January 2019 in order to be effective for this dividend. Further details can be found on our website investors.countrysideproperties.com/shareholder-information/dividends.

# Chairman's statement

I am delighted to report on another year of significant progress in 2018, which marked 60 years since Countryside was founded.

We were the UK's fastest-growing listed homebuilder during the year, exceeding the targets we set at the time of our Initial Public Offering ("IPO") in February 2016. This demonstrates the success of our differentiated business model and commitment to creating Places People Love. We see further opportunities for future growth, which form the basis for our new medium-term targets outlined at our Capital Markets Day in June 2018.

**Accelerating growth**
We acquired Westleigh during the year, accelerating the growth of our Partnerships division in line with our mixed-tenure approach and expanding our geographic reach into Yorkshire and the East Midlands. We also moved to improve efficiency and build greater resilience in the supply chain by investing in a closed-panel timber frame factory.

Our Housebuilding division continued to gain scale during the year, increasing completion numbers by seven per cent and improving margins through enhanced operational efficiency. We also successfully managed our ASP to remain relevant and accessible to our core target audience of local owner-occupiers.

Our financial and operational results for the year were excellent, leading the sector in both earnings and completions growth. Improving efficiencies across our business, particularly within our Housebuilding business, enabled us once more to exceed our ROCE target.

Despite the significant investments made during the year, our balance sheet remains strong and we continue to have clear visibility over our future growth plans. We ended the year with a secure balance sheet and £45m of net cash. Our forward order position and pipeline in both divisions are very strong, positioning us well to continue delivering against our ambitious growth plans.

**Returns to shareholders**
After another year of strong profit growth, the Board proposes a final dividend of 6.6 pence per share. Subject to approval at the Annual General Meeting ("AGM") on 24 January 2019, the dividend will be paid on 8 February 2019 to shareholders registered at 21 December 2018. Together with the interim dividend of 4.2 pence per share, this will give a total dividend of 10.8 pence per share.

**Priorities of the Board**
The Board regards corporate governance as a key discipline that supports our aim of increasing value for our shareholders by continually improving Group performance. During 2018, we focused on further refining Group strategy, with particular emphasis on the role of the Partnerships division as protection against any future slowdown in the housing market. We also conducted a wide-ranging Board evaluation exercise.

As we enter 2019, our key areas of focus continue to be to support implementation of the Group's business strategy, to enhance succession planning for the Board and Executive Committee and to embed corporate governance and risk mitigation plans further across the business.

Various Board changes took place during the year. Federico Canciani's last day of service was 5 December 2017, Richard Adam stepped down on 31 December 2017, and Douglas Hurt joined the Board on 1 January 2018.

On 1 October 2018, we announced that Becky Worthington had been appointed Chief Operating Officer and Mike Scott was promoted to the Board as Chief Financial Officer. I wish them both well in their new roles.

**Our people**
As at 30 September 2018, we had over 1,800 employees, which is a more than 50 per cent increase on a year ago, largely driven by the Westleigh acquisition. We recognise that our people are the most important factor in delivering planned future growth and maintaining quality, satisfaction and safety standards. In response to the labour-supply issues faced by the industry, we therefore concentrated on developing people at all levels, as well as investing in a new modular build factory in Warrington. We also continued to recruit apprentices, graduates and trainees in significant numbers.

Once again, I would like to thank our customers and our partners during the year, and every one of our employees for all their hard work and commitment to our business.

**David Howell**
***Chairman***
***20 November 2018***

# Group Chief Executive's review

**Sector-leading earnings and completion growth**

The Group continues to deliver against its strategic objectives of growth, returns and resilience.

**IPO targets exceeded**

| | **2018** | IPO target |
|---|---|---|
| Total completions | **4,295** | 3,600+ |
| Adjusted operating margin | **17.2%** | 17%+ |
| Return on capital employed | **37.1%** | 28%+ |

**Future resilience**

| | **2018** | 2015 |
|---|---|---|
| Partnerships preferred bidder and land bank | **29,878** | 10,760 |
| Housebuilding land bank | **19,778** | 18,410 |
| Net cash/(debt) | **£45.0m** | £(59.5)m |

**Non-financial metrics**

| | **2018** | 2015 |
|---|---|---|
| Health and safety (AIIR) | **162** | 265 |
| Customer Satisfaction (NHBC Recommend a friend) | **84.6%** | 82.7% |
| Build Quality (Reportable Incidents, "RIs") | **0.22** | 0.22 |

**Group strategy**
Our strategic objectives of growth, returns and resilience – underpinned by our strong operational performance – have enabled us to continue to grow strongly in 2018.

Our ability to deliver on these priorities is based on a number of strategic choices we took ahead of the IPO. At the forefront of these was our decision to cease a number of peripheral activities and focus instead on the core activities of our balanced operating model: Partnerships and Housebuilding.

In particular, our mixed-tenure approach to development that comprises private, affordable and PRS homes gives us the ability to deliver accelerated growth, returns and resilience.

In terms of growth, we have outperformed our sector in both earnings and homes completed during 2018. We have built on our strong new business pipeline in both our operating divisions to underpin the medium term. Our Partnerships pipeline and Housebuilding strategic land bank are industry-leading, delivering balance sheet efficiency and continuing to underpin our future growth.

Our excellent asset turn, particularly in our Partnerships division and our strong operational execution means we are highly efficient in generating revenue and cash from our assets. This helps us operate a capital-light model and deliver a superior return on capital employed while maintaining strong operating margins.

Our Housebuilding division continued to grow to scale with operating margins and ROCE both improving strongly in the year.

Our resilience is supported by a number of factors. The mixed-tenure model reduces our exposure to the private housing market which we expect will represent around one third of delivery in 2019. In addition, forward-funding of affordable and PRS homes helps to reduce our balance sheet risk while accelerating growth in sectors of high demand.

We support our three strategic priorities through prudent financial management, ensuring we deploy capital appropriately through the cycle. We have a clear focus on cash generation and manage debt carefully. During 2018, we were able to use our own cash to make two important investments to accelerate our future growth – the purchase of Westleigh in April 2018 and the development of an offsite modular build factory, which will come on stream in 2019.

Overall, we believe our low-capital mixed-tenure model provides strong growth and remains more resilient to the cyclical nature of the UK housebuilding sector.

**Our target customers**
The commitment of both national and local government to deliver more housing and in particular to increase the amount of affordable housing in London is aligned closely to our strategy. We have grown our delivery of affordable housing during the year, both organically and with the acquisition of Westleigh. We are one of the largest providers of affordable homes in London as a proportion of total completions.

The rapidly expanding PRS sector remains a focus for us, with over 2,000 homes now completed with our partner Sigma Capital in the North West and the Midlands. We plan to expand this relationship further with the aim of delivering an additional 5,000 PRS homes over the next three years.

63 per cent of our private sales during the year were to first time buyers in areas of strong demand. By focusing on this customer segment we were able to reduce our private average selling price to £402,000. This has been achieved while still focusing on placemaking with no reduction in the quality of build or strength of location.

**A step change in growth**
Our acquisition in April 2018 of Westleigh, a long-established partnerships home builder covering the East Midlands and Yorkshire, increased the scale of our Partnerships division and extended our operational footprint into new geographies.

Having tracked Westleigh for some years prior to the acquisition, we recognised that it already met a number of the requirements of our own business model and strategy, including strong relationships across its markets, a high-quality supply chain and a highly experienced workforce. The acquisition added around 5,000 plots to our land bank and a further new business bid pipeline of potential sites, delivering a strong platform for future growth. By introducing our mixed-tenure model to Westleigh, we aim to accelerate growth and improve underlying returns.

We are well advanced with the integration and expansion of the business and expect it to deliver accretion to adjusted earnings per share in the first full year of ownership.

**Off-site construction**
One of the biggest challenges facing Countryside and the industry as a whole is a shortage of labour, in areas including project and site management as well as skilled labour on site. While it is possible to address the issue to some degree through training and development programmes, we also need to challenge the way we build our homes. We believe the right approach is to automate some parts of the construction process off-site to ensure skilled people on site can concentrate on the tasks that add the most value.

This was the motivating factor behind our decision to invest in a new off-site manufacturing facility that will enable us to achieve more with our existing people, supporting the faster delivery of new homes.

We have for some years used an open-panel timber frame system in our Northern and Midlands regions to produce standard components offsite for around 40 per cent of our output. From 2019, our new £6 million facility in Warrington will take this further, producing more complete, quality-assured wall and flooring systems with first-fix plumbing and electrical channels installed, windows in place and insulation sealed into the unit, ensuring all relevant regulations are met in a production environment.

These panels will be delivered to sites for assembly, where skilled tradespeople will supply finishes. The new facility will ultimately produce around 1,500 units per year to serve the Partnerships division across the Midlands and the North West.

We anticipate that this approach will allow us to take a building from foundations to completed property in around ten weeks from the current 12 to 14 weeks, increasing the number of homes our sites can deliver in a year. As well as significantly improving our operational efficiency, there are a number of other benefits including protection from site labour shortages, reduced waste and improved quality control.

**Market overview**

Overall demand for housing of all tenures remains strong across all our areas of operation. Mortgage availability and the recently announced extension of Help to Buy until 2023 have ensured that demand from first time buyers has remained robust. However, some stresses in the UK housing market started to emerge during the year, with property sales in the second-hand market slowing, particularly at higher price points as a result of the impact of increased Stamp Duty together with the uncertain macro-economic backdrop. The impact on Countryside is limited by the strategic decision we took four years ago to reduce average selling prices to ensure our product is affordable for local owner occupiers.

At the same time, according to the National House-Building Council (NHBC), 2017 was the best year for new builds in the decade since the financial crisis, with builders delivering 160,000 new homes, up by six per cent on 2016.

Government and all-party recognition of the need for additional housing continued to be strong during the year, with nearly 200,000 new homes expected in 2018 and the Government's stated annual target of 300,000 new homes.

Two important Government reviews have been published in 2018 – the Letwin Review on tackling barriers to building and the recommendations following the inquiry into the Grenfell Tower disaster.

The Letwin Review concluded that measures are needed to promote faster delivery of homes on large strategic sites. This aligns well with our mixed-tenure delivery model which reduces our reliance on the absorption rate for private homes.

In response to the Grenfell fire tragedy, we acted quickly to review all tall buildings constructed by Countryside, taking corrective action where required. We anticipate further changes to Building Regulations following the review.

**Our performance**

During 2018, we delivered another year of strong growth and improved financial returns. Our mixed-tenure approach and decision to reposition average selling prices to improve affordability saw us being able to adapt to the areas of strongest demand.

During the year, we saw house price inflation of around two per cent as price growth moderated particularly at the upper end of the market. Whilst build cost inflation varied between three and five per cent, we had already largely allowed for this in our development forecasts and there was therefore no impact on gross margin.

Our Health and Safety record improved again in 2018 with the AIIR falling to 162 per 100,000 people at risk (2017: 220). Regrettably, an incident at one of our sites post year-end has resulted in the fatality of one of our subcontractors, which is currently under investigation. Our sympathies are with the family and everyone connected with this tragic event. We maintained our high level of build quality as measured by the NHBC Reportable Incidents at 0.22 per plot versus 0.21 in 2017. Our customers' satisfaction is very important to us and we were disappointed that our NHBC Recommended a Friend score decreased to 84.6 per cent. (2017: 88.6 per cent). We have taken a number of steps to improve this performance in 2019, including setting targets to be included in the Group bonus metrics and appointing Graham Cherry to lead the improvement initiatives at the Executive Committee.

**Strong company values**
The fact that 2018 was our 60th anniversary served as a reminder to everyone connected with our business that it was founded based on a very strong set of core values, which still influence how we engage with our staff, partners, investors and other stakeholders today.

As the business has grown, and we have constantly sought ways of becoming more efficient and effective, these values have continued to have an important role in our success. In particular, our impressive performance in winning bids is still based on building long-term relationships and delivering high-quality placemaking to create Places People Love.

They provide us with tangible competitive strength, and an anniversary of this kind is a good moment to remember and reflect on their importance.

**Investing in our people**
The rapid growth in our business over the last five years has brought with it a threefold increase in our directly employed workforce, from around 600 to more than 1,800. We are very aware that continued fast growth means that we need to focus on maintaining our standards. It is therefore vital that we retain our best people, investing in their development and reward to ensure they feel valued by the Group.

**Outlook**
Despite some of the political and economic uncertainty around Brexit, we have started the new financial year in a strong position. We enter 2019 with a record forward order book, we have excellent visibility over future Partnerships work and a strategic land bank that continues to feed the business with high quality land. Our mixed-tenure model is expected to deliver strong growth and resilient returns over the medium-term.

Many of the large Partnerships developments secured over the last two years together with the acquisition of Westleigh will deliver homes in 2019, underpinning the future growth of the division.

Our Housebuilding division continues to see the benefits of greater scale and operational efficiency. As more strategic land is pulled through into the business and our core house type range is delivered, we anticipate a strong underpin to our future performance.

At this time, it is paramount that we maintain our build quality, customer satisfaction and health and safety standards, all of which have been improving in recent years. We will continue to focus on ensuring that we have a large enough skilled workforce to continue delivering on the ground.

Overall, I am confident that we are ideally placed to continue to meet the market's expectations of our future growth.

**Ian Sutcliffe**
***Group Chief Executive***
***20 November 2018***

# Group Chief Financial Officer's review

*A year of strong growth, in which we exceeded our medium-term targets.*

Our 60th anniversary year has delivered another year of strong growth in both operating divisions. We exceeded the targets set prior to our IPO in 2016. With excellent pipelines in both operating divisions, together with a strong balance sheet, the Group is well-positioned for the future.

**Group performance**
Total completions were up 27 per cent in 2018 to 4,295 homes (2017: 3,389 homes) as we delivered strong growth across private, affordable and private rented sector tenures. Our private ASP reduced by seven per cent to £402,000 (2017: £430,000) as a result of our focus on price-points appropriate to local owner occupiers, together with a shift in geographical mix away from London and the South East. Affordable ASP decreased by seven per cent to £159,000 (2017: £171,000). Taking these factors into account, Group adjusted revenue was £1,229.5m (2017: £1,028.8m), up 20 per cent year on year.

Statutory revenue increased by 20 per cent from £845.8m to £1,018.6m. The difference between adjusted and statutory revenue is the effect of the proportionate consolidation i.e. the Group's share of the results of the Group's associate and joint ventures in the adjusted measure. We saw significant sales growth at our joint ventures at Oaklands Hamlet, Chigwell, Beaulieu, Chelmsford and Greenwich Millennium Village, London during the year. Westleigh contributed £63.5m to revenue in the year.

Group adjusted gross margin (including the Group's share of associate and joint venture gross profit) improved by 130bps to 22.5 per cent (2017: 21.2 per cent). This margin improvement came from a range of operational improvements and improved site discipline with respect to variations and wastage and we also saw the benefit of procurement savings come through on large developments which ended this year. We sold our shared equity portfolio during the fourth quarter, which realised a profit of £1m.

Profit from land sales contributed £11.0m (2017: £10.7m) as we tactically sold parcels of land where we no longer expect to build, and £6.1m (2017: £5.6m) from commercial sales, principally at the Medipark joint venture in Cambridge, where we have constructed a new head office for Abcam plc. We also recognised overage receivable of £4.1m on an historical land sale at our site in Cambridge.

These gross margin improvements helped us increase the Group's adjusted operating margin, which increased by 110bps to 17.2 per cent from 16.1 per cent last year. These improvements together with increased completions allowed us to offset the impact of reduced average selling prices, delivering a 28 per cent increase in adjusted operating profit to £211.4m (2017: £165.3m).

Reported operating profit increased 16 per cent to £149.3m (2017: £128.9m) with the difference to adjusted operating profit being the proportionate consolidation of the Group's associate and joint ventures and non-underlying items relating mainly to the Westleigh acquisition in April 2018. Further details of the difference can be found in Note 6 to the financial statements

Our net reservation rate per open sales outlet was broadly in line with last year at 0.80 (2017: 0.84) and at the top end of our target range which reflected continued strong demand for our homes, with an increase in open sales outlets to 60 (2017: 47) helping to drive the increase in revenue. A further 55 sites (2017: 41 sites) were under construction but not yet open for sale, sustaining the production growth underpinning our medium-term targets.

Our total forward order book including affordable and private rented sector homes under contract increased 40 per cent to £899.7m compared to £643.7m last year. As the year-on-year phasing of new developments has changed, our private forward order book is lower than last year's record delivery at £215.1m (2017: £242.4m).

House price inflation moderated in the South East and outer London boroughs, at around one per cent for the year, down from three per cent last year. We continued to see strong demand for our homes in the North West and the Midlands where prices increased by around nine per cent. Cost price inflation moderated in the South East and London, where the softness of the London construction market saw us able to take advantage of sub-contractor availability and in some cases place contracts for longer durations. In the North West and Midlands, there was more pressure on costs due to strong demand, but this was more than offset by house price inflation in the year.

We ended the year with net cash of £45.0m (2017: £77.4m), slightly higher than planned due to a stronger contribution from Partnerships with its higher asset turn. The Group's bank interest cost rose to £3.3m (2017: £3.0m). Reported net finance costs decreased to £10.6m (2017: £10.9m), with the 2017 comparative restated as described below.

**Partnerships**

Our Partnerships division continued its strong growth trajectory during the year, complemented from April 2018 by the acquisition of Westleigh to expand our geographical footprint into the East Midlands and Yorkshire. 3,019 homes were delivered during the year, an increase of 38 per cent on the prior year (2017: 2,192 homes), with Westleigh delivering 465 homes, of which 90 per cent were affordable homes. Westleigh contributed over 2 per cent of the Group's adjusted operating profit in the first six months of ownership.

Average selling price decreased seven per cent to £318,000 (2017: £343,000), reflecting the change in mix of the business towards the North and Midlands which typically deliver lower-priced homes. Adjusted revenue increased by 33 per cent to £634.8m (2017: £476.7m) with reported revenue, which excludes the Group's share of revenue from joint ventures, up 41 per cent to £590.3m (2017: £418.8m).

The growth in delivery came from an increase in all tenures with private housing up 38 per cent to 1,137 homes (2017: 825 homes), affordable homes up 66 per cent at 1,073 homes (2017: 646 homes) and an increase to 809 Private Rental Sector homes (2017: 721 homes), predominantly for our ongoing relationship with Sigma Capital in the North and Midlands, an increase of 11 per cent.

The adjusted gross margin for the Partnerships division was 21.8 per cent, an improvement of 120bps in the year (2017: 20.6 per cent) which reflected the realisation of procurement savings as we closed some developments and the impact of our ongoing focus on site efficiency. Adjusted operating margin increased to 17.4 per cent (2017: 16.7 per cent) despite our investment in the growth of our newer region and the Westleigh business. As a result of the increased volume and improved operating margin, adjusted operating profit of £110.6m was up 39 per cent (2017: £79.4m).

On a reported basis, Partnerships revenue increased to £590.3m, up 41 per cent (2017: £418.8m) as a result of the growth in sales outlets delivering a greater number of completions. Reported Partnerships operating profit increased to £101.1m (2017: £68.7m).

As the scale of opportunity continues to grow, we have had another very successful year in winning new business in the Partnerships division, underpinning our longer-term growth plans. In addition to those sites already in the land bank, including those with preferred bidder status, we secured 9,646 new plots in the period. We now have 29,878 Partnerships plots under our control (2017: 19,223 plots). This represents approximately ten years' supply at current volumes and provides significant visibility.

**Housebuilding**

Our Housebuilding division continues to grow to scale, with an increase in completions of 7 per cent to 1,276 homes (2017: 1,197 homes). Total adjusted revenue from Housebuilding was up 8 per cent to £594.7m (2017: £552.1m).

Private completions increased by 3 per cent to 858 homes (2017: 837 homes). With the high rate of sales, we sold out on a number of sites during the year, resulting in open sales outlets at the year end of 27 (2017: 24). With an additional 14 active sites in production, we anticipate an increase in open selling outlets by the end of the 2019 financial year. Private ASP of £512,000 was broadly in line with last year (2017: £515,000) as our management of price points stabilised following planned reductions in previous years.

Affordable revenue increased by 16 per cent to £76.0m (2017: £65.7m) with completions up 16 per cent to 418 (2017: 360) at an ASP of £187,000 (2017: £205,000), down nine per cent driven by the nature of the underlying contractual arrangements.

A further £65.9m of revenue came from land and commercial sales (2017: £45.7m), generating £16.6m of profit, with a further £4.1m of overage receivable.

Housebuilding adjusted gross margin increased by 170bps to 23.3 per cent (2017: 21.6 per cent), as the legacy site at Mill Hill sold through and we saw the benefit of site-level operational efficiencies being realised.

As the Housebuilding regional businesses delivered operational efficiencies in the year, adjusted operating margin improved by 180bps to 18.4 per cent (2017: 16.6 per cent) as the benefit of improved gross margins were realised. Overall, the Housebuilding adjusted operating profit increased by 20 per cent to £109.6m (2017: £91.5m).

The majority of the Group's joint ventures are reported within the Housebuilding division with the largest of these being Beaulieu in Chelmsford and Oaklands Hamlet in Chigwell, with our long-established partner L&Q, and Greenwich Millennium Village in London with Taylor Wimpey. We also have a joint venture with Liberty at Medipark in Cambridge focused on the delivery of commercial property at the Biomedical Science campus in Trumpington and an associate in Bicester which sells serviced land parcels to other developers. Excluding the results of the associate and joint ventures, on a reported basis Housebuilding revenue was broadly flat at £428.3m (2017: £427.0m), with higher completion volumes offset by a reduction in ASP. Reported Housebuilding operating profit increased to £72.7m (2017: £68.6m).

In line with our strategy, we have maintained the land bank in our Housebuilding division and have acquired 1,334 plots on ten sites during the period. The Housebuilding land bank now stands at 19,778 plots (2017: 19,826 plots), of which 85 per cent has been strategically sourced.

**Non-underlying items**
As a result of the Westleigh acquisition, the Group incurred a number of deal-related and other large or non-recurring expenses during the year. These principally related to the cost of deferred consideration being paid to management who remained with the Group post-acquisition and certain post-acquisition restructuring costs, which we incurred in the second half as we established the platform for future growth at Westleigh. In addition, the amortisation of intangible assets is reported within non-underlying items as management does not believe this cost should be included when considering the underlying performance of the Group.

A total tax credit of £2.4m (2017: £0.5m) in relation to all of the above non-underlying items was included within taxation in the income statement.

*Non-underlying items*

| Year ended 30 September | **2018** | 2017 *Restated* |
|---|---|---|
| | **£m** | £m |
| **Recorded within operating profit:** | | |
| Amortisation of intangible assets recognised in acquisitions | **5.6** | 1.2 |
| Acquisition and integration costs relating to Westleigh | **10.1** | — |
| Head office restructuring | **—** | 1.6 |
| **Total non-underlying items** | **15.7** | 2.8 |

***Net finance costs***
In 2018, net finance costs were £10.6m (2017: £10.9m), of which net cash costs were £3.2m (2017: £3.0m). Interest on the Group's bank loans and overdrafts increased from £3.0m to £3.3m as a result of higher interest rates during 2018.

*Prior year restatement*
Following the review of the 2017 Annual Report and Accounts by the Financial Reporting Council, the directors have concluded that, in applying IAS 39 'Financial Instruments; Recognition and Measurement', the discount rates applied to liabilities for deferred land and overage payments should not have been changed subsequent to their initial recognition. As a result, 2017 net finance costs were overstated by £6.0m and profit after tax and net assets, taking into account also tax and the impact on joint ventures, were understated by £5.3m.

*Net finance costs*

| Year ended 30 September | **2018** | 2017 *Restated* |
|---|---|---|
| | **£m** | £m |
| **Recorded within operating profit:** | | |
| Bank loans and overdrafts | **3.3** | 3.0 |
| Unwind of discount | **8.1** | 6.7 |
| Amortisation of debt finance costs | **0.6** | 0.6 |
| Impairment of interest receivable from joint ventures | **—** | 2.0 |
| **Finance income** | **(1.4)** | (1.4) |
| **Net finance costs** | **10.6** | 10.9 |

Countryside expects net finance costs in 2019 to be broadly similar to the current year.

In June 2018, the Group signed a further one-year extension to its £300m revolving credit facility agreement. The agreement has a variable interest rate based on LIBOR and now expires in May 2023.

**Taxation**
The Group's tax strategy remained unchanged during the year. In line with Countryside's broader corporate strategy, the key goals directing our tax strategy are:
- adherence to applicable laws and regulations;
- maximisation of shareholder value on a sustainable basis; and
- protection of our reputation and brand.

We believe that our obligation is to pay the amount of tax legally due at the right time in accordance with rules set by the relevant authorities. We also have a responsibility to shareholders to ensure that strategic business objectives are met without incurring unnecessary tax costs.

The income tax charge was £32.1m (2017: £25.4m), with an adjusted tax rate of 19 per cent (2017: 18.5 per cent) and, on a reported basis, an effective tax rate of 17.8 per cent (2017: 17.1 per cent), the main difference between the rates reflecting the treatment of joint venture limited company profits.

The adjusted tax rate reconciles to the reported rate as follows:

*Adjusted tax rate*

| Year ended 30 September 2018 | Profit £m | Tax £m | Rate % |
|---|---|---|---|
| Adjusted profit before tax, and tax thereon | 200.0 | 38.1 | 19.0 |
| Adjustments, and tax thereon, for: | | | |
| Non-underlying costs: Westleigh acquisition and Group amortisation | (15.7) | (2.4) | - |
| Taxation on associate and joint ventures in profit before tax | (3.6) | (3.6) | - |
| **Profit before tax and tax thereon** | **180.7** | **32.1** | **17.8** |

In 2019, Countryside expects the adjusted tax rate to continue to be slightly lower than the UK statutory corporation tax rate due to claims for enhanced tax relief in relation to land remediation costs.

**Earnings per share**

Adjusted basic earnings per share increased by 30 per cent to 36.0 pence (2017: 27.7 pence) reflecting the increase in adjusted operating profit during the year, together with a decrease in adjusted net finance costs and a higher adjusted effective tax rate.

The weighted average number of shares in issue was 447.5m (2017: 450.0m).

Basic earnings per share was 33.1 pence (2017: 27.2 pence). Basic earnings per share is lower than adjusted basic earnings per share due to the effect of non-underlying items that are excluded from adjusted results.

**Dividend**

The Board has recommended a final dividend of 6.6 pence per share (2017: 5.0 pence per share), taking the total dividend for 2018 to 10.8 pence per share (2017: 8.4 pence per share), representing a pay out of 30 per cent of adjusted earnings per share.

The proposed final dividend was recommended by the Board on 20 November 2018 and, as such, has not been included as a liability as at 30 September 2018.

In 2019, Countryside intends that the dividend will continue to represent 30 per cent of adjusted earnings per share.

**Acquisition of Westleigh**

On 12 April 2018, the Group acquired Westleigh, a Leicester-based provider of predominantly affordable housing. The agreed enterprise value on a cash-free, debt-free basis was up to £135.4m. The acquisition created goodwill of £62m and other intangible assets of £53.2m, principally in relation to the affordable housing contracts and relationships in place with local authorities and Registered Providers of social housing. Further details of the acquisition are set out in Note 13 to the financial statements.

**Statement of financial position**

As at 30 September 2018, TNAV was £630.1m (2017: £632.3m), a decrease of £2.2m resulting from retained earnings being offset by intangible assets of £110.6m generated from the Westleigh acquisition. As we continued to grow the business, inventory grew by £83m to £749.7m (2017: £667.1m) as we were active on 115 sites at 30 September 2018 (2017: 88 sites). Investments in associate and joint ventures were maintained at £67.9m (2017: £62.0m).

**Improving returns**

During the year, we saw a significant improvement in return on capital employed, driven by the strong margin improvement in both divisions and the growth of Partnerships with an asset turn of 4.8 times. Overall the Group's asset turn improved from 1.9 times last year to 2.2 times in 2018. Return on capital employed increased by 650bps to 37.1 per cent (2017: 30.6 per cent), 900bps ahead of the target set at IPO.

*Return on capital employed*

| Year ended 30 September | **2018** | 2017 |
| --- | --- | --- |
| Adjusted operating profit (£m) | **211.4** | 165.3 |
| Average capital employed (£m)[1] | **570.0** | 540.2 |
| **Return on capital employed (%)** | **37.1** | 30.6 |
| **Increase** | **650bps** | |

1. Capital employed is defined as tangible net operating asset value, or TNAV excluding net cash.

**Cash flow**

*Summary cash flow statement*

| Year ended 30 September | **2018 £m** | 2017 £m |
| --- | --- | --- |
| Cash generated from operations | **111.4** | 78.2 |
| Interest and tax paid | **(25.9)** | (26.0) |
| Dividends paid | **(41.1)** | (30.6) |
| Acquisition of subsidiary net of cash acquired | **(39.9)** | — |
| Settlement of subsidiary's net debt on acquisition | **(71.2)** | — |
| Purchase of own shares | **(11.4)** | — |
| Decrease in loans to associate and joint ventures | **11.5** | 16.2 |
| Dividends received from associate and joint ventures | **26.9** | 28.8 |
| Repayment of members' interest | **12.1** | — |
| Proceeds of borrowings | **2.5** | — |
| Other net cash (outflows)/inflows | **(5.1)** | (1.2) |
| **Net increase/(decrease) in cash and cash equivalents** | **(30.2)** | 65.4 |

**Impact of the new accounting standards**

The new revenue accounting standard, IFRS 15 'Revenue from Contracts with Customers' is effective for the Group for the 2019 financial year commencing on 1 October 2018. The only impact of adopting this standard is the requirement to recognise revenue on the sale of second-hand homes taken in part exchange for new homes, which in 2018 would have resulted in the recognition of c. £12m of additional revenue.

IFRS 16 'Leases' is effective for the Group from the 2020 financial year commencing on 1 October 2019. We have substantially completed our review of the impact of this standard and do not believe there will be a material impact on profit or TNAV, although new leasing assets and liabilities will be recognised. We will provide further information on the impact of the changes in due course.

**Mike Scott**
***Group Chief Financial Officer***
***20 November 2018***

# Risk management

*Principal risks and uncertainties*

The Group's principal risks are monitored by the Risk Management Committee, the Audit Committee and the Board. The table below sets out the Group's principal risks and uncertainties and mitigation.

| *Risk and impacts* | | *How we monitor and manage the risk* |
|---|---|---|
| **1. Adverse macroeconomic conditions***<br>Responsible executive:<br>Group Chief Executive | A decline in macroeconomic conditions, or conditions in the UK residential property market, can reduce the propensity to buy homes. Higher unemployment, interest rates and inflation can affect consumer confidence and reduce demand for new homes. Constraints on mortgage availability, or higher costs of mortgage funding, may make it more difficult to sell homes. | • Funds are allocated between the Housebuilding and Partnerships businesses.<br>• In Housebuilding, land is purchased based on planning prospects, forecast demand and market resilience.<br>• In Partnerships, contracts are phased and, where possible, subject to viability testing.<br>• In all cases, forward sales, cash flow and work in progress are carefully monitored to give the Group time to react to changing market conditions. |
| **2. Adverse changes to Government policy and regulation***<br>Responsible executive:<br>Group Company Secretary and General Counsel | Adverse changes to Government policy in areas such as tax, housing, the environment and building regulations may result in increased costs and/or delays. Failure to comply with laws and regulations could expose the Group to penalties and reputational damage. | • The potential impact of changes in Government policy and new laws and regulations are monitored and communicated throughout the business.<br>• Detailed policies and procedures are in place to address the prevailing regulations. |
| **3. Constraints on construction resources***<br>Responsible executive:<br>Chief Executive Partnerships North | Costs may increase beyond budget due to the reduced availability of skilled labour or shortages of sub-contractors or building materials at competitive prices to support the Group's growth ambitions. The Group's strategic geographic expansion may be at risk if new supply chains cannot be established. | • Optimise use of standard house types and design to maximise buying power.<br>• Use of strategic suppliers to leverage volume price reductions and minimise unforeseen disruption.<br>• Robust contract terms to control costs. |
| **4. Programme delay (rising project complexity)**<br>Responsible Executive:<br>Chief Executive Partnerships South | Failure to secure timely planning permission on economically viable terms or poor project forecasting, unforeseen operational delays due to technical issues, disputes with third-party contractors or suppliers, bad weather or changes in purchaser requirements may cause delay or potentially termination of project. | • The budgeted programme for each site is approved by the Divisional Board before acquisition.<br>• Sites are managed as a portfolio to control overall Group delivery risk.<br>• Weekly monitoring at both divisional and Group level. |
| **5. Inability to source and develop suitable land**<br>Responsible Executive:<br>Chief Executive Housebuilding | Competition or poor planning may result in a failure to procure land in the right location, at the right price and at the right time. | • A robust land appraisal process ensures each project is financially viable and consistent with the Group's strategy. |
| **6. Inability to attract and retain** | Inability to attract and retain highly skilled, competent people at all levels could adversely affect the | • Remuneration packages are regularly benchmarked against industry standards to ensure competitiveness. |

| | | |
|---|---|---|
| **talented employees***<br>Responsible Executive:<br>Group HR Director | Group's results, prospects and financial condition. | • Succession plans are in place for all key roles within the Group.<br>• Exit interviews are used to identify any areas for improvement. |
| **7. Inadequate health, safety and environmental procedures**<br>Responsible Executive:<br>Group Company Secretary and General Counsel | A deterioration in the Group's health, safety and environmental standards could put the Group's employees, contractors or the general public at risk of injury or death and could lead to litigation or penalties or damage the Group's reputation. | • Procedures, training and reporting are all carefully monitored to ensure that high standards are maintained.<br>• An environmental risk assessment is carried out prior to any land acquisition.<br>• Appropriate insurance is in place to cover the risks associated with housebuilding. |

**Note**

* The Risk Management Committee's review of risk, including the principal risks, takes into account the known and forecast developments flowing from plans being made for the UK's planned exit from membership of the European Union by March 2019 ("Brexit"). Brexit affects many of the principal risks, but particularly those marked with an asterisk.

# Consolidated statement of comprehensive income

For the year ended 30 September 2018

| | Note | 2018 £m | 2017 *restated* £m |
|---|---|---|---|
| **Revenue** | | **1,018.6** | 845.8 |
| Cost of sales | | **(788.9)** | (662.5) |
| Gross profit | | **229.7** | 183.3 |
| Administrative expenses | | **(80.4)** | (54.4) |
| **Group operating profit** | | **149.3** | 128.9 |
| Analysed as: | | | |
| Adjusted Group operating profit | | **211.4** | 165.3 |
| Less: share of associate and joint ventures' operating profit | 14, 15 | **(46.4)** | (33.6) |
| Less: non-underlying items | 6 | **(15.7)** | (2.8) |
| Group operating profit | | **149.3** | 128.9 |
| Finance costs | 7 | **(12.0)** | (12.3) |
| Finance income | 8 | **1.4** | 1.4 |
| Share of post-tax profit from associate and joint ventures | 14, 15 | **42.0** | 30.3 |
| **Profit before income tax** | | **180.7** | 148.3 |
| Income tax expense | 9 | **(32.1)** | (25.4) |
| **Profit for the year** | | **148.6** | 122.9 |
| Profit is attributable to: | | | |
| – Owners of the parent | | **147.9** | 122.5 |
| – Non-controlling interest | | **0.7** | 0.4 |
| | | **148.6** | 122.9 |
| **Other comprehensive income** | | | |
| Items that may be reclassified to profit and loss: | | | |
| Increase in the fair value of available-for-sale financial assets | 16 | **0.1** | 0.2 |
| Items reclassified to profit and loss: | | | |
| Reclassification of available-for-sale reserve to profit and loss | 16 | **(0.4)** | — |
| **Total comprehensive income for the year** | | **148.3** | 123.1 |
| **Total comprehensive income for the year attributable to:** | | | |
| – Owners of the parent | | **147.6** | 122.7 |
| – Non-controlling interest | | **0.7** | 0.4 |
| | | **148.3** | 123.1 |
| **Earnings per share (expressed in pence per share):** | | | |
| Basic | 10 | **33.1** | **27.2** |
| Diluted | 10 | **32.6** | **27.0** |

Revenue and operating profits arise from the Group's continuing operations. Results for 2017 have been restated, as described in Note 3.

# Consolidated statement of financial position

As at 30 September 2018

| | Note | **2018** £m | 2017 *restated* £m |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Intangible assets | 11 | **169.5** | 59.5 |
| Property, plant and equipment | 12 | **7.9** | 2.6 |
| Investment in joint ventures | 14 | **62.5** | 59.4 |
| Investment in associate | 15 | **5.4** | 2.6 |
| Available-for-sale financial assets | 16 | **4.1** | 7.4 |
| Deferred tax assets | 17 | **9.3** | 2.8 |
| Trade and other receivables | 20 | **21.8** | 12.9 |
| | | **280.5** | 147.2 |
| **Current assets** | | | |
| Inventories | 18 | **749.7** | 667.1 |
| Trade and other receivables | 20 | **166.7** | 138.8 |
| Cash and cash equivalents | 21 | **47.2** | 77.4 |
| | | **963.6** | 883.3 |
| **Total assets** | | **1,244.1** | 1,030.5 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 22 | **(317.5)** | (250.5) |
| Current income tax liabilities | | **(18.7)** | (7.1) |
| Provisions | 23 | **(4.2)** | (0.6) |
| | | **(340.4)** | (258.2) |
| **Non-current liabilities** | | | |
| Borrowings | 24 | **(2.2)** | — |
| Trade and other payables | 22 | **(93.8)** | (79.8) |
| Deferred tax liabilities | 17 | **(12.9)** | — |
| Provisions | 23 | **(1.1)** | (2.0) |
| | | **(110.0)** | (81.8) |
| **Total liabilities** | | **(450.4)** | (340.0) |
| **Net assets** | | **793.7** | 690.5 |
| **Equity** | | | |
| Share capital | 25 | **4.5** | 4.5 |
| Reserves | | **787.6** | 685.1 |
| Equity attributable to owners of the parent | | **792.1** | 689.6 |
| Equity attributable to non-controlling interest | | **1.6** | 0.9 |
| **Total equity** | | **793.7** | 690.5 |

Results for 2017 have been restated, as described in Note 3.

These financial statements were approved by the Board of Directors on 20 November 2018.

On behalf of the Board

**Ian Sutcliffe**
**Mike Scott**
***Directors***

# Consolidated statement of changes in equity

For the year ended 30 September 2018

| | Note | Share Capital £m | Share Premium £m | Retained Earnings £m | Available-for-sale financial assets £m | Equity attributable to owners of the parent £m | Non-controlling Interest £m | Total Equity £m |
|---|---|---|---|---|---|---|---|---|
| **At 30 September 2016** | | 4.5 | — | 587.8 | 0.1 | 592.4 | 0.5 | 592.9 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year *(restated)* | | — | — | 122.5 | — | 122.5 | 0.4 | 122.9 |
| Other comprehensive income | | — | — | — | 0.2 | 0.2 | — | 0.2 |
| Total comprehensive income *(restated)* | | — | — | 122.5 | 0.2 | 122.7 | 0.4 | 123.1 |
| **Transactions with owners** | | | | | | | | |
| Share-based payment expense, net of deferred tax | 31 | — | — | 5.1 | — | 5.1 | — | 5.1 |
| Dividends paid | | — | — | (30.6) | — | (30.6) | — | (30.6) |
| Total transactions with owners | | — | — | (25.5) | — | (25.5) | — | (25.5) |
| **At 30 September 2017** *(restated)* | | 4.5 | — | 684.8 | 0.3 | 689.6 | 0.9 | 690.5 |
| **Comprehensive income** | | | | | | | | |
| Profit for the year | | — | — | 147.9 | — | 147.9 | 0.7 | 148.6 |
| Other comprehensive income | | — | — | — | (0.3) | (0.3) | — | (0.3) |
| Total comprehensive income | | — | — | 147.9 | (0.3) | 147.6 | 0.7 | 148.3 |
| **Transactions with owners** | | | | | | | | |
| Share-based payment expense, net of deferred tax | 17, 31 | — | — | 7.4 | — | 7.4 | — | 7.4 |
| Purchase of shares by Employee Benefit Trust | 25 | — | — | (11.4) | — | (11.4) | — | (11.4) |
| Dividends paid | 36 | — | — | (41.1) | — | (41.1) | — | (41.1) |
| Total transactions with owners | | — | — | (45.1) | — | (45.1) | — | (45.1) |
| **At 30 September 2018** | | **4.5** | **—** | **787.6** | — | **792.1** | **1.6** | **793.7** |

Results for 2017 have been restated, as described in Note 3.

# Consolidated cash flow statement

For the year ended 30 September 2018

| | Note | 2018 £m | 2017 £m |
|---|---|---|---|
| **Cash generated from operations** | 26 | **111.4** | 78.2 |
| Interest paid | | **(3.2)** | (2.8) |
| Tax paid | | **(22.7)** | (23.2) |
| **Net cash inflow from operating activities** | | **85.5** | 52.2 |
| **Cash flows from investing activities** | | | |
| Purchase of intangible assets | 11 | **(1.4)** | (2.3) |
| Purchase of property, plant and equipment | 12 | **(5.3)** | (0.8) |
| Proceeds from disposal of available-for-sale financial assets | 16 | **4.8** | 2.5 |
| Acquisition of subsidiary (net of cash acquired) | 13 | **(39.9)** | — |
| Funding to settle subsidiary's net debt on acquisition | 13 | **(71.2)** | — |
| Decrease in advances to associate and joint ventures | 28 | **11.5** | 16.2 |
| Investment in new joint ventures | 14 | **(3.2)** | — |
| Repayment of members' interest | 14 | **12.1** | — |
| Dividends received from associate and joint ventures | 14,15 | **26.9** | 28.8 |
| **Net cash inflow/(outflow) from investing activities** | | **(65.7)** | 44.4 |
| **Cash flows from financing activities** | | | |
| Dividends paid | 36 | **(41.1)** | (30.6) |
| Purchase of shares by Employee Benefit Trust | 25 | **(11.4)** | — |
| Borrowings under revolving credit facility | | **125.0** | — |
| Repayment of borrowings under revolving credit facility | | **(125.0)** | — |
| Borrowing facility arrangement fee | | **—** | (0.6) |
| Proceeds from other borrowings | 24 | **2.5** | — |
| **Net cash outflow from financing activities** | | **(50.0)** | (31.2) |
| Net (decrease)/increase in cash and cash equivalents | | **(30.2)** | 65.4 |
| Cash and cash equivalents at the beginning of the year | | **77.4** | 12.0 |
| **Cash and cash equivalents at the end of the year** | 21 | **47.2** | 77.4 |

# Notes to the consolidated financial statements

For the year ended 30 September 2018

## 1. General information

Countryside Properties PLC (the "Company") is a public limited company incorporated and domiciled in the United Kingdom whose shares are publicly traded on the London Stock Exchange. The Company's registered office is Countryside House, The Drive, Brentwood, Essex CM13 3AT.

The Group's principal activities are building new homes and regeneration of public sector land.

## 2. Critical accounting judgements and estimates

The preparation of the Group's financial statements under International Financial Reporting Standards ("IFRS") requires the Directors to make estimates and assumptions that affect the application of policies and the reported amounts of assets, liabilities, income, expenses and related disclosures.

### *Critical accounting judgements*

In the process of applying the Group's accounting policies, which are described in Note 3, the Directors have made no individual judgements that have a significant impact on the financial statements, apart from those involving estimates which are described below.

### *Key sources of estimation uncertainty*

Estimates and underlying assumptions affecting the financial statements are based on historical experience and other relevant factors and are reviewed on an ongoing basis. This approach forms the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based or as a result of new information. Such changes are recognised in the year in which the estimate is revised.

The key sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying value of assets and liabilities are described below.

*Estimation of site profitability and carrying value of inventory*

In order to determine the profit or loss that the Group recognises on its developments and construction contracts in a specific period, the Group allocates the total cost of each development or construction contract between the proportion completing in the period and the proportion to complete in a future period. The assessment of the total costs to be incurred requires a degree of estimation due to the long-term nature of the Group's activities and because actual costs are subject to market fluctuations. Group management has established internal controls to review and ensure the appropriateness of estimates made on an individual development or contract basis. No individual development or contract is sufficiently large that a plausible change in estimates would result in a material change to the Group's results. However, a change in estimated margins on several sites (due, for example, to changes in estimates of cost inflation or a material reduction in house prices in the private market) could materially alter future profitability. As an illustration, a change in margins of 5% across all sites in 2018 would have changed gross profits by an estimated £60m.

## 3. Accounting policies

### *Basis of preparation*

These financial statements for the year to 30 September 2018 are those of the Company and all of its subsidiaries. They have been prepared in accordance with IFRS as adopted by the European Union, IFRS Interpretations Committee ("IFRS IC") interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

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

These financial statements have been prepared on a going concern basis in Sterling and rounded to the nearest £0.1m under the historical cost convention, except for available-for-sale financial assets, share-based payments and for certain other assets and liabilities recognised at fair value in business combinations.

### *Prior year restatement*

Following the review of the 2017 Annual Report and Accounts by the Financial Reporting Council, the directors have concluded that, in applying IAS 39 'Financial Instruments; Recognition and Measurement', the discount rates applied to liabilities for deferred land and overage payments should not have been changed subsequent to their initial recognition. As a result, 2017 net finance costs were overstated by £6.0m and profit after tax and net assets, taking into account also tax and the impact on joint ventures, were understated by £5.3m.

The comparatives for 2017 have been restated accordingly and the impact on affected line items is set out in the below table

| | **2017 Restated £m** | 2017 Original £m |
|---|---|---|
| Finance costs | **12.3** | 18.3 |
| Share of post-tax profit from associates and joint ventures | **30.3** | 29.7 |
| Profit before income tax | **148.3** | 141.7 |
| Income tax expense | **25.4** | 24.1 |
| Profit for the year | **122.9** | 117.6 |
| Investment in joint ventures | **59.4** | 58.8 |
| Current income tax liabilities | **7.1** | 5.8 |
| Current trade and other payables | **250.5** | 251.9 |
| Non-current trade and other payables | **79.8** | 84.4 |
| Net assets | **690.5** | 685.2 |
| Earnings per share – basic | **27.2** | 26.0 |
| Earnings per share – adjusted | **27.0** | 25.8 |

In addition, in our interim results we updated our policy on non-underlying items to include the amortisation of acquisition related intangibles. This change was made as, in the opinion of the Directors, the new policy allows for a better reflection of the underlying results of the Group. As a result of this, the prior year results have been re-presented to show £1.2m of amortisation within non-underlying items.

***Going concern***

The Group's business activities, together with the factors likely to affect its future development, are set out above. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described above. Further disclosures regarding borrowings are provided in Note 24.

As described in the Viability Statement, the Directors have assessed the prospects and viability of the Company over a three-year period to September 2021. The Board has performed a robust assessment of the principal risks facing the Company, including those risks that would threaten Countryside's business model, future performance, solvency or liquidity.

Having considered the Group's cash flow forecasts, the Directors are satisfied the Group has sufficient liquidity and covenant headroom to enable the Group to conduct its business and meet its liabilities as they fall due for at least the next 12 months. Accordingly these financial statements are prepared on a going concern basis.

***New standards, amendments and interpretations***

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

The following amendments to standards and interpretations which will be relevant to the preparation of the Group's financial statements have been issued, but are not effective and have not been early adopted for the financial year ended 30 September 2018:

- **IFRS 9 'Financial Instruments', on 'Classification and Measurement'** (effective 1 October 2018) addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through Other Comprehensive Income and fair value through Profit and Loss ("P&L"). Given our historic experience of default rates and assessment of expected future losses and based on the profile of our receivables, it is not expected that this change will have a material impact on the reported results of the Group. Items currently classified as available-for-sale financial assets will be classified as held at fair value through profit and loss on transition to IFRS 9.
- **IFRS 15 'Revenue from Contracts with Customers'** (effective 1 October 2018) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Group currently recognises revenue either at legal completion or over time, depending on the nature of the activity and in line with IAS 18, IAS 11 and IFRIC 15 (which are replaced by IFRS 15), and has concluded that its approach will not be changed by the introduction of the new standard. It is not expected that this change will have a material impact on the reported results of the Group. The only impact of this standard is that the Group will recognise revenue on the sale of part exchanged properties which in 2018 would have resulted in c.£12m of additional revenue being recognised. Previously, such sales were recognised within cost of sales and there will be no change to reported profits.

- **IFRS 16 'Leases'** (effective 1 October 2019) addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from IFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces IAS 17 'Leases' and related interpretations. The Group is currently undertaking a detailed exercise to determine the impact of this standard on the Group's results. The principal impact on the Group is likely to be the recognition of additional leasing assets and liabilities, although the net impact on net assets and profit is not expected to be material.

There are no IFRSs or IFRS IC interpretations that are not yet effective that would be expected to have a material impact on the Group for the financial year beginning 1 October 2018.

***Basis of consolidation***

Subsidiaries are entities which the Group has the power to control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to govern the financial and operating policies so as to obtain economic benefits from its activities. The financial statements of subsidiaries are consolidated in the financial statements using the acquisition method of accounting from the date on which control is obtained up until the date that control ceases.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the income statement, the statement of changes in equity and the statement of financial position.

Where the accounting policies of a subsidiary or equity-accounted investee do not conform in all material respects to those of the Group, adjustments are made on consolidation to reflect the accounting policies of the Group.

Intragroup transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated in preparing the financial statements. Gains arising from transactions with joint arrangements and associate are eliminated as described below.

***Associate and joint ventures***

An associate is an entity over which the Group is in a position to exercise significant influence but does not exercise control or joint control. Investments in associates are accounted for using the equity method.

Where the Group collaborates with other entities on a development or contract, a judgement is made of the nature of the relationship and, where there is joint control (as described by IFRS 11), the arrangement is classified as a joint arrangement and accounted for using the equity method (for joint ventures) or on the basis of the Group's proportional share of the arrangement's assets, liabilities, revenues and costs (for joint operations). The Group's joint ventures are disclosed in Note 14.

Under the equity method of accounting, interests in the associate and joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in an associate or joint venture equals or exceeds its interests in the associate or joint venture, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised losses arising on transactions between the Group and its associate and joint ventures are eliminated unless the transaction provides evidence of an impairment of the asset transferred.

The Group funds its associate and joint ventures through a combination of equity investment and shareholder loans. The Directors review the recoverability of investments and shareholder loans for impairment annually. Where an investment is held in an associate or joint venture which has net liabilities, the investment is held at £nil and other long-term interests, such as shareholder loans, are reduced by the value equal to the net liabilities, unless it has incurred legal or constructive obligations or made payments on behalf of its associate or joint ventures.

***Purchase of shares by Employee Benefit Trust***

From time to time, the Employee Benefit Trust ("EBT") purchases shares of the Company in order to hold an appropriate level of shares towards the future settlement of outstanding share-related incentives on behalf of the Group. The EBT is funded directly by the Group and no cash is retained in the EBT. The EBT waives its dividend and voting rights in respect of the shares it holds. The purchase value of EBT shares is charged to retained earnings.

***Business combinations***

All acquisitions are accounted for using the acquisition method of accounting. The cost of an acquisition is the aggregate of the fair values of the assets transferred, liabilities incurred or assumed and equity instruments issued at the date of acquisition. The consideration transferred includes the fair value of the asset or liability resulting from a deferred or contingent consideration arrangement, unless that arrangement is dependent on continued employment of the beneficiaries.

Costs directly relating to an acquisition are expensed to the income statement. The identified assets and liabilities and contingent liabilities are measured at their fair value at the date of acquisition. The excess of cost of acquisition over the aggregate fair value of the Group's share of the net identified assets plus identified intangible assets is recorded as goodwill.

***Intangible assets***

*Goodwill*

Goodwill represents the excess of the consideration on acquisition of a subsidiary over the interest in net fair value of the identifiable net assets and contingent liabilities acquired. If the total consideration transferred is less than the fair value of the net assets acquired, the difference is recognised directly in the income statement.

An impairment review is carried out annually or when circumstances arise that may indicate an impairment is likely. The carrying value of goodwill is compared to its recoverable amount, being the higher of its value in use and its fair value less costs of disposal. Any impairment is charged immediately to the income statement and is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units ("CGUs"), or groups of CGUs, that are expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes.

*Brands*

The Group carries assets on the balance sheet for brands that have been acquired. Internally generated brands are not recognised. Cost is determined at acquisition as being directly attributable cost or, where relevant, by using an appropriate valuation method. Acquired brands are tested for impairment when a triggering event is identified. Acquired brands are amortised over a period of between five and 20 years.

*Customer-related assets*

The Group carries customer-related intangible assets on the balance sheet resulting from acquisitions. Internally generated relationships are not recognised. These assets are recognised at fair value. The assets are tested for impairment when a triggering event is identified and amortised over a period of between two and a half and 10 years.

*Software*

Computer software that generates an economic benefit of greater than one year is recognised as an intangible asset and carried at cost less accumulated amortisation. Computer software costs that are recognised as assets are amortised on a straight line basis over their economic useful life of four or five years. These are reviewed for impairment at such time as there is a change in circumstances due to which the carrying value may no longer be recoverable.

***Property, plant and equipment***

Property, plant and equipment is stated at cost less accumulated depreciation and any applicable impairment losses.

Depreciation is charged at rates to write off the cost of the asset (to its residual value) on a straight line basis over the estimated useful life of the asset. The applicable annual rates are:

- Plant and machinery 20 per cent to 25 per cent
- Fixtures and fittings 10 per cent

The Group does not own any land or buildings considered to be non-trade related.

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

***Financial assets***

The Group classifies its financial assets in the following categories:

- loans and receivables; and
- available for sale.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Financial assets are derecognised only when the contractual rights to the cash flows from the financial asset expire or the Group transfers substantially all risks and rewards of ownership.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "trade and other receivables" and "cash and cash equivalents" in the consolidated statement of financial position.

*Available-for-sale financial assets*

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

Prior to sale in 2018, equity share scheme loans were classified as available-for-sale financial assets and were initially recorded at fair value net of transaction costs. Fair value was assessed annually with gains and losses being recognised directly in the consolidated statement of other comprehensive income until the loan was repaid. The loans were discounted at an interest rate equivalent to market rate. On repayment the accumulated fair value, which had been recognised in the consolidated statement of changes in equity, was recognised in the income statement. If a loan was determined to be impaired, any impairment loss was recognised immediately in the income statement.

Increases in the fair value of available-for-sale assets are initially deferred and recorded within reserves. Reductions in the fair value of available-for-sale assets are recorded as a reduction in reserves, to the extent available, with any additional reduction recorded in the income statement. The net deferral of increases in fair value are disclosed in the available-for-sale reserve.

***Inventories***

Inventories are normally stated at cost (or fair value if acquired as part of a business combination) and held at the lower of cost and net realisable value. Costs comprise direct materials, applicable direct labour and those overheads incurred to bring the inventories to their present location and condition. Net realisable value represents estimated selling price less all estimated costs to sell, including sales and marketing costs.

Land options purchased are initially stated at cost. Option costs are written off on a straight-line basis over the remaining life of the option and are also subject to impairment review. Impairment reviews are performed when circumstances arise which indicate an impairment is likely, such as a refusal of planning permission. Any impairments are recognised immediately in the income statement. Upon exercise, the unamortised balance of options is included within the value of inventory.

Land inventory is recognised when the substantial risks and rewards of ownership transfer to the Group after unconditional exchange of contracts. Where land is purchased with deferred payment terms, a corresponding liability is recognised within trade and other payables.

Pre-contract expenditure is capitalised where it is probable that a contract will be signed or otherwise is recognised as an expense within costs of sales in the income statement.

Provisions for inventories are made, where appropriate, to reduce the value of inventories and work in progress to their net realisable value.

***Trade receivables***

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less any provision for impairment. A provision for impairment is established when the carrying value of the receivable exceeds the present value of the future cash flows discounted using the original effective interest rate. The carrying value of the receivable is reduced and any impairment loss is recognised in the income statement. If collection is expected in one year or less, receivables are classified as current assets. If not, they are classified as non-current assets.

***Cash and cash equivalents***

Cash and cash equivalents comprise cash at bank and in hand and other short-term deposits held by the Group with maturities of three months or less. Bank overdrafts are classified within current liabilities.

***Trade payables***

Trade payables on normal terms are not interest bearing and are stated initially at their fair value and subsequently amortised cost.

Where land is purchased on deferred settlement terms the land and associated liability are discounted to their fair value. The discount to fair value is amortised over the period of the credit term and charged to finance costs using the effective interest rate method. Changes in estimates of the final payment due are capitalised into inventory and, in due course, to cost of sales in the income statement.

Trade payables also include liabilities in respect of land overage where the Group is committed to make contractual payments to land vendors related to the performance of the development in the future. Land overage is estimated based on expected future cash flows in relation to relevant developments and, where payment will take place in more than one year, is discounted.

Deposits received from customers relating to sales of new properties are classified within current trade payables.

Trade payables are classified as current liabilities if payment is due within one year or less. If not, they are classified as non-current liabilities.

***Borrowings***

Interest-bearing bank loans and overdrafts are recorded initially at their fair value and bank loans are reported net of direct transaction costs to the extent that borrowings are available for offset. Such instruments are subsequently carried at their amortised cost and finance charges, including premiums payable on settlement or redemption, are amortised over the term of the instrument using the effective interest rate method. The excess of unamortised borrowing costs is disclosed within prepayments.

Bank loans are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the date of the statement of financial position. Overdrafts are classified as current liabilities.

***Provisions***

Provisions are recognised when the Group has a present legal obligation as a result of a past event which it is probable will result in an outflow of economic benefits that can be reliably estimated. Where the effect of the time value of money is material, the provision is discounted at the pre-tax discount rate that reflects the risks specific to the liability. Provisions for onerous leases are recognised when the foreseeable net cash outflows on a lease exceed the benefits derived from the lease which has more than one year before expiring or option to exercise a break.

***Share capital***

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

Where any Group company holds shares in the Company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity until the shares are cancelled or reissued.

***Offsetting financial instruments***

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

***Revenue***

Revenue comprises the fair value of the consideration received or receivable, net of applicable value-added tax, Stamp Duty Land Tax, rebates and discounts and after eliminating sales within the Group.

The Group's two divisions - Partnerships and Housebuilding - operate a range of legal and contractual structures which are tailored to the land structure and parties to the contract. Our recognition of revenue reflects the underlying nature of these contracts, as described below in more detail by category. We generically refer to our arrangements with housing associations and local authorities as 'partnerships', but this should not be taken to mean that all of these arrangements are accounted for as joint arrangements or take the legal form of partnerships (see policy on joint ventures separately below).

*Private housing*

Revenue is recognised in the income statement on legal completion at the fair value of the consideration received.

*Part exchange*

In certain instances, property may be accepted in part consideration for a sale of a residential property. The fair value is established by independent surveyors, reduced for cost to sell. Differences between net proceeds received and fair value are recorded as a reduction/increase in cost of sales. The original sale is recorded in the normal way, with the fair value of the exchanged property replacing cash receipts.

*Cash incentives*

Cash incentives are considered to be a discount from the purchase price offered to the acquirer and are therefore accounted for as a reduction to revenue.

*Land and commercial sales*

The Group assesses the terms of sale arrangements and, based on this assessment, applies either IAS 18 or IAS 11 as appropriate. Typically, revenue is recognised when substantially all of the risks and rewards of ownership of the land or commercial property transfer to the buyer, generally when there is an unconditional exchange of contracts. In some cases, however, revenue is recognised on a stage of completion basis in accordance with the principles of IAS 11 as noted below.

Revenue is measured as the fair value of consideration received or receivable.

*Affordable housing and private rental sector contracts*

Contract revenue and costs are recognised in accordance with IAS 11 'Construction Contracts'.

Where the outcome of a long-term contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by surveys of work performed to date. Variations in contract work, claims and incentive payments are included to the extent that it is probable that they will result in revenue and they are capable of being reliably measured.

Where the outcome of a long-term contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised immediately in the income statement within cost of sales.

*Project management services*

Revenue earned for the provision of project management services, typically to the Group's joint ventures and associate, are recognised on an accruals basis in line with the underlying contract.

***Cost of sales***

For sales of private housing, the Group determines the value of inventory charged to cost of sales based on the total forecast cost of developing a site. Once the total expected costs of development are established they are allocated to individual plots to achieve a build cost per plot. These costs are recognised within cost of sales when the related revenue is recognised in accordance with the Group's revenue recognition policy.

To the extent that additional costs or savings are identified as the site progresses, these are recognised over the remaining plots unless they are specific to a particular plot, in which case they are recognised in the income statement at the point of sale.

For land and commercial property sales, cost of sales represents the carrying value of the related inventory on the Group's statement of financial position and this is recognised within cost of sales when revenue is recognised in accordance with the Group's revenue recognition policy.

As outlined above, costs in relation to the sale of affordable housing and private rental sector contracts are recognised in accordance with IAS 11.

***Leases***

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Rentals payable and incentives receivable under operating leases are recognised on a straight line basis over the term of the relevant lease.

***Finance costs and finance income***

*Borrowing costs*

Borrowing costs in relation to the Group's debt facility are recognised on an accruals basis. Also included in borrowing costs is the amortisation of fees associated with the arrangement of the financing. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The Group does not capitalise borrowing costs into developments.

*Unwind of discounting*

The finance cost associated with the time value of money on discounted receivables and payables is recognised within finance income and costs as the discount unwinds over the life of the relevant item.

***Current and deferred income taxation***

Income tax comprises current and deferred tax.

*Current taxation*

The current taxation payable is based on taxable profit for the period which differs from accounting profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and those items never taxable or deductible. The Group's liability for current tax is measured using tax rates that have been enacted or substantively enacted by the reporting date.

*Deferred taxation*

Deferred taxation is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and their corresponding tax values used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that future taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction which affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the substantively enacted tax rates that are expected to apply to the period when the asset is realised or the liability is settled based upon tax rates that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited in comprehensive income, except when it relates to items credited or charged directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the Group intends to settle the balances on a net basis.

***Segment reporting***

Segment reporting is presented in the consolidated financial statements in respect of the Group's business segments. Segmental reporting reflects the Group's management structure and primary basis of internal reporting.

Segmental results include items directly attributable to the segment, as well as those that can be allocated on a reasonable basis.

The chief operating decision-maker ("CODM") has been identified as the Group's Executive Committee. The CODM reviews the Group's internal reporting in order to assess performance and allocate resources. The CODM assesses the performance of the operating segments based on adjusted operating profit and tangible net operating asset values ("TNOAV").

***Pension plans***

The Group operates a defined contribution pension plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions to a separate entity.

The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they fall due.

***Share-based payments***

The Group provides benefits to employees (including Directors) of the Group in the form of equity-settled share-based awards, whereby employees render services in exchange for rights over shares. For equity-settled share-based payments,

the fair value of the employee services rendered is determined by reference to the fair value of the shares awarded or options granted, excluding the impact of any non-market vesting conditions. All share options are valued using an option-pricing model (Black Scholes or Monte Carlo). This fair value is charged to the income statement over the vesting period of the share-based awards.

Countryside Properties PLC invoices its subsidiary undertakings an amount equivalent to the fair value of the grant by the Company of options over its equity instruments to the employees of subsidiaries. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

The Group does not operate any cash-settled share-based payment plans.

***Non-underlying items***

Certain items which do not relate to the Group's underlying performance are presented separately in the consolidated statement of comprehensive income as non-underlying items where, in the judgement of the Directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. As these non-underlying items can vary significantly from year to year they create volatility in reported earnings. In addition, the Directors believe that in discussing the performance of the Group, the results of joint ventures and associate should be proportionally consolidated, including the Group's share of revenue, operating profit and TNOAV given their importance to the Group's operations.

As such, the Directors believe that the "adjusted revenue", "adjusted Group operating profit" and "adjusted basic and diluted earnings per share" measures presented provide a clear and consistent presentation of the underlying performance of the Group's ongoing business for shareholders. Adjusted Group operating profit is not defined by IFRS and therefore may not be directly comparable with the "adjusted" or "underlying" profit measures of other companies.

Examples of material and non-recurring items which may give rise to disclosure as non-underlying items are:

- costs incurred directly in relation to business combinations or capital market transactions including advisory costs, one-off integration costs and employment-related deferred consideration costs;
- adjustments to the statement of financial position that do not relate to trading activity such as the recognition and reversal of non-trade impairments;
- accelerated write off of unamortised issue costs on the re-financing of borrowings; and
- the costs of Group restructuring exercises.

In addition, the amortisation of acquisition-related intangible assets is treated as a non-underlying item. Adjusted Group operating profit is one of the key measures used by the Board to monitor Group's performance.

***Dividends***

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Dividends payable are recorded in the period in which they are approved or paid, whichever is earliest.

**4. Segmental reporting**

Segmental reporting is presented in respect of the Group's business segments reflecting the Group's management and internal reporting structure and is the basis on which strategic operating decisions are made by the Group's Chief Operating Decision-Maker ("CODM"). The Group's two business segments are Partnerships and Housebuilding; these are described in this note and also elsewhere in this document.

The Partnerships division specialises in medium to large-scale housing regeneration schemes delivering private and affordable homes in partnership with public sector land owners and operates primarily in and around London, the West Midlands and the North West of England.

The Housebuilding division develops large-scale sites, providing private and affordable housing on land owned or controlled by the Group, primarily around London and in the South-East of England, operating under both the Countryside and Millgate brands.

Segmental adjusted operating profit and segmental operating profit include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Central head office costs have been allocated between the segments using a percentage of units sold basis. Items below Group operating profit have not been allocated. This methodology differs from that applied in previous years, where central head office costs were allocated using a percentage of revenue basis. The change, which was made from 1 April 2018, was made on the basis that the units sold basis is judged by the Directors to be a better reflection of the degree of support provided from head office to the segments. The results of prior years have not been re-presented. Had the 2018 results been presented on the same basis as 2017, the segment result for Housebuilding would have been £1.6m lower, with a corresponding increase in the segment result of Partnerships. The measurement of Group operating profit is unaffected.

Segmental net assets and tangible net operating asset value includes items directly attributable to the segment as well as those that can be allocated on a reasonable basis with the exception of intangibles, and net cash or bank debt (excluding unamortised bank loan and arrangement fees).

Countryside operates entirely within the United Kingdom.

**COUNTRYSIDE PROPERTIES PLC**
**Audited results for the full year ended 30 September 2018**

***(a) Segmental income statement***

| | Partnerships £m | Housebuilding £m | Group items £m | Total £m |
|---|---|---|---|---|
| **Year ended 30 September 2018** | | | | |
| Adjusted revenue including share of associate and joint ventures' revenue | **634.8** | **594.7** | **—** | **1,229.5** |
| Share of associate and joint ventures' revenue | **(44.5)** | **(166.4)** | **—** | **(210.9)** |
| **Revenue** | **590.3** | **428.3** | **—** | **1,018.6** |
| Segment result: | | | | |
| Adjusted operating profit including share of operating profit from associate and joint ventures | **110.6** | **109.6** | **(8.8)** | **211.4** |
| Less: share of operating profit from associate and joint ventures | **(9.5)** | **(36.9)** | **—** | **(46.4)** |
| Less: non-underlying items | **—** | **—** | **(15.7)** | **(15.7)** |
| **Operating profit/(loss)** | **101.1** | **72.7** | **(24.5)** | **149.3** |

| | Partnerships £m | Housebuilding *restated* £m | Group items *restated* £m | Total *restated* £m |
|---|---|---|---|---|
| **Year ended 30 September 2017** | | | | |
| Adjusted revenue including share of associate and joint ventures' revenue | 476.7 | 552.1 | — | 1,028.8 |
| Share of associate and joint ventures' revenue | (57.9) | (125.1) | — | (183.0) |
| **Revenue** | 418.8 | 427.0 | — | 845.8 |
| Segment result: | | | | |
| Adjusted operating profit including share of operating profit from associate and joint ventures | 79.4 | 91.5 | (5.6) | 165.3 |
| Less: share of operating profit from associate and joint ventures | (10.7) | (22.9) | — | (33.6) |
| Less: non-underlying items | — | — | (2.8) | (2.8) |
| **Operating profit/(loss)** | 68.7 | 68.6 | (8.4) | 128.9 |

***(b) Segmental other items***

| | Partnerships £m | Housebuilding £m | Group items £m | Total £m |
|---|---|---|---|---|
| **Year ended 30 September 2018** | | | | |
| Investment in associate | **—** | **5.4** | **—** | **5.4** |
| Investment in joint ventures | **13.6** | **48.9** | **—** | **62.5** |
| Share of post-tax profit from associate and joint ventures | **9.6** | **32.4** | **—** | **42.0** |
| Capital expenditure – property, plant and equipment | **4.5** | **0.8** | **—** | **5.3** |
| Capital expenditure – software | **—** | **—** | **1.4** | **1.4** |
| Depreciation and amortisation | **0.7** | **0.4** | **6.6** | **7.7** |
| Share-based payments | **—** | **—** | **6.8** | **6.8** |

| | Partnerships £m | Housebuilding *restated* £m | Group items £m | Total *restated* £m |
|---|---|---|---|---|
| **Year ended 30 September 2017** | | | | |
| Investment in associate | — | 2.6 | — | 2.6 |
| Investment in joint ventures | 3.9 | 55.5 | — | 59.4 |
| Share of post-tax profit from associate and joint ventures | 10.7 | 19.6 | — | 30.3 |
| Capital expenditure – property, plant and equipment | 0.4 | 0.4 | — | 0.8 |
| Capital expenditure – software | — | — | 2.3 | 2.3 |
| Depreciation and amortisation | 0.4 | 0.5 | 1.7 | 2.6 |
| Share-based payments | — | — | 5.1 | 5.1 |

***(c) Alternative Performance Measure – segmental TNAV***

Segmental TNAV represents the net assets of the Group's two operating divisions. During the year, following the acquisition of Westleigh, segmental TNAV was defined to include divisional net assets less intangible assets (net of deferred tax) and to exclude inter-segment cash funding. TNOAV is defined as net assets less intangible assets (net of deferred tax), excluding net cash or debt.

| | Partnerships £m | Housebuilding £m | Group items £m | Total £m |
|---|---|---|---|---|
| **TNAV at 30 September 2017** | 118.2 | 514.1 | - | 632.3 |
| Operating profit/(loss) | 101.1 | 72.7 | (24.5) | 149.3 |
| Add back items with no impact on TNAV: | | | | |
| Share-based payments, net of deferred tax | - | - | 7.4 | 7.4 |
| Amortisation of intangible assets | - | - | 6.6 | 6.6 |
| Other items affecting TNAV: | | | | |
| Intangibles and related deferred tax from acquisitions | (110.6) | - | - | (110.6) |
| Results of joint ventures and associates | 9.6 | 32.4 | - | 42.0 |
| Dividends paid | (20.6) | (20.5) | - | (41.1) |
| Taxation | (16.1) | (16.0) | - | (32.1) |
| Purchase of shares by EBT | (5.7) | (5.7) | - | (11.4) |
| Other | (11.7) | (11.1) | 10.5 | (12.3) |
| **TNAV at 30 September 2018** | **64.2** | **565.9** | **-** | **630.1** |
| Inter-segment cash funding / net cash | 95.3 | (140.3) | - | (45.0) |
| **Segmental capital employed (TNOAV)** | **159.5** | **425.6** | **-** | **585.1** |

## 5. Employees and Directors

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

| | 2018 £m | 2017 £m |
|---|---|---|
| The aggregate remuneration for the employees and Directors of the Group comprised: | | |
| Wages and salaries | **100.0** | 72.9 |
| Social security costs | **11.3** | 8.4 |
| Other pension costs (Note 5b) | **6.8** | 5.6 |
| Share-based payments (Note 31) | **6.8** | 5.1 |
| | **124.9** | 92.0 |

The average monthly number of employees (including Directors) for the period for each of the Group's principal activities was as follows:

| | 2018 Number | 2017 Number |
|---|---|---|
| Development | **1,388** | 1,036 |
| Head office | **169** | 128 |
| | **1,557** | 1,164 |

***(b) Retirement benefits***

All the Group's employees are entitled to join the Group's defined contribution schemes, which are invested with Aegon. Annual contributions to these plans charged against income amounted to £4.6m (2017: £3.6m), of which £0.5m (2017: £0.4m) was outstanding at 30 September 2018. The Group does not operate any defined benefit pension schemes.

***(c) Directors' emoluments***

| | 2018 £m | 2017 £m |
|---|---|---|
| Aggregate emoluments | **3.7** | 2.6 |

***(d) Emoluments of the highest paid Director***

| | 2018 £m | 2017 £m |
|---|---|---|
| Aggregate emoluments | **2.3** | 1.4 |

***(e) Key management compensation***

The following table details the aggregate compensation expensed in respect of the members of the Executive Committee of the Board of Directors, including the Executive Directors and Non-Executive Directors.

| | 2018 £m | 2017 £m |
|---|---|---|
| Salaries and bonus | **6.7** | 7.0 |
| Retirement benefits | **0.5** | 0.6 |
| Share-based payments | **1.6** | 1.9 |
| | **8.8** | 9.5 |

The disclosures of shares granted under the long-term incentive schemes are included in Note 31.

## 6. Group operating profit

***(a) Group operating profit is stated after charging***

| | Note | 2018 £m | 2017 £m |
|---|---|---|---|
| Staff costs | 5a | **124.9** | 92.0 |
| Depreciation of property, plant and equipment | 12 | **1.1** | 0.9 |
| Amortisation of intangible assets | 11 | **6.6** | 1.7 |
| Net provisions against inventories | 18 | **2.1** | 0.5 |
| Inventories expensed to cost of sales | 18 | **780.6** | 662.0 |
| Operating leases | | **6.3** | 4.2 |
| Auditor's remuneration | 6a | **0.5** | 0.4 |

During the year the Group obtained the following services from the Group's auditor as detailed below:

| | 2018 £m | 2017 £m |
|---|---|---|
| Fees payable to Group's auditor and its associates for the audit of parent and consolidated financial statements | **0.1** | 0.1 |
| Fees payable to Group's auditor and its associates for other services: | | |
| – Audit of subsidiary companies | **0.2** | 0.1 |
| – Audit of joint ventures (group share) | **0.1** | 0.1 |
| – Audit-related services | **0.1** | 0.1 |
| | **0.5** | 0.4 |

***(b) Non-underlying items***

| | 2018 £m | 2017 restated £m |
|---|---|---|
| Non-underlying items were charged as follows: | | |
| Acquisition and integration costs relating to Westleigh | **10.1** | — |
| Amortisation of intangible assets recognised in acquisitions | **5.6** | 1.2 |
| Restructuring expense | **—** | 1.6 |
| **Total non-underlying items** | **15.7** | 2.8 |

*Acquisition and integration costs relating to Westleigh*

During the year, the Group has incurred costs relating to the acquisition of Westleigh (as described in Note 13) and subsequent integration costs. These costs included £7.4m of deferred consideration being paid to management who remained with the Group post-acquisition, along with certain post-acquisition restructuring costs and advisory costs relating to the purchase itself.

*Restructuring expense*

During the prior year, certain Group operations were restructured, principally the outsourcing of architecture and design services. As a result of this, a number of people left the Group at a cost of £1.6m.

*Taxation*

A total tax credit of £2.4m (2017: £0.5m) in relation to all of the above non-underlying items was included within taxation in the income statement.

***(c) Non-GAAP performance measures***

The Directors believe that adjusted revenue (including share of revenue from associate and joint ventures), adjusted operating profit (including share of operating profit from associates and joint ventures) and underlying diluted and basic earnings per share measures presented provide a clear and consistent presentation of the underlying performance of the Group's ongoing business for shareholders. These are not measures that are defined by IFRS and therefore may not be directly comparable with the adjusted or underlying profit measures of other companies.

The following table reconciles revenue to adjusted revenue:

| | 2018 £m | 2017 £m |
|---|---|---|
| Revenue | **1,018.6** | 845.8 |
| Add: share of revenue from associate and joint ventures | **210.9** | 183.0 |
| **Adjusted revenue** | **1,229.5** | 1,028.8 |

The following table reconciles gross profit to adjusted gross profit:

| | 2018 £m | 2017 £m |
|---|---|---|
| Gross profit | **229.7** | 183.3 |
| Add: share of gross profit from associate and joint ventures | **47.2** | 34.5 |
| **Adjusted gross profit** | **276.9** | 217.8 |
| **Adjusted gross profit margin** | **22.5%** | 21.2% |

The following table reconciles operating profit to adjusted operating profit:

| | 2018 £m | 2017 £m |
|---|---|---|
| Operating profit | **149.3** | 128.9 |
| Add: non-underlying items | **15.7** | 2.8 |
| Add: share of operating profit from associate and joint ventures | **46.4** | 33.6 |
| **Adjusted operating profit** | **211.4** | 165.3 |
| **Adjusted operating profit margin** | **17.2%** | 16.1% |

The following table reconciles net debt / (cash) to adjusted gearing:

| | 2018 £m | 2017 *restated* £m |
|---|---|---|
| Net Debt / (Cash) | (45.0) | (77.4) |
| Add: Land creditors (exc. Overage) | 127.6 | 124.7 |
| **Adjusted Net Debt / (Cash)** | **82.6** | **47.3** |
| **Equity** | 793.7 | 690.5 |
| **Adjusted gearing** | **10.4%** | 6.9% |

## 7. Finance costs

| | Note | 2018 £m | 2017 *restated* £m |
|---|---|---|---|
| Bank loans and overdrafts | | **3.3** | 3.0 |
| Unwind of discount | | **8.1** | 6.7 |
| Amortisation of debt finance costs | 24 | **0.6** | 0.6 |
| Impairment of interest receivable from joint venture | | — | 2.0 |
| | | **12.0** | 12.3 |

As described in Note 3 above, we have restated our 2017 net finance cost adjustment in respect of deferred land and overage payments. As a result, 2017 finance costs have been decreased by £6.0m.

## 8. Finance income

| | 2018 £m | 2017 £m |
|---|---|---|
| Interest receivable | **0.1** | — |
| Unwind of discount | **1.3** | 1.4 |
| | **1.4** | 1.4 |

## 9. Income tax expense

| Analysis of charge for the year | **2018 £m** | 2017 *restated* £m |
|---|---|---|
| **UK corporation tax** | | |
| Current year | **33.7** | 25.1 |
| Adjustments in respect of prior periods | **(0.1)** | (0.9) |
| **Total current tax** | **33.6** | 24.2 |
| **Deferred tax** (Note 17) | | |
| Origination and reversal of temporary differences | **(1.6)** | 2.1 |
| Adjustments in respect of prior periods | **0.1** | — |
| Other differences | — | (0.9) |
| **Total deferred tax** | **(1.5)** | 1.2 |
| **Income tax expense** | **32.1** | 25.4 |

Changes to the UK corporation tax rates were substantively enacted as part of the Finance Bill 2016 on 15 September 2016. These include reductions to the main rate to 19.0 per cent from 1 April 2017 and to 17.0 per cent from 1 April 2020. This will reduce the Group's future tax charge accordingly. Deferred taxes at the balance sheet date have been measured using the enacted rates that are expected to apply to the unwind of each asset or liability.

The Group effective tax rate for the year of 17.8% (2017: 17.1%) is lower (2017: lower) than the standard rate of corporation tax in the United Kingdom, which is 19.0 per cent (2017: 19.5 per cent).

The table below shows the reconciliation of profit before tax to the income tax expense.

| | **2018 £m** | 2017 *restated* £m |
|---|---|---|
| Profit before income tax | **180.7** | 148.3 |
| Tax calculated at the parent entity rate of tax: 19.0 per cent (2017: 19.5 per cent) | **34.3** | 28.9 |
| Adjustments to deferred tax due to reduction in UK tax rates | **0.8** | (0.3) |
| Expenses not deductible for tax | **0.4** | 0.5 |
| Adjustments in respect of prior periods | — | (1.8) |
| Enhanced deductions for land remediation | **(0.5)** | — |
| Associate and joint venture tax | **(2.9)** | (1.9) |
| Income tax expense | **32.1** | 25.4 |

***Expenses not deductible for tax***

This includes disallowable expenses incurred in respect of the acquisition of Westleigh.

***Deferred tax recorded directly to equity***

Tax of £0.6m (2017: £0.7m) was credited directly to equity in relation to share-based payments.

## 10. Earnings per share

Basic and diluted earnings per share are calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue.

The earnings per share value for 2017 has been restated to reflect a change to net finance costs in that year, as described in Note 3.

***(a) Basic and diluted earnings per share***

| | **2018** | 2017 *restated* |
|---|---|---|
| Profit from continuing operations attributable to equity holders of the parent (£m) | **147.9** | 122.5 |
| Basic weighted average number of shares (millions) | **447.5** | 450.0 |
| Basic earnings per share (pence per share) | **33.1** | 27.2 |
| Diluted weighted average number of shares (millions) | **453.6** | 453.2 |
| Diluted earnings per share (pence per share) | **32.6** | 27.0 |

***(b) Adjusted basic and diluted earnings per share***

Adjusted Group operating profit represents a key measure for the Group. Adjusted earnings per share excludes non-underlying items from Group profit as follows:

| | **2018** | 2017 *restated* |
|---|---|---|
| Profit from continuing operations attributable to equity holders of the parent (£m) | **147.9** | 122.5 |
| Add: non-underlying items net of tax (£m) | **13.3** | 2.3 |
| Adjusted profit from continuing operations attributable to equity holders of the parent (£m) | **161.2** | 124.8 |
| Basic weighted average number of shares (millions) | **447.5** | 450.0 |
| Basic adjusted earnings per share (pence per share) | **36.0** | 27.7 |
| Diluted weighted average number of shares (millions) | **453.6** | 453.2 |
| Diluted adjusted earnings per share (pence per share) | **35.5** | 27.5 |

Non-underlying items net of tax include costs of £15.7m, net of tax of £2.4m (2017: costs of £2.8m, net of tax of £0.5m).

The above analysis represents a non-GAAP measure which has been included to assist understanding of the Group's business.

**11. Intangible assets**

| | Software £m | Customer-related £m | Brand £m | Goodwill £m | Total £m |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| At 1 October 2016 | 0.7 | — | 24.2 | 37.8 | 62.7 |
| Additions | 2.3 | — | — | — | 2.3 |
| At 30 September 2017 | **3.0** | — | **24.2** | **37.8** | **65.0** |
| Acquired in business combinations | **0.7** | **42.1** | **10.4** | **62.0** | **115.2** |
| Additions | **1.4** | — | — | — | **1.4** |
| **At 30 September 2018** | **5.1** | **42.1** | **34.6** | **99.8** | **181.6** |
| **Accumulated amortisation** | | | | | |
| At 1 October 2016 | 0.1 | — | 3.7 | — | 3.8 |
| Amortisation | 0.5 | — | 1.2 | — | 1.7 |
| At 30 September 2017 | **0.6** | — | **4.9** | **—** | **5.5** |
| Amortisation | **1.0** | **3.4** | **2.2** | — | **6.6** |
| **At 30 September 2018** | **1.6** | **3.4** | **7.1** | **—** | **12.1** |
| **Net book value** | | | | | |
| **At 30 September 2018** | **3.5** | **38.7** | **27.5** | **99.8** | **169.5** |
| At 30 September 2017 | **2.4** | **—** | **19.3** | **37.8** | **59.5** |

***Goodwill***

Goodwill held by the Group comprises that resulting from the following acquisitions:

| | **2018 £m** | 2017 £m |
|---|---|---|
| Copthorn Holdings Limited (April 2013) | **19.3** | 19.3 |
| Millgate Developments Limited (February 2014) | **18.5** | 18.5 |
| Westleigh Group Limited (April 2018) | **62.0** | - |
| | **99.8** | 37.8 |

In all three cases, the acquired entities represent CGUs or groups of CGUs for the purpose of impairment testing.

*Impairment testing*

Goodwill is tested annually for impairment. The recoverable amount has been determined as the value in use of the applicable CGU or group of CGUs, assessed on the basis of current five-year cash flow forecasts. Forecast cash flows are derived from the most recent Board-approved five-year plan which takes into account current market trends and the Group's growth plans. Cash flows beyond the five-year period are extrapolated using a growth rate of 1 per cent per annum. Cash flows generated by the CGUs are discounted using a pre-tax discount rate as described below. None of the goodwill assets considered at 30 September 2018 was deemed to be impaired.

The key assumptions incorporated into each asset's impairment review include the below:

1. those underlying our cash flow forecasts, relating to our expectations surrounding economic activity, planned changes to our business model and expected regulatory and tax changes
2. the most appropriate discount rate for each CGU or group of CGUs, reflecting the estimated risk profile of the CGU or group of CGUs

The discount rate applied to the Copthorn Holdings and Millgate CGUs was 10.1%. The discount rate applied to the Westleigh CGU was 16.6%.

Sensitivity analysis has been undertaken on each goodwill impairment review, by changing the discount rates, profit margins, growth rates and other variables applicable to each CGU.

For CGUs reviewed at 30 September 2018, no impairment would occur under any reasonably possible changes in assumptions upon which the recoverable amount was estimated.

*Brands*

Brands reflect those acquired in business combinations and are not internally generated:

| | Acquired (year) | Life (years) | **2018 £m** | 2017 £m |
|---|---|---|---|---|
| Countryside | 2013 | 20 | **9.8** | 10.5 |
| Millgate | 2014 | 20 | **8.3** | 8.8 |
| Westleigh | 2018 | 5 | **9.4** | - |
| | | | **27.5** | 19.3 |

*Customer-related intangible assets*

Intangible assets of £42.1m (on initial recognition) were recognised on the acquisition of Westleigh during the year (see Note 13). We have chosen to present the combined value of customer relationships and customer contracts in the table above, given the similar nature of these assets. Useful economic lives of these assets range between 2.5 and 10 years, reflecting the range of expected timeframes over which the Group will derive value from these assets.

Amortisation charges on intangibles are recorded within administrative expenses.

### 12. Property, plant and equipment

| | Plant and machinery £m | Fixtures and fittings £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| At 1 October 2016 | 5.4 | 3.7 | 9.1 |
| Additions | 0.4 | 0.4 | 0.8 |
| At 30 September 2017 | 5.8 | 4.1 | 9.9 |
| Acquired in business combinations | 0.6 | 0.5 | 1.1 |
| Additions | 2.4 | 2.9 | 5.3 |
| Disposals | (0.2) | — | (0.2) |
| **At 30 September 2018** | **8.6** | **7.5** | **16.1** |
| **Accumulated depreciation** | | | |
| At 1 October 2016 | 4.0 | 2.4 | 6.4 |
| Depreciation charge for the year | 0.6 | 0.3 | 0.9 |
| At 30 September 2017 | 4.6 | 2.7 | 7.3 |
| Depreciation charge for the year | 0.8 | 0.3 | 1.1 |
| Disposals | (0.2) | — | (0.2) |
| **At 30 September 2018** | **5.2** | **3.0** | **8.2** |
| **Net book value** | | | |
| **At 30 September 2018** | **3.4** | **4.5** | **7.9** |
| At 30 September 2017 | 1.2 | 1.4 | 2.6 |

Depreciation is charged to administrative expenses.

**13. Business combination**

On 12 April 2018, the Group acquired 100% of Westleigh Group Limited ('Westleigh'), a well-established partnerships home builder based in Leicester, as part of our strategy to expand our Partnerships business. Consideration comprised £76.6m in cash, including £12.8m of deferred consideration that will be settled in March 2020. In addition to this consideration, the Group provided £71.2m of cash to Westleigh, which was used along with Westleigh's cash balances to settle its external debts.

The net assets of the acquired business were as below:

| | £m |
|---|---|
| Property, Plant and Equipment | 1.1 |
| Intangible non-current assets | 53.2 |
| Inventory | 24.9 |
| Cash | 23.9 |
| Other current assets | **23.9** |
| Payables | **(31.0)** |
| Deferred tax liabilities | **(8.5)** |
| Borrowings | **(72.9)** |
| **Total identifiable net assets** | **14.6** |
| Provisional goodwill | **62.0** |
| **Total** | **76.6** |

Total consideration is reconciled to the disclosed net cash flow on acquisition below:

| | £m |
|---|---|
| Total consideration | 76.6 |
| Less: cash element deferred until 2020 | (12.8) |
| Less: cash in Westleigh following settlement of debt and costs | (23.9) |
| **Net cash flow on acquisition** | **39.9** |

Goodwill of £62.0m has been recognised in this acquisition, representing opportunities for further growth leveraging Westleigh's expertise and business model and the workforce in place. None of this goodwill is expected to be deductible for tax purposes.

Within "other current assets" are £10.2m of receivables stated at fair value and whose contractually receivable cash flows do not materially differ.

Since acquisition, Westleigh has contributed £63.5m to revenue and generated a £0.5m loss after tax. Had the acquisition occurred on 1 October 2017, the effects upon Group revenue and profit after tax would have been increases of £133.4m and £1.2m respectively.

All fair values are provisional until 31 March 2019.

**14. Investment in joint ventures**

The Directors have aggregated disclosure of joint ventures' statements of financial position and income statements and separately disclosed material joint ventures below. The Group's aggregate investment in its joint ventures is represented by:

| | **Partnerships** | **Housebuilding** | **Group 2018** | Partnerships | Housebuilding *restated* | Group 2017 *restated* |
|---|---|---|---|---|---|---|
| | **£m** | **£m** | **£m** | £m | £m | £m |
| Summarised statement of financial position: | | | | | | |
| Non-current assets | **0.5** | **0.8** | **1.3** | — | 0.8 | 0.8 |
| Current assets excluding cash | **69.1** | **257.6** | **326.7** | 45.8 | 321.5 | 367.3 |
| Cash | **10.8** | **11.6** | **22.4** | 1.3 | 16.1 | 17.4 |
| Current liabilities | **(51.4)** | **(45.0)** | **(96.4)** | (37.1) | (64.7) | (101.8) |
| Non-current liabilities | **(1.7)** | **(127.2)** | **(128.9)** | (2.2) | (162.8) | (165.0) |
| | **27.3** | **97.8** | **125.1** | 7.8 | 110.9 | 118.7 |
| Movements in net assets: | | | | | | |
| At 1 October | **7.8** | **110.9** | **118.7** | 12.9 | 94.9 | 107.8 |
| Profit for the year | **19.2** | **56.9** | **76.1** | 21.3 | 36.0 | 57.3 |
| Dividends paid | **(6.1)** | **(45.3)** | **(51.4)** | (27.5) | (21.7) | (49.2) |
| Repayment of members' interest | **—** | **(24.2)** | **(24.2)** | — | — | — |
| Other movements | **—** | **(0.5)** | **(0.5)** | 1.1 | 1.7 | 2.8 |
| Investment in new joint ventures | **6.4** | **—** | **6.4** | — | — | — |
| At 30 September | **27.3** | **97.8** | **125.1** | 7.8 | 110.9 | 118.7 |
| Summarised statement of comprehensive income: | | | | | | |
| Revenue | **89.0** | **307.2** | **396.2** | 115.7 | 240.3 | 356.0 |
| Expenses | **(69.9)** | **(243.3)** | **(313.2)** | (94.4) | (198.2) | (292.6) |
| Operating profit | **19.1** | **63.9** | **83.0** | 21.3 | 42.1 | 63.4 |
| Finance cost | **—** | **(1.6)** | **(1.6)** | — | (1.9) | (1.9) |
| Income tax | **0.1** | **(5.4)** | **(5.3)** | — | (4.2) | (4.2) |
| Profit for the year ended 30 September 2018 | **19.2** | **56.9** | **76.1** | 21.3 | 36.0 | 57.3 |
| Group's share in per cent | | | **50.0%** | | | 50.0% |
| Share of revenue | | | **198.1** | | | 178.0 |
| Share of operating profit | | | **41.5** | | | 31.7 |
| Dividends received by the Group | | | **25.8** | | | 24.6 |
| Investment in joint ventures | | | **62.5** | | | 59.4 |

The aggregate amount due from joint ventures is £56.5m (2017: £67.9m). The amount due to joint ventures is £0.4m (2017: £0.3m). Transactions between the Group and its joint ventures are disclosed in Note 28.

The table below reconciles the movement in the Group's net investment in joint ventures:

| | **2018** | 2017 *restated* |
|---|---|---|
| | **£m** | £m |
| At 1 October 2017 | **59.4** | 53.9 |
| Share of post-tax profit | **38.0** | 28.7 |
| Dividends paid | **(25.8)** | (24.6) |
| Investment in new joint ventures | **3.2** | — |
| Repayment of members' interest | **(12.1)** | — |
| Other movements | **(0.2)** | 1.4 |
| At 30 September 2018 | **62.5** | 59.4 |

***Individually material joint ventures***

The Directors consider that joint ventures are material where they contribute to 5% or more of either Group profit after tax or Group net assets. The summarised results and position of individually material joint ventures and joint operations are highlighted below:

| | Acton Gardens LLP £m | Cambridge Medipark Ltd £m | Greenwich Millennium Village Ltd £m | Countryside Zest (Beaulieu Park) LLP £m | Countryside L&Q (Oaks Village) LLP £m |
|---|---|---|---|---|---|
| | Partnerships | Housebuilding | Housebuilding | Housebuilding | Housebuilding |
| Summarised statement of financial position: | | | | | |
| Non-current assets | **0.4** | **—** | **0.8** | **—** | **—** |
| Current assets excluding cash | **57.6** | **5.3** | **46.1** | **171.7** | **34.5** |
| Cash | **8.8** | **5.1** | **3.4** | **1.6** | **0.6** |
| Current liabilities | **(47.3)** | **(5.6)** | **(8.1)** | **(28.3)** | **(2.8)** |
| Non-current liabilities | **—** | **—** | **(4.3)** | **(122.9)** | **—** |
| | **19.5** | **4.8** | **37.9** | **22.1** | **32.3** |
| Movements in net assets: | | | | | |
| At 1 October 2017 | **6.5** | **4.8** | **42.9** | **9.7** | **52.1** |
| Profit for the year | **19.1** | **8.7** | **15.1** | **21.4** | **12.2** |
| Dividends paid | **(6.1)** | **(8.5)** | **(20.1)** | **(9.0)** | **(7.7)** |
| Repayment of members' interest | **—** | **—** | **—** | **—** | **(24.2)** |
| Other movements | **—** | **(0.2)** | **—** | **—** | **(0.1)** |
| At 30 September 2018 | **19.5** | **4.8** | **37.9** | **22.1** | **32.3** |
| Summarised statement of comprehensive income: | | | | | |
| Revenue | **89.0** | **34.7** | **80.7** | **117.3** | **43.2** |
| Expenses | **(69.9)** | **(24.0)** | **(62.1)** | **(94.7)** | **(31.0)** |
| Operating profit | **19.1** | **10.7** | **18.6** | **22.6** | **12.2** |
| Finance cost | **—** | **—** | **(0.2)** | **(1.2)** | **—** |
| Income tax | **—** | **(2.0)** | **(3.3)** | **—** | **—** |
| Profit for the year ended 30 September 2018 | **19.1** | **8.7** | **15.1** | **21.4** | **12.2** |

| | Acton Gardens LLP £m | Cambridge Medipark Ltd £m | Greenwich Millennium Village Ltd *restated* £m | Countryside Zest (Beaulieu Park) LLP *restated* £m | Countryside L&Q (Oaks Village) LLP £m |
|---|---|---|---|---|---|
| | **Partnerships** | **Housebuilding** | **Housebuilding** | **Housebuilding** | **Housebuilding** |
| Summarised statement of financial position: | | | | | |
| Non-current assets | — | — | 0.8 | — | — |
| Current assets excluding cash | **35.3** | **7.4** | **71.5** | **194.8** | 50.9 |
| Cash | **8.7** | **6.8** | **2.2** | **2.6** | **3.6** |
| Current liabilities | **(37.5)** | **(9.7)** | **(25.8)** | **(29.7)** | **(2.4)** |
| Non-current liabilities | — | — | **(4.6)** | **(158.0)** | — |
| | **6.5** | **4.5** | **44.1** | **9.7** | **52.1** |
| Movements in net assets: | | | | | |
| At 1 October 2016 | **12.9** | **7.4** | **33.7** | **4.8** | **49.7** |
| Profit for the year | 21.1 | 8.6 | 10.4 | 9.7 | 7.7 |
| Dividends paid | **(27.5)** | **(11.5)** | — | **(4.8)** | **(2.6)** |
| Repayment of members' interest | — | — | — | — | **(2.8)** |
| Other movements | — | — | — | — | 0.1 |
| At 30 September 2017 | 6.5 | 4.5 | 44.1 | 9.7 | 52.1 |
| Summarised statement of comprehensive income: | | | | | |
| Revenue | **111.0** | **34.5** | **57.6** | **60.1** | **29.4** |
| Expenses | **(89.9)** | **(24.3)** | **(45.7)** | **(48.0)** | **(21.7)** |
| Operating profit | **21.1** | **10.2** | **11.9** | **12.1** | **7.7** |
| Finance cost | — | 0.1 | **(0.3)** | **(2.4)** | — |
| Income tax | — | **(1.7)** | **(1.2)** | — | — |
| Profit for the year ended 30 September 2017 | **21.1** | **8.6** | **10.4** | **9.7** | **7.7** |

The Group's investments in joint ventures, all of which are incorporated in the United Kingdom and are accounted for using the equity method, comprise:

| | Country of incorporation | Ownership interest % | Principal activity |
|---|---|---|---|
| Acton Gardens LLP | UK | 50.0 | Development |
| Brenthall Park (Commercial) Limited | UK | 50.0 | Non-trading |
| Brenthall Park (Infrastructure) Limited | UK | 50.0 | Dormant |
| Brenthall Park (Three) Limited | UK | 50.0 | Dormant |
| Brenthall Park Limited | UK | 50.0 | Non-trading |
| Cambridge Medipark Limited | UK | 50.0 | Commercial |
| CBC Estate Management Limited[1] | UK | 50.0 | Estate management |
| C.C.B. (Stevenage) Limited[2] | UK | 33.3 | Non-trading |
| Countryside 27 Limited | UK | 50.0 | Commercial |
| Countryside L&Q (Oaks Village) LLP | UK | 50.0 | Development |
| Countryside Annington (Colchester) Limited (in liquidation)[3] | UK | 50.0 | Development |
| Countryside Annington (Mill Hill) Limited | UK | 50.0 | Development |
| Countryside Clarion (Eastern Quarry) LLP | UK | 50.0 | Development |
| Countryside Clarion (North Leigh) LLP | UK | 50.0 | Dormant |
| Countryside Properties (Accordia) Limited | UK | 50.0 | Non-trading |
| Countryside Properties (Booth Street 2) Limited | UK | 39.0 | Non-trading |
| Countryside Properties (Merton Abbey Mills) Limited | UK | 50.0 | Non-trading |
| Countryside Properties (Salford Quays) Limited | UK | 50.0 | Non-trading |
| Countryside Maritime Limited | UK | 50.0 | Development |
| Countryside Neptune LLP | UK | 50.0 | Development |
| Countryside Zest (Beaulieu Park) LLP | UK | 50.0 | Development |
| Greenwich Millennium Village Limited | UK | 50.0 | Development |
| iCO Didsbury Limited | UK | 50.0 | Commercial |
| Mann Island Estate Limited | UK | 50.0 | Estate management |
| Marrco 25 Limited | UK | 50.0 | Non-trading |
| Oaklands Hamlet Resident Management Limited | UK | 50.0 | Estate Management |
| Peartree Village Management Limited | UK | 50.0 | Dormant |
| Silversword Properties Limited | UK | 50.0 | Commercial |
| Westleigh Cherry Bank LLP[4] | UK | 50.0 | Non-trading |
| Woolwich Countryside Limited (in liquidation)[5] | UK | 50.0 | Non-trading |

All joint ventures hold the registered address of Countryside House, The Drive, Great Warley, Brentwood, Essex, CM13 3AT, except where noted otherwise.

No joint venture was committed to the purchase of any property, plant and equipment or software intangible assets at 30 September 2018 (2017: £Nil).

[1] CBC Estate Management has the registered address of The Control Tower 29 Liberty Square, Kings Hill, West Malling, Kent, ME19 4RG

[2] C.C.B. Stevenage has the registered address of Croudace House, Tupwood Lane, Caterham, Surrey, CR3 6XQ

[3] Countryside Annington (Colchester) has the registered address of The Old Exchange, 234 Southchurch Road, Southend On Sea, Essex, SS1 2EG

[4] Westleigh Cherry Bank and Marrco 25 both have the registered address of Tudorgate Grange Business Park Enderby Road, Whetstone, Leicester, LE8 6EP

[5] Woolwich Countryside has the registered address of 15 Canada Square, London, E14 5GL

### 15. Investment in associate

The Group holds 28.5 per cent of the ordinary share capital with pro-rata voting rights in Countryside Properties (Bicester) Limited, a company incorporated in the United Kingdom, whose principal activity is the sale of serviced parcels of land, and for segmental purposes is disclosed within the Housebuilding division. It is accounted for using the equity method.

The Group's investment in its associate is represented by:

| | 2018 £m | 2017 £m |
|---|---|---|
| Summarised statement of financial position: | | |
| Non-current assets | — | — |
| Current assets excluding cash | **37.3** | 13.9 |
| Cash | **25.0** | 10.9 |
| Current liabilities | **(41.4)** | (15.4) |
| Non-current liabilities | **(1.7)** | (0.4) |
| | **19.2** | 9.0 |
| Movements in net assets: | | |
| At 1 October | **9.0** | 18.4 |
| Profit for the year | **14.2** | 5.4 |
| Dividends paid | **(4.0)** | (14.8) |
| At 30 September | **19.2** | 9.0 |
| Summarised statement of comprehensive income: | | |
| Revenue | **45.1** | 17.4 |
| Expenses | **(27.5)** | (10.7) |
| Operating profit | **17.6** | 6.7 |
| Finance income | **0.1** | — |
| Income tax | **(3.5)** | (1.3) |
| Profit for the year ended 30 September 2018 | **14.2** | 5.4 |
| Group's share in per cent | **28.5%** | 28.5% |
| Share of revenue | **12.8** | 5.0 |
| Share of operating profit | **4.9** | 1.9 |
| Dividends paid | **(1.1)** | (4.2) |
| Investment in associate | **5.4** | 2.6 |

The amount due from the associate is £Nil (2017: £Nil).

Transactions between the Group and its associate are disclosed in Note 28.

The below table reconciles the movement in the Group's net investment in associate:

| | 2018 £m | 2017 £m |
|---|---|---|
| Reconciliation to carrying amount: | | |
| At 1 October | **2.6** | 5.2 |
| Share of post-tax profit | **4.0** | 1.6 |
| Dividends paid | **(1.1)** | (4.2) |
| Other movements | **(0.1)** | — |
| At 30 September | **5.4** | 2.6 |

The address of the registered office of the associate is Countryside House, The Drive, Brentwood, Essex CM13 3AT.

### 16. Available-for-sale financial assets

| | 2018 Overage Receivable £m | 2018 Shared Equity Loans £m | 2017 Shared Equity Loans £m |
|---|---|---|---|
| At 1 October | — | **7.4** | 8.7 |
| Newly-recognised assets | **4.1** | — | — |
| Increase in fair value | — | **0.1** | 0.2 |
| Unwind of discount | — | **0.2** | 0.7 |
| Disposal | — | **(7.4)** | — |
| Redemptions | — | **(0.3)** | (2.2) |
| **At 30 September** | **4.1** | — | 7.4 |

*Shared equity loans*

During the year, the Group disposed of all of its shared equity loans to a third party, with the sale agreed based on the 31 December 2017 portfolio value, for consideration of £8.0m payable in cash, of which £3.2m was deferred until July 2020. A profit of £1.0m was recognised within cost of sales, including a reclassification from reserves as presented below:

| | **2018 Shared Equity Disposal £m** |
|---|---|
| Cash and deferred consideration | **8.0** |
| Less: carrying value of asset on disposal | **(7.4)** |
| Profit on disposal before reclassification of amounts held in reserves | **0.6** |
| Reclassification from reserve | **0.4** |
| **Profit on disposal recognised in income statement** | **1.0** |

In previous years and until their derecognition during the year, the available-for-sale financial assets comprised loans advanced to homebuyers to assist in the purchase of their property under shared equity schemes. The loans were secured by either a first or second legal charge over the property and were either interest free or had interest chargeable from the fifth or tenth year onwards, dependent upon the scheme under which the loans were issued.

The assets were held at fair value, representing the current market value of the properties held discounted to fair value, based on the redemption date of the loan. These loans were subject to credit risk, where loans might potentially not be repaid if the borrower defaulted on repayment. An adjustment for credit risk was built into the calculation by using a discount rate equivalent for home loans, which rank behind mortgages.

The estimated value took into consideration movements in house prices, the anticipated timing of the repayment of the asset and associated credit risk. As the precise valuation and timing of the redemption of these assets was uncertain, the Group applied assumptions based upon extant market conditions and the Group's experience of actual cash flows resulting from these transactions. These assumptions were reviewed at the end of each financial year as part of the impairment review conducted by the Directors. The difference between the estimated future value and the initial fair value was credited to finance income over the term of the loan. The inputs used were by nature estimated and the resultant fair value was classified as Level 3 under the fair value hierarchy.

*Overage receivable*

Available-for-sale financial assets at 30 September 2018 relate solely to a deferred land overage receivable. These reflect sums which the Group is virtually certain to receive, resulting from agreements where land has been sold to a third party and in which the Group is entitled to a share of surplus profits once development is completed on the land sold. The carrying value of the receivable will be adjusted to fair value at each reporting date and it is expected that this balance will be recovered in the year to 30 September 2020.

The overage receivable is held at fair value – that is, the Directors' best estimate of the value that could be achieved in a presumed sale of these assets to a third party, after taking into account judgements of the variability of the expected final cash value, the time value of money and the degree of completion of the developments. Given that the inputs are estimated and not observed in a market, the fair value is classified as Level 3 in the fair value hierarchy.

## 17. Deferred tax assets and liabilities

Deferred tax assets held on the balance sheet date have the following expected maturities:

| | **2018 £m** | 2017 £m |
|---|---|---|
| Amounts due to be recovered within one year | **2.2** | 2.8 |
| Amounts due to be recovered after more than one year | **7.1** | — |
| | **9.3** | 2.8 |

Deferred tax liabilities held on the balance sheet date have the following expected maturities:

| | **2018 £m** | 2017 £m |
|---|---|---|
| Amounts due to be settled within one year | **—** | — |
| Amounts due to be settled after more than one year | **12.9** | — |
| | **12.9** | — |

The movement in the year in the Group's net deferred tax position was as follows:

| | Losses £m | Share based payments £m | Other timing differences £m | Total £m |
|---|---|---|---|---|
| At 1 October 2016 | 2.4 | 0.4 | 0.5 | 3.3 |
| Charge to the income statement for the year | (1.5) | 0.8 | (0.5) | (1.2) |
| Amount transferred to the statement of changes in equity | — | 0.7 | — | 0.7 |
| At 30 September 2017 | 0.9 | 1.9 | — | 2.8 |
| Charge to the income statement for the year | (0.9) | 1.1 | 1.3 | 1.5 |
| Amount transferred to the statement of changes in equity | — | 0.6 | — | 0.6 |
| Deferred tax recorded on acquisition | — | — | (8.5) | (8.5) |
| **At 30 September 2018** | — | **3.6** | **(7.2)** | **(3.6)** |

Temporary differences arising in connection with interests in associate and joint ventures are not significant. Unrecognised tax assets on joint ventures and associates are £0.6m on historical losses of £3.5m (2017: £0.6m on historical losses of £3.5m). No deferred tax asset has been recognised in relation to losses where it is considered that they are not recoverable in the near future. The Group has unrecognised deferred tax assets of £1.2m on historical losses of £7.0m (2017: £1.2m on historical losses of £7.0m).

### 18. Inventories

| | **2018 £m** | 2017 £m |
|---|---|---|
| Development land and work in progress | **681.5** | 598.4 |
| Completed properties unsold or awaiting sale | **68.2** | 68.7 |
| | **749.7** | 667.1 |

The value of inventories expensed during the year and included in cost of sales was £780.6m (2017: £662.0m). During the year inventories were written down through cost of sales by £2.4m (2017: £1.0m). During the year, impairment of inventories in previous years amounting to £0.3m (2017: £0.5m), has been reversed due to improved market conditions. During the year provisions of £1.2m (2017: £1.7m) were utilised as inventory was consumed.

Development land and work in progress includes land options with a carrying value of £20.5m (2017: £14.7m).

Total provisions against inventory at 30 September 2018 were £5.7m (2017: £4.8m).

Interest incurred on deferred land purchases amounting to £Nil (2017: £Nil) was capitalised during the year to inventories.

### 19. Construction contracts

| | **2018 £m** | 2017 £m |
|---|---|---|
| Contracts in progress at the reporting date: | | |
| Amounts due from contract customers included in trade and other receivables | **37.0** | 21.6 |
| Retentions held by customers for contract work included in trade and other receivables | **17.2** | 10.3 |
| Revenue generated from contracting activities during the year | **210.6** | 150.9 |
| Advances received | **1.9** | 17.7 |
| Retentions payable to suppliers included in trade and other payables | **27.2** | 22.6 |

### 20. Trade and other receivables

| | **2018 £m** | 2017 £m |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade receivables | **45.1** | 21.5 |
| Amounts recoverable on construction contracts | **45.2** | 27.5 |
| Amounts owed by joint ventures | **56.5** | 67.9 |
| Other taxation and social security | **9.5** | 5.4 |
| Other receivables | **1.8** | 0.9 |
| Prepayments and accrued income | **8.6** | 15.6 |
| | **166.7** | 138.8 |
| Amounts falling due in more than one year: | | |
| Trade receivables | **12.8** | 8.5 |
| Amounts recoverable on construction contracts | **9.0** | 4.4 |
| | **21.8** | 12.9 |
| **Total trade and other receivables** | **188.5** | 151.7 |

The Directors are of the opinion that there are no significant concentrations of credit risk (Note 30). The fair value of the financial assets is not considered to be materially different from their carrying value. The fair values are based on discounted cash flows and are within Level 3 of the fair value hierarchy.

Trade receivables at year end have been assessed for recoverability. A provision for impairment is made when there is objective evidence of impairment, which is usually indicated by a delay in the expected cash flows or non-payment from customers. Trade receivables remaining outstanding past their due date are £0.8m (2017: £1.3m); however, none was impaired.

A provision of £8.0m (2017: £8.0m) has been made against amounts due from Countryside Neptune LLP, a joint venture, to reflect the Directors' view of the recoverability of this advance.

The other classes within trade and other receivables do not contain impaired assets.

### 21. Cash and cash equivalents

| | **2018 £m** | 2017 £m |
|---|---|---|
| Cash and cash equivalents | **47.2** | 77.4 |
| Overdrafts | **—** | — |
| Net cash and cash equivalents | **47.2** | 77.4 |

Cash and cash equivalents of £47.2m (2017: £77.4m) comprise cash and short-term deposits held, of which £34.5m (2017: £74.5m) is available to offset against loans drawn under the Group's revolving credit facility and overdrafts and £Nil (2017: £0.9m) is ring-fenced for specific developments. At the year end, all financial assets held were in Sterling.

***Cash and cash equivalents available for offset***

Within the revolving credit facility the Group has a £30m overdraft facility which can be drawn by any Group company which is in the pooling arrangement. Cash and overdrafts are presented on a gross basis in the statement of financial position.

### 22. Trade and other payables

| | **2018 £m** | 2017 *restated* £m |
|---|---|---|
| Amounts falling due within one year: | | |
| Trade payables | **179.1** | 136.4 |
| Accruals and deferred income | **131.5** | 107.0 |
| Other taxation and social security | **3.0** | 2.7 |
| Other payables | **3.5** | 4.1 |
| Advances due to joint ventures | **0.4** | 0.3 |
| | **317.5** | 250.5 |
| Amounts falling due in more than one year: | | |
| Trade payables | **72.1** | 79.8 |
| Accruals and deferred income | **1.4** | — |
| Other payables | **20.3** | — |
| | **93.8** | 79.8 |
| **Total trade and other payables** | **411.3** | 330.3 |

Trade and other payables principally comprise amounts outstanding for trade purchases and land acquired on deferred terms. As at 30 September 2018, deferred land payments totalled £180.5m, including £52.9m of overage payable (2017: £166.0m, of which £41.3m overage). The Directors consider that the carrying amount of trade payables approximates to their fair value, as the impact of discounting is not significant. Land acquired on deferred payment terms is discounted using an interest rate of 3.4 per cent for transactions entered into from 1 April 2017 and 6 per cent for transactions prior to this date.

Other payables include acquisition related deferred consideration along with acquisition-related deferred remuneration.

As described in Note 3 above, we have restated our 2017 land creditor adjustment in respect of deferred land and overage payments. As a result, 2017 trade payables have increased by £6.0m.

### 23. Provisions

| | **2018 £m** | 2017 £m |
|---|---|---|
| At 1 October | **2.6** | 1.5 |
| Provisions charged in the year | **1.2** | 0.2 |
| Provisions utilised during the year | **(0.3)** | (0.5) |
| Reclassification | **1.8** | 1.4 |
| At 30 September | **5.3** | 2.6 |
| Disclosed as current liabilities | **4.2** | 0.6 |
| Disclosed as non-current liabilities | **1.1** | 2.0 |
| | **5.3** | 2.6 |

Provisions held relate mostly to dilapidation and onerous lease costs. Provisions are discounted, where appropriate.

### 24. Borrowings

| | 2018 £m | 2017 £m |
|---|---|---|
| Bank loans | — | — |
| Other loans | **2.2** | — |
| Bank loan and arrangement fees | — | — |
| | **2.2** | — |

***Bank loans***

In May 2016, the Group signed a £300m revolving credit facility with Lloyds Bank plc, Barclays Bank PLC, HSBC Bank plc and Santander UK plc. The agreement has a variable interest rate based on LIBOR and had an initial expiry of May 2021 with options to extend the term of the facility by a further two years. Subject to obtaining credit approval from the syndicate banks, the Group also has the option to extend the facility by a further £100m. This facility is subject to both financial and non-financial covenants and is secured by floating charges over all the Group's assets. In June 2018, the Group exercised its option to extend the facility by an additional year to May 2023.

Bank loan arrangement fees are amortised over the term of the facility. At 30 September 2018, unamortised loan arrangement fees were £2.6m (2017: £2.6m) and £0.6m (2017: £0.6m) of debt fee amortisation finance costs are included in finance costs (Note 7). As the Group did not have any debt under this facility at 30 September 2018 or 30 September 2017, the unamortised loan arrangement fees are included within prepayments.

*Other Loans*

During the year, the Group received an interest free loan of £2.5m for the purpose of remediation works in relation to one of its joint arrangements. The loan is repayable on the 22 November 2022. The carrying value of the loan is equal to the fair value, and was recognised initially at fair value and subsequently carried at amortised cost.

The Group has the following undrawn facilities:

| | 2018 £m | 2017 £m |
|---|---|---|
| Floating rate: | | |
| Expiring after more than one year | **300** | 300 |

### 25. Share capital

| | Number of shares | | | |
|---|---|---|---|---|
| | 2018 m | 2017 m | 2018 £m | 2017 £m |
| **Allotted, issued and fully paid** | | | | |
| Ordinary shares of £0.01 each | **450** | 450 | **4.5** | 4.5 |

*Purchase of shares by Employee Benefit Trust*

The EBT acquired 3,219,634 shares in the Group through purchases on the London Stock Exchange in December 2017 to meet the Group's expected obligations under share-based incentive arrangements. The Employee Benefit Trust ("EBT") was established by the Company to acquire shares on its behalf. The EBT has waived its right to vote and to dividends on the shares it holds which are unallocated. The total amount paid to acquire the shares was £11.4m.

The number of shares held in the EBT at 30 September 2018 was 3,164,054 (30 September 2017: 9,997).

### 26. Notes to the cash flow statement

***Reconciliation of operating profit to cash generated from operations***

| | Note | **2018** £m | 2017 *restated* £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before taxation | | **180.7** | 148.3 |
| **Adjustments for:** | | | |
| – Depreciation charge | 12 | **1.1** | 0.9 |
| – Amortisation charge | 11 | **6.6** | 1.7 |
| – Non-cash items | | **0.3** | (1.2) |
| – Share of post-tax profit from joint ventures and associate | 14, 15 | **(42.0)** | (30.3) |
| – Share-based payment pre-tax | 31 | **6.8** | 4.2 |
| – Finance costs | 7 | **12.0** | 12.3 |
| – Finance income | 8 | **(1.4)** | (1.4) |
| – Profit on disposal of available-for-sale financial assets | 16 | **(1.0)** | (0.3) |
| Changes in working capital: | | | |
| – Increase in inventories | | **(59.3)** | (83.0) |
| – Increase in trade and other receivables | | **(26.8)** | (8.2) |
| – Increase in trade and other payables | | **31.7** | 34.1 |
| – Increase in provisions for liabilities and charges | 23 | **2.7** | 1.1 |
| **Cash generated from operations** | | **111.4** | 78.2 |

The presentation of movements in inventories and in trade and other payables has been updated this year to better reflect the non-cash movements relating to deferred land payments, the impact of which is £92.3m (2017: £79.1m). The impact of this change is to gross up the movements in working capital for deferred land payments reflected in trade and other payables and for movement in the corresponding land values within inventory. The change, which has been reflected in the comparatives above, has no impact on the net changes in working capital or on the cash generated from operations in either period presented.

### 27. Investments

The Company substantially owns directly or indirectly the whole of the issued and fully paid ordinary share capital of its subsidiary undertakings. Subsidiary undertakings of the Group at 30 September 2018 are presented below:

| | Country of incorporation | Voting rights % | Principal activity |
|---|---|---|---|
| **Direct investment** | | | |
| Copthorn Holdings Limited | UK | 100 | Holding company |
| **Indirect investment** | | | |
| Alma Estate (Enfield) Management Company Limited | UK | 100 | Estate Management |
| Beaulieu Park Limited | UK | 100 | Dormant |
| Brenthall Park (One) Limited | UK | 100 | Dormant |
| Breedon Place Management Company Limited | UK | 100 | Estate Management |
| Cliveden Village Management Company Limited | UK | 100 | Estate Management |
| Countryside 26 Limited | UK | 100 | Development |
| Countryside 28 Limited | UK | 100 | Development |
| Countryside Build Limited | UK | 100 | Dormant |
| Countryside Cambridge One Limited | UK | 100 | Holding Land |
| Countryside Cambridge Two Limited | UK | 100 | Holding Land |
| Countryside Commercial & Industrial Properties Limited | UK | 100 | Dormant |
| Countryside Developments Limited | UK | 100 | Dormant |
| Countryside Eight Limited | UK | 100 | Dormant |
| Countryside Four Limited | UK | 100 | Holding Company |
| Countryside Investments Limited | UK | 100 | Dormant |
| Countryside Properties (Commercial) Limited | UK | 100 | Dormant |
| Countryside Properties (Holdings) Limited | UK | 100 | Holding Company |
| Countryside Properties (In Partnership) Limited | UK | 100 | Dormant |
| Countryside Properties (Joint Ventures) Limited | UK | 100 | Holding Company |
| Countryside Properties Land (One) Limited | UK | 100 | Holding Land |
| Countryside Properties Land (Two) Limited | UK | 100 | Holding Land |
| Countryside Properties (London & Thames Gateway) Limited | UK | 100 | Dormant |
| Countryside Properties (Northern) Limited | UK | 100 | Dormant |
| Countryside Properties (Southern) Limited | UK | 100 | Dormant |
| Countryside Residential (South Thames) Limited | UK | 100 | Dormant |
| Countryside Properties (Special Projects) Limited | UK | 100 | Dormant |
| Countryside Properties (Springhead) Limited | UK | 100 | Development |
| Countryside Properties (Uberior) Limited | UK | 100 | Development |
| Countryside Properties (UK) Limited | UK | 100 | Development |
| Countryside Residential Limited | UK | 100 | Dormant |
| Countryside Residential (South West) Limited | UK | 100 | Dormant |
| Countryside Seven Limited | UK | 100 | Dormant |
| Countryside Sigma Limited | UK | 74.9 | Development |
| Countryside Thirteen Limited | UK | 100 | Development |
| Countryside Timber Frame Limited | UK | 100 | Manufacturing |
| Countryside (UK) Limited | UK | 100 | Dormant |
| Dunton Garden Suburb Limited | UK | 100 | Land Promotion |
| Knight Strategic Land Limited | UK | 100 | Land Promotion |
| Harold Wood Management Limited | UK | 100 | Estate Management |
| Lakenmoor Ltd | UK | 100 | Dormant |
| Mandeville Place (Radwinter) Management Limited | UK | 100 | Estate Management |
| Millgate Developments Limited | UK | 100 | Development |
| Millgate Homes Limited | UK | 100 | Dormant |
| Millgate Homes UK Limited | UK | 100 | Dormant |
| Millgate (UK) Holdings Limited | UK | 100 | Holding Company |
| Newhall Land Limited | UK | 100 | Development |
| Skyline 120 Management Limited | UK | 100 | Estate Management |
| Skyline 120 Nexus Management Limited | UK | 100 | Estate Management |
| Springhead Resident Management Company Limited | UK | 100 | Estate Management |
| South at Didsbury Point Two Management Limited | UK | 100 | Estate Management |
| Trinity Place Residential Management Company Limited | UK | 100 | Estate Management |
| Urban Hive Hackney Management Limited | UK | 100 | Estate Management |
| Westframe Limited | UK | 100 | Dormant |
| Westleigh Construction Limited | UK | 100 | Dormant |
| Westleigh LNT Limited | UK | 100 | Dormant |
| Westleigh Group Limited | UK | 100 | Holding Company |
| Westleigh Holdings Limited | UK | 100 | Holding Company |
| Westleigh Homes Limited | UK | 100 | Dormant |
| Westleigh Partnerships Limited | UK | 100 | Development |
| Wychwood Park Golf Club Limited | UK | 100 | Dormant |

All subsidiaries are fully consolidated, after eliminating intergroup transactions. The address of the registered office of all the subsidiaries is Countryside House, The Drive, Brentwood, Essex CM13 3AT, except for Millgate Developments Limited and Breedon Place Management Company Limited, whose registered office address is Millgate House, Ruscombe Lane, Twyford, Berkshire RG10 9JT.

### 28. Related party transactions

***Transactions with Group joint ventures and associate***

| | Joint ventures | | Associate | |
|---|---|---|---|---|
| | **2018 £m** | 2017 £m | **2018 £m** | 2017 £m |
| Sales during the year | **20.2** | 24.0 | **1.7** | 1.1 |
| Net advances to joint ventures and associate at 1 October | **67.6** | 84.2 | **—** | — |
| Net repayments during the year | **(11.5)** | (16.6) | **—** | — |
| Net advances to joint ventures and associate at 30 September | **56.1** | 67.6 | **—** | — |

Included within the advances movement are non-cash items of £(2.3)m (2017: £(0.7)m) relating to deferred revenue and £1.4m (2017: £1.1m) relating to joint ventures reporting net liabilities.

The transactions noted above are between the Group and its joint ventures and associate, the details of which are described in Note 14 and Note 15 respectively.

Sales of goods and services to related parties were made at the Group's usual list prices. No purchases were made by the Group from its joint ventures or associate. The amounts outstanding ordinarily bear no interest and will be settled in cash.

***Remuneration of key management personnel***

Key management personnel are deemed to be the Executive Committee, along with other Directors of the company, including the Non-Executive Directors. The aggregate remuneration of these personnel was £8.8m (2017: £9.5m).

***Transactions with key management personnel***

In 2014, properties were sold at market value by the Group to parties related to key management personnel who continue to lease them back to the Group. Payments under those leases were made to the individuals as follows:

- Close family members of Ian Sutcliffe received £Nil (2017: £17,250).
- A company of which Graham Cherry, a member of the Group's Executive Committee, is a Director and shareholder received £21,000 (2017: £21,000).

From 2015, a close family member of Ian Sutcliffe and a close family member of Graham Cherry were employed by a subsidiary of the Group. Both individuals were recruited through the normal interview process and are employed at salaries commensurate with their experience and roles. The combined annual salary and benefits of these individuals is less than £110,000 (2017: less than £100,000).

**29. Financial instruments**

The following tables categorise the Group's financial assets and liabilities included in the consolidated statement of financial position:

| | Loans and receivables £m | Available for sale £m | Total £m |
|---|---|---|---|
| **2018** | | | |
| **Assets** | | | |
| Available-for-sale financial assets | — | **4.1** | **4.1** |
| Trade and other receivables | **112.1** | — | **112.1** |
| Amounts due from associate and joint ventures | **56.5** | — | **56.5** |
| Cash and cash equivalents | **47.2** | — | **47.2** |
| | **215.8** | **4.1** | **219.9** |
| **2017** | | | |
| **Assets** | | | |
| Available-for-sale financial assets | — | 7.4 | 7.4 |
| Trade and other receivables | 61.9 | — | 61.9 |
| Amounts due from associate and joint ventures | 67.9 | — | 67.9 |
| Cash and cash equivalents | 77.4 | — | 77.4 |
| | 207.2 | 7.4 | 214.6 |

| | Other financial liabilities at amortised cost £m |
|---|---|
| **2018** | |
| **Liabilities** | |
| Overdrafts | **—** |
| Other loans | **2.2** |
| Trade and other payables (excluding non-financial liabilities) | **278.0** |
| Amount due to joint ventures | **0.4** |
| | **280.6** |
| **2017** | |
| **Liabilities** | |
| Overdrafts | — |
| Trade and other payables (excluding non-financial liabilities) *(restated)* | 223.0 |
| Amount due to joint ventures | 0.3 |
| | 223.3 |

***Fair value estimation***

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The following table presents the Group's assets that are measured at fair value at 30 September:

| | Level 1 £m | Level 2 £m | Level 3 £m | Total £m |
|---|---|---|---|---|
| **2018** | | | | |
| **Assets** | | | | |
| Available-for-sale financial assets | **—** | **—** | **4.1** | **4.1** |
| **2017** | | | | |
| **Assets** | | | | |
| Available-for-sale financial assets | — | — | 7.4 | 7.4 |

There were no transfers between levels during the year.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

## 30. Financial risk management

The main financial risks associated with the Group have been identified as liquidity risk, interest rate risk, housing market risk and credit risk. The Directors are responsible for managing these risks and the policies adopted are set out below.

### *Liquidity risk*

The Group finances its operations through a mixture of equity (Company share capital, reserves and retained earnings) and debt (bank loan facilities). The Group manages its liquidity risk by monitoring its existing facilities for both financial covenant compliance and funding headroom against forecast requirements based on short-term and long-term cash flow forecasts.

### *Maturity analysis*

The following table sets out the contractual undiscounted maturities including estimated cash flows of the financial assets and liabilities (excluding financial derivatives) of the Group at 30 September:

| | Less than one year £m | One to two years £m | Two to five years £m | Over five years £m | Total £m |
|---|---|---|---|---|---|
| **2018** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | **47.2** | — | — | — | **47.2** |
| Available-for-sale financial assets | **4.1** | — | — | — | **4.1** |
| Trade and other receivables | **114.7** | **17.9** | — | — | **132.6** |
| Amounts due from joint ventures and associate | **56.5** | — | — | — | **56.5** |
| | **222.5** | **17.9** | — | — | **240.4** |
| **2018** | | | | | |
| **Liabilities** | | | | | |
| Overdrafts | — | — | — | — | — |
| Other loans | — | — | **2.5** | — | **2.5** |
| Trade and other payables | **320.4** | **54.6** | **33.1** | **15.1** | **423.2** |
| Amounts due to joint ventures | **0.4** | — | — | — | **0.4** |
| Provisions | **4.2** | **1.1** | — | — | **5.3** |
| | **325.0** | **55.7** | **35.6** | **15.1** | **431.4** |
| **2017** | | | | | |
| **Assets** | | | | | |
| Cash and cash equivalents | 77.4 | — | — | — | 77.4 |
| Available-for-sale financial assets | 0.9 | 2.3 | 4.9 | 5.8 | 13.9 |
| Trade and other receivables | 69.5 | 10.8 | 2.5 | — | 82.8 |
| Amounts due from joint ventures and associate | 67.9 | — | — | — | 67.9 |
| | 215.7 | 13.1 | 7.4 | 5.8 | 242.0 |
| **2017** | | | | | |
| **Liabilities** | | | | | |
| Overdrafts | — | — | — | — | — |
| Trade and other payables | 253.3 | 50.3 | 38.2 | 0.3 | 342.1 |
| Amounts due to joint ventures | 0.3 | — | — | — | 0.3 |
| Provisions | 0.6 | 1.4 | 0.6 | — | 2.6 |
| | 254.2 | 51.7 | 38.8 | 0.3 | 345.0 |

Cash and cash equivalents includes £34.5m (2017: £74.5m), which is available for offset against loans drawn under the Group's revolving credit facility and overdrafts.

### *Interest rate risk*

Interest rate risk reflects the Group's exposure to fluctuations in interest rates in the market. This risk arises from bank loans that are drawn under the Group's loan facilities with variable interest rates based upon UK LIBOR. For the year ended 30 September 2018 it is estimated that an increase by 0.5 per cent in interest rates would have decreased the Group's profit before tax by £0.3m (2017: £0.4m).

The following table sets out the interest rate risk associated with the Group's financial liabilities at 30 September 2018:

| | Fixed rate £m | Floating rate £m | Non-interest bearing £m | Total £m |
|---|---|---|---|---|
| **2018** | | | | |
| **Liabilities** | | | | |
| Bank loans, other loans and finance cost | **—** | **—** | **2.2** | **2.2** |
| Trade and other payables | **3.0** | **—** | **254.7** | **257.7** |
| Amounts due to joint ventures | **—** | **—** | **0.4** | **0.4** |
| | **3.0** | **—** | **257.3** | **260.3** |
| **2017** | | | | |
| **Liabilities** | | | | |
| Bank loans, other loans and finance cost | — | — | — | — |
| Trade and other payables (*restated)* | — | — | 223.0 | 223.0 |
| Amounts due to joint ventures | — | — | 0.3 | 0.3 |
| | — | — | 223.3 | 223.3 |

With the exception of cash and cash equivalents amounting to £47.2m (2017: £77.4m) and other taxation and social security £9.5m (2017: £5.4m), the financial assets of the Group amounting to £225.3m (2017: £215.7m) are all non-interest bearing.

The Group has no exposure to foreign currency risk.

***Housing market risk***

The Group is affected by price fluctuations in the UK housing market. These are in turn affected by the wider economic conditions such as mortgage availability and associated interest rates, employment and consumer confidence. Whilst these risks are beyond the Group's ultimate control, risk is spread across business activities undertaken by the Group and the geographic regions in which it operates.

***Credit risk***

The Group's exposure to credit risk is limited solely to the United Kingdom for housebuilding activities and by the fact that the Group receives cash at the point of legal completion of its sales.

The Group's remaining credit risk predominantly arises from trade receivables, amounts recoverable from construction contracts and cash and cash equivalents.

Trade receivables on deferred terms arise from land sales. The amount deferred is secured by a charge over the land until such time payment is received.

Trade and other receivables comprise mainly the amounts receivable from the Homes England in relation to the Help to Buy scheme, housing associations, joint ventures and the associate. The Directors consider the credit rating of the various debtors is good in respect of the amounts outstanding and therefore credit risk is considered to be low.

Cash and cash equivalents and derivative financial instruments are held with UK clearing banks which are either A or A-rated.

***Capital management***

The Group's policies seek to protect returns to shareholders by ensuring the Group will continue to trade profitably in the foreseeable future. The Group also aims to optimise its capital structure of debt and equity over the medium term so as to minimise its cost of capital, though for operational flexibility may choose to use varying levels of debt in the short term. The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its actual cash flows against bank loan facilities, financial covenants and the cash flow forecasts approved by the Directors.

| | **2018 £m** | 2017 £m |
|---|---|---|
| Total borrowings | **2.2** | — |
| Total equity | **793.7** | 690.5 |
| **Total capital** | **795.9** | 690.5 |

### 31. Share-based payments

The Group recognised £6.8m (2017: £5.1m) of employee costs related to share-based payment transactions during the financial year, excluding accrued national insurance contributions. A deferred tax asset of £3.6m (2017: £1.9m) is held in relation to these transactions, of which £1.1m (2017: £0.8m) was credited to the income statement and £0.6m (2017: £0.7m) was credited directly to equity.

National Insurance contributions are payable in respect of certain share-based payment transactions and are treated as cash-settled transactions. The cost of these contributions is included within the share-based payment expense. At 30 September 2018, the carrying amount of National Insurance contributions payable was £2.3m (2017: £1.2m), which was recognised in the consolidated statement of financial position within accruals.

The Group operated a number of share-based payment schemes during the financial year (all of which are equity-settled) as set out below:

#### *(a) Savings-Related Share Option Scheme ("SRSOS")*

The Group operates an SRSOS, which is open to all employees at the date of invitation. This is a UK tax-advantaged "SAYE" plan.

Under the SAYE, eligible participants are granted options over such number of shares as determined by reference to their monthly savings contract over three years. Participants remaining in the Group's employment at the end of the three-year savings period are entitled to use their savings to purchase shares in the Company at a stated exercise price (set at a discount of up to 20 per cent of the share price on the day preceding the date of grant). Employees leaving for certain reasons are able to use their savings to purchase shares within six months of their cessation of employment. A reconciliation of option movements is shown below.

Options granted during the year were valued using the Black Scholes option-pricing model. No performance conditions or assumptions regarding service were included in the fair value calculations. The fair value per option granted during the year and the assumptions used in the calculation are detailed in the table below.

| Date of grant | **19 December 2017** | 22 December 2016 | 16 March 2016 |
|---|---|---|---|
| Options granted (millions) | **0.6** | 0.8 | 3.0 |
| Share price at date of grant (pence) | **349** | 236 | 240 |
| Exercise price (pence) | **282** | 192 | 192 |
| Volatility (per cent) | **38** | 28 | 29 |
| Option life (years) | **3** | 3 | 3 |
| Expected dividend yield (per cent) | **3.6** | 3.0 | 3.0 |
| Risk-free rate (per cent) | **0.6** | 1.0 | 1.0 |
| Fair value per option – Black Scholes (pence) | **93** | 55 | 57 |

| Movements in the year | **Instruments m** | Instruments m | Instruments m |
|---|---|---|---|
| Options outstanding at 1 October 2016 | **—** | — | 2.8 |
| Granted | **—** | 0.8 | — |
| Lapsed | **—** | — | (0.1) |
| Forfeited | **—** | (0.1) | (0.4) |
| Options outstanding at 30 September 2017 | **—** | 0.7 | 2.3 |
| Granted | **0.6** | — | — |
| Lapsed | **—** | — | — |
| Forfeited | **(0.1)** | (0.1) | (0.2) |
| Outstanding at 30 September 2018 | **0.5** | 0.6 | 2.1 |

The resulting fair value is expensed over the service period of three years, on the assumption that 15 per cent p.a. of options will lapse over the service period as employees leave the Company based on the Group's experience of employee attrition rates.

None of the options are currently exercisable. The weighted average remaining contractual life of share options outstanding at 30 September 2018 was 0.9 years (2017: 1.6 years).

#### *(b) Long-Term Incentive Plan ("LTIP")*

Under the LTIP, shares are conditionally awarded to senior managers of the Group. The core awards are calculated as a percentage of the participants' salaries and scaled according to grade. The awards granted in 2017 and 2018 are assessed against ROCE, TNAV and relative TSR. Straight line vesting will apply if performance falls between two thresholds. Performance will be measured at the end of the three-year performance period. If the required level of performance has been reached, the awards vest and the shares under award will be released. Dividends do not accrue on the shares that vest.

The weighted average remaining contractual life of LTIP awards outstanding at 30 September 2018 was 1.3 years. Details of the shares conditionally allocated at 30 September 2018 are set out below.

The conditional shares were valued using the following methods:

- for the non-market-based elements of the award, a combination of a Black Scholes option-pricing model; and
- for the relative TSR elements of the award, a Monte Carlo simulation model.

The key assumptions underpinning the Black Scholes option-pricing model and Monte Carlo simulation model are set out in the table below.

| Date of grant | **19 December 2017** | **22 May 2017** | **15 December 2016** | 18 February 2016 |
|---|---|---|---|---|
| Awards granted (millions) | **2.7** | **0.2** | **3.7** | 3.8 |
| Share price at date of grant (pence) | **349** | **299** | **236** | 237 |
| Exercise price (pence) | **nil** | **nil** | **nil** | nil |
| Volatility (per cent) | **38** | **28** | **28** | 29 |
| Award life (years) | **3** | **3** | **3** | 3 |
| Expected dividend yield (per cent) | **3.5** | **3.0** | **3.0** | 3.0 |
| Risk-free rate (per cent) | **0.6** | **1.0** | **1.0** | 1.0 |
| Fair value per conditional share – Black Scholes (pence) | **220** | **179** | **151** | 153 |
| Fair value per conditional share – Monte Carlo (pence) | **54** | **46** | **40** | 42 |
| Fair value per conditional share – Total (pence) | **274** | **225** | **191** | 195 |
| Movements in the year | **Instruments m** | **Instruments m** | **Instruments m** | Instruments m |
| Awards outstanding at 1 October 2016 | **—** | **—** | **—** | 3.6 |
| Granted | **—** | **0.2** | **3.7** | — |
| Lapsed | **—** | **—** | **(0.3)** | (0.2) |
| Awards outstanding at 30 September 2017 | **—** | **0.2** | **3.4** | 3.4 |
| Granted | **2.7** | **—** | **—** | **—** |
| Lapsed | **—** | **—** | **(0.2)** | **(0.2)** |
| Awards outstanding at 30 September 2018 | **2.7** | **0.2** | **3.2** | **3.2** |

The first awards under the Plan will vest on 18 February 2019. This vesting includes two performance conditions determined with reference to the Group's results as at 30 September 2018, being ROCE and TNAV, which each comprise 35 per cent of the total vesting. It was determined that ROCE of 37.1 per cent resulted in 35 per cent vesting and TNAV of 641.5 (as adjusted for EBT share purchases) resulted in 19.4 per cent vesting. The final performance condition, being Relative TSR, is measured in February 2019.

***(c) Deferred Bonus Plan ("DBP")***

Under the DBP, certain senior managers and Directors of the Group receive one-third of their annual bonus entitlement as a conditional share award. The number of shares awarded is calculated by dividing the value of the deferred bonus by the average mid-market share price on the three business days prior to grant. The shares vest after three years subject to the employee remaining in the employment of the Group. If an employee leaves during the three-year period, the shares are forfeited except in certain circumstances as set out in the Plan rules.

The fair value of the awards is equal to the share price on the date of grant. The fair value is expensed to the income statement in a straight line over four years, being the year in which the bonus is earned and the three-year holding period.

During the year, 0.4 million shares were conditionally allocated on 18 December 2017 (2017: 0.5 million) with the share price on the date of grant being 346p. A reconciliation of the number of shares conditionally allocated is shown below:

| Movements in the year | **18 December 2017 m** | **15 December 2016 m** |
|---|---|---|
| Awards outstanding at 1 October 2016 | **—** | **—** |
| Granted | **—** | **0.5** |
| Lapsed | **—** | **—** |
| Awards outstanding at 30 September 2017 | **—** | **0.5** |
| Granted | **0.4** | **—** |
| Lapsed | **—** | **—** |
| Awards outstanding at 30 September 2018 | **0.4** | **0.5** |

### 32. Operating lease commitments

The Group has various leases under non-cancellable operating lease agreements. The lease terms are between one and 20 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

The Group also leases various vehicles, under cancellable lease agreements. The Group is required to give a six-month notice for termination of these agreements. The lease expenditure charged to the income statement during the year is disclosed in Note 6.

At 30 September the future aggregate minimum lease payments under non-cancellable operating leases were as follows:

| | **2018 £m** | 2017 £m |
|---|---|---|
| Within one year | **5.2** | 4.3 |
| Later than one year and less than five years | **10.2** | 7.2 |
| After five years | **10.7** | 2.4 |
| | **26.1** | 13.9 |

### 33. Capital commitments

The Group was not committed to the purchase of any property, plant and equipment or software intangible assets at 30 September 2018 (2017: £Nil).

### 34. Parent company guarantees

The Group has made parent company guarantees to its joint ventures and associate in the ordinary course of business.

The Group has entered into counter indemnities to banks, insurance companies, statutory undertakings and the National House Building Council in the ordinary course of business, including those in respect of joint venture from which it is anticipated that no material liabilities will arise.

### 35. Litigation and claims

The Group is subject to various claims, audits and investigations that have arisen in the ordinary course of business. These matters include but are not limited to employment and commercial matters. The outcome of all of these matters is subject to future resolution, including the uncertainties of litigation. Based on information currently known to the Group and after consultation with external lawyers, the Directors believe that the ultimate resolution of these matters, individually and in aggregate, will not have a material adverse impact on the Group's financial condition. Where necessary, applicable costs are included within the cost to complete individual developments or are otherwise accrued on the Group's balance sheet.

### 36. Dividend

The following dividends have been recognised as distributions in the year:

| | **2018 £m** | 2017 £m |
|---|---|---|
| Prior year final dividend per share of 5.0 pence (2017: 3.4 pence) | **22.3** | 15.3 |
| Current year interim dividend per share of 4.2 pence (2017: 3.4 pence) | **18.8** | 15.3 |
| | **41.1** | 30.6 |

The Board of Directors recommend a final dividend of 6.6 pence per share, amounting to a total dividend of £29.2m (2017: £22.3m) which will be paid on 8 February 2019 to shareholders on the register on 21 December 2018, subject to shareholder approval. The liability has not been recognised in these financial statements as the shareholders' right to receive the dividend had not been established at 30 September 2018.