



# 2016

*Annual Report and Accounts*

**Foxtons Group plc**

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## FINANCIAL STATEMENTS

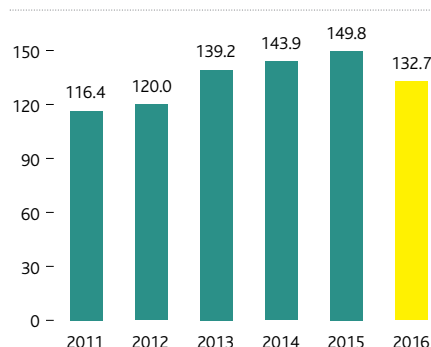
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## CHALLENGING MARKET

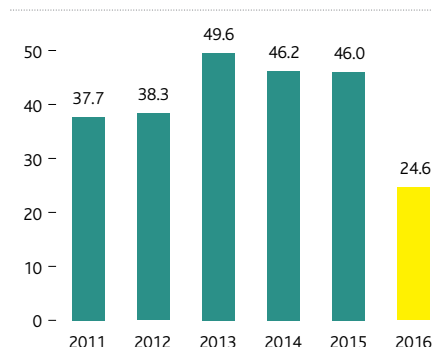
Revenue (£m)

**£132.7m** –11.4%



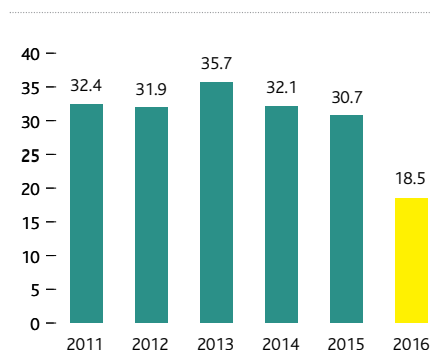
Adjusted EBITDA<sup>1</sup> (£m)

**£24.6m** –46.5%



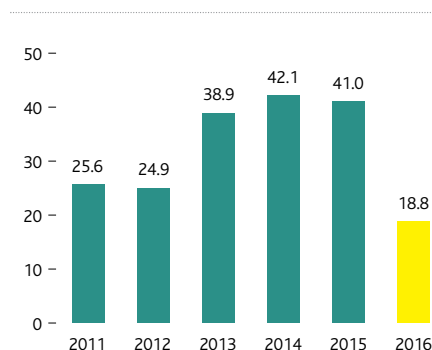
Adjusted EBITDA<sup>4</sup> margin (%)

**18.5%** –1220bps



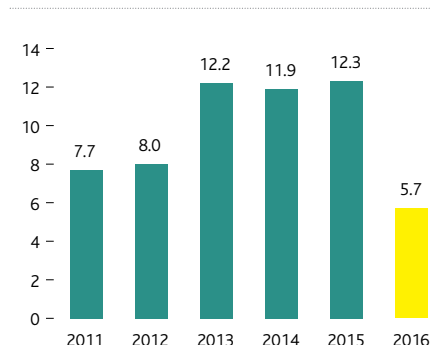
Profit before tax (£m)

**£18.8m** –54.3%



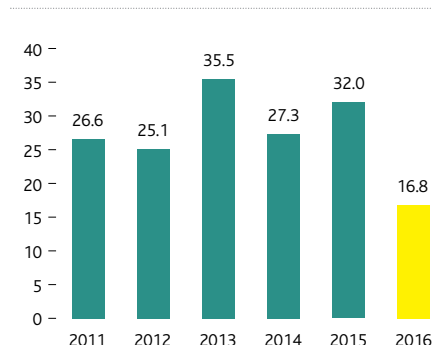
Basic earnings per share<sup>2</sup> (pence)

**5.7p** –53.7%



Net free cash flow<sup>3</sup> (£m)

**£16.8m** –47.5%



1 Adjusted EBITDA is defined as profit before tax, finance costs, finance income, depreciation, amortisation, profit on disposal of assets, share-based payments and exceptional items (refer to note 5, page 76 for a reconciliation to profit before tax).

2 Statutory basic earnings per share (pence).

3 Net free cash flow is defined as net cash from operating activities less net cash used in investing activities exclusive of exceptional items. (Refer to note 30, page 94 for a calculation of net free cash flow) (Net cash from operating activities: £23.4m (2015: £39.7m)).

4 "Adjusted EBITDA" and "Net free cash flow" are alternative performance measures used by the Board as they provide a clearer understanding of the underlying operations of the Group.

DESPITE A SUBDUED SALES MARKET, FOXTONS REMAINS THE NUMBER ONE PROPERTY AGENT IN LONDON BY INSTRUCTIONS WITH AN UNRIVALLED NETWORK FOCUSED ON DELIVERING THE BEST SERVICE TO BUYERS, SELLERS, TENANTS AND LANDLORDS.

## MAINTAINING OUR No1 POSITION

### Overview

During 2016, the London property market was severely impacted by a number of political factors, not least, the result of the EU referendum. Together with rising prices and stamp duty changes, this led to a substantial reduction in transaction volumes across the London housing market. The lettings market, while not immune from some of these market conditions, proved more resilient and benefitted from our high levels of renewals, despite lower levels of new tenant activity and some downward pressure on rents.

The impact on our business was a reduction in revenues of 11.4% to £132.7 million, principally reflecting the tough sales market. Adjusted EBITDA was £24.6 million (2015: £46.0 million) and profit before tax was £18.8 million (2015: £41.0 million). In line with our expansion strategy, we opened a further seven branches last year, targeting areas where we expect higher rates of transaction volumes over the next few years.

### Board and governance

The Board places significant importance on corporate governance and compliance with the UK Corporate Governance Code. Full details are set out in the Corporate Governance section of our Annual Report and Accounts.

### Board update

On 7 November the Board of Foxtons Group appointed Mark Berry as Chief Financial Officer (CFO) and a member of the Board. Mark brings with him a wealth of experience working across finance functions and in agency businesses having spent ten years at Hays, the specialist recruitment business. I would like to thank Gerard Nieslony who resigned from the Board and as CFO for his contribution to Foxtons and I am delighted that he is remaining with the Company.

Annette Court has notified the Board that she will be standing down as a Non-Executive Director of the Company with effect from the Company's Annual General Meeting (AGM) on 17 May 2017. On behalf of the Board, I would like to thank Annette for her valuable contribution as a Non-Executive Director and Senior Independent Director of Foxtons since the Company's IPO in 2013.

### Dividend

In line with our policy, the Board has proposed a final dividend of 0.33 pence per share bringing the total ordinary dividend for the year to 2.00 pence per share. Foxtons holds a net cash position and it maintains a robust balance sheet with no debt. The Board remains committed to returning excess capital to shareholders when appropriate. This year's proposed full year dividend brings the total cash returned to shareholders since the September 2013 IPO, including special dividends and share buy-backs, to £91 million.

The proposed dividend will, subject to Shareholder approval at the AGM on 17 May 2017, be paid on 25 May 2017 to Shareholders on the register at 28 April 2017.

### Summary

Despite the subdued sales volumes across the market, Foxtons remains the number one property agent in London by instructions with an unrivalled network focussed on delivering the best service to buyers, sellers, tenants and landlords. Our long-term strategy remains the delivery of profitable growth through a combination of targeted expansion and further investment to continue to enhance our offer. We have a strong and determined team and I am confident that they will build on Foxtons unique platform and deliver long-term value to shareholders. I would like to take this opportunity on behalf of the Board to thank everyone at Foxtons for their commitment and hard work.



**Garry Watts**  
Chairman



**Garry Watts**  
/ Chairman

AS WE ENTER 2017, WE HAVE SEVERAL INITIATIVES UNDERWAY TO PROMOTE GROWTH IN OUR LETTINGS BUSINESS AND OUR LESS MATURE BRANCHES, WHERE WE REMAIN FOCUSED ON GROWING MARKET SHARE.

# DELIVERING FOR OUR CUSTOMERS

## Review of the year

2016 was a challenging year characterised by volatile markets and political and economic uncertainty. The first half of the year saw significant uncertainty in the run-up to the EU referendum which led to reduced consumer confidence. We achieved record Q1 revenue due to a surge in property sales transactions in March 2016 as investors completed purchases before the introduction of the 3% stamp duty surcharge on buy-to-let properties and second homes. Q2 saw a sharp contraction and sales volumes have remained subdued due to a combination of the UK's decision to leave the EU, and longer term changes to stamp duty which have increased the cost of moving home. Greater London sales transactions were down by an estimated 28% in 2016 compared to 2015 with the Q2 to Q4 run rate down an estimated 44%. Lettings revenues remained resilient, benefitting from our high levels of renewals, despite lower levels of new tenant activity, especially from overseas corporates and some downward pressure on rents arising from increased stock availability.

Group revenue in 2016 was £132.7 million (2015: £149.8 million), down 11.4% versus prior year and comprised sales revenue of £55.5 million (2015: £72.5 million), lettings revenue of £68.3 million (2015: 69.0 million) and mortgage broking revenue of £8.9 million (2015: £8.3 million). Sales revenue fell 23%, driven by a marked step down in activity in the second half of the year. Transaction volumes in Zone 1 were most affected, with volumes in the outer London areas of Zones 2-5, into which we have expanded in recent years, being more resilient albeit at reduced levels compared to 2015. Lettings continued to provide a resilient revenue stream which was less exposed to the cyclical nature of the sales market, and now represents 51% of the group's revenues. Lettings revenue was down only marginally on prior year. Alexander Hall, our mortgage broker, showed solid growth increasing revenue by 7% driven by volumes in Q1 ahead of the changes to stamp duty.

Group Adjusted EBITDA reduced to £24.6 million (2015: £46.0 million) reflecting a combination of lower full year revenues and an increase in underlying costs associated with our branch expansion, as new, immature branches dilute the group margin. These cost increases were principally felt in the first half which saw five new branch openings. However, this was partially offset in the second half as we aligned our cost base in line with subdued market conditions.

The Group continued to be cash generative with an operating cash conversion<sup>1</sup> ratio of 94% in 2016 (2015: 87%) and net free cash flow of £16.8 million (2015: £32.0 million).

## Property sales market

The result of the EU Referendum is likely to lead to a prolonged period of further economic uncertainty. However, irrespective of the decision to leave the EU, London remains an economic and financial powerhouse, with an enviable level of global reach and influence. With its solid infrastructure and skilled workforce supporting both financial and commercial sectors, its long-term attractiveness is unlikely to diminish. London continues to be a highly attractive property market driven by high population density and limited housing stock. Significant pent up demand for housing is driven by the fact that population has increased by c1.2m from 2005 to 2016 with only circa 200,000 new homes built. These fundamental demand and supply dynamics mean that transactions will increase once a greater level of economic certainty returns to the market.

## Lettings market

London has experienced a significant shift in tenure with nearly 30% of private households now living in rented accommodation, double the rate seen in the last decade. This huge increase in demand for private rentals in London provides a solid base for our lettings business, which continues to be a key element of our business strategy due to its profitability and stability provided by the non-transactional revenue streams within lettings.

Competition in lettings has intensified and since 2009, the number of registered ARLA lettings agents has more than doubled. As the market grows, it is becoming more complex too, with significant new regulation and legislation having been introduced in recent years. Against this background our high quality lettings business is the sensible choice for landlords and tenants looking for a long-term partner who can safeguard their interests.

## Delivering on our strategy

Central to our strategy is our determination to deliver the very best proposition to our customers, delivering the highest levels of service and utilising our network and technologies to ensure we secure the best results for our buyers, sellers, tenants and landlords. We are continuing to evolve our offer, recognising the changing needs of our customers and the sales and lettings landscape, and have made good progress with our current priorities:

### 1. Developing best in class technology to enhance our customer experience:

We continue to invest in innovative technology and bespoke systems and applications which underpin our operations. We have seen strong customer uptake of our recently launched MyFoxtons online portal, which gives sellers and landlords complete visibility of the sales and lettings process alongside our premium customer service. We also launched our proprietary Valuer App in the year, and a similar online MyFoxtons portal for buyers and tenants is on track to be launched in Q2-2017.


**Nic Budden**

/ Chief Executive Officer

<sup>1</sup> Operating cash conversion is computed as Adjusted operating cash flow/Adjusted EBITDA. Adjusted operating cash flow is defined as the summation of Adjusted EBITDA, change in working capital and net capital spend.

## 2. Centralised balanced business model – focussing on the less cyclical lettings business:

As part of our technology investment, our lettings business platform is scalable with fully automated online functions. Our lettings portfolio is one of the largest in London with over 19,000 properties and we continue to focus on deepening our relationships with our existing landlords, acting as a trusted adviser as the market evolves. We continue to expand into the PRS segment and have quickly established strong relationships with some of the largest PRS developers in London, securing several new large mandates since launch. Early stage progress in this highly scalable market has been encouraging.

## 3. Delivering exceptional customer service:

We continue to deliver for our customers. I was delighted to see our customers score Foxtons an average 9.2/10 on Trustpilot and their local Foxtons branch 4.6/5 stars on Google for the service they received. This demonstrates the unwavering commitment of our people to delivering exceptional service to clients, day in, day out. We also received awards for our customer service, training, website and marketing, both nationally and internationally including The Sunday Times Lettings Agency of the Year Award for Best UK Large Lettings Agency (three years running). In addition, we have established new teams in data analytics, digital marketing and social media and are providing significant insights into customer behaviour and needs, deepening engagement, enhancing customer experience and reducing customer acquisition costs.

## 4. Low risk, selective organic expansion into Outer London using our single brand network:

Seven new branches were opened during 2016, all outside central London. Two further branches, Wembley and Wood Green, opened in February 2017. We have doubled the number of branches within our network over the last five years and our brand now covers 80% of the London sales market by volume. This progress places us slightly ahead of where we expected to be at IPO and gives us the opportunity to slow expansion this year to focus on increasing the speed of maturity of recently opened branches using our market leading training programmes, dedicated management focus, and targeted marketing initiatives.

### Outlook

Looking ahead, we expect trading conditions to remain challenging in 2017. The surge in sales in Q1 2016 will not be repeated and should current levels of activity continue in the short-term, it is likely that 2017 sales volumes will be below those in 2016. It is too early to assess the impact of the government's proposed ban on tenants' fees. More detailed proposals are expected from the consultation process later in the year.

Our balanced business model, underpinned by less cyclical lettings income, provides resilience against sales market cycles and we have a robust balance sheet with no debt. We continue to leverage our proprietary technology and data (including 4 million property records) to make our agents as productive as possible.

Longer term, whilst recent political events have produced uncertainty for buyers and sellers, we expect London to remain a highly attractive property market for sales and lettings. As we enter 2017, we have several initiatives underway to promote growth in our lettings business and our less mature branches remain focused on growing market share. Our high-touch approach to customer service continues to be a key differentiator, and as the most recognised residential brand in London, we are uniquely positioned to manage through the market uncertainties and take advantage of any change in conditions.



**Nic Budden**  
Chief Executive Officer

# FOXTONS: THE MARKET LEADER

Foxtons Group is the leading London estate agency, offering residential property sales and lettings services through its network of 67 branches. The Group offers independent mortgage advice and other related services through Alexander Hall. Foxtons was founded in 1981 and the first branch opened in Notting Hill Gate in 1982. The Group focuses on the higher-volume, higher-value London property market. In 2016, Foxtons revenue was £133 million, generating £25 million of Adjusted EBITDA at a margin of 19%.

For more  
information  
see p / 6



## Market overview

Organic expansion is a key element of our strategy. We have a successful track record of opening new branches and our current plan is to grow within London and thereafter into the South East of England.

For more  
information  
see p / 8



## Strategy

The Group has a clear strategy to grow profitability by:

- Targeting higher-volume, higher-value residential property markets in London;
- Maintaining a balance between sales and lettings;
- Providing a premium service which supports premium prices;
- Expanding organically to maximise return on capital; and
- Positioning itself for sales volume market growth.

For more  
information  
see p / 10



## Business model

The Company is able to generate high margins through its business model, which combines:

- A single, strong brand;
- High levels of centralisation allowing low-cost expansion of branches;
- An innovative application of technology; and
- A powerful culture of sales and service through outstanding training and staff development.

For more  
information  
see p / 14



## Value creation

The Company is in a very strong financial position to execute its strategy by being both debt-free and highly cash-generative. This combination allows the Company to generate significant returns for our Shareholders.



2016 WAS A YEAR OF MACRO POLITICAL UNCERTAINTY IN THE UK AND ABROAD, WHICH IMPACTED CONSUMER CONFIDENCE ACROSS ALL SECTORS INCLUDING THE LONDON RESIDENTIAL PROPERTY MARKET.

## CHALLENGING MARKET

The UK referendum vote to leave the European Union on the 23 June was a seismic event in British history, and has put the UK economy in uncharted territory, causing a prolonged period of uncertainty. This was followed by the US election and the prospect of real uncertainty in the European elections in 2017.





The shock of the Brexit vote brought transactional activity in London to a halt, and sales activity has been subdued since, as there remains uncertainty as to what Brexit means for London and the financial markets.

Despite this uncertainty, property remains an attractive asset class, offering income returns and long-term capital appreciation. London continues to remain attractive as a vibrant global economic and financial powerhouse and its attractiveness is unlikely to diminish.

#### **Institutional Lettings market provides growth opportunity**

London has experienced a significant shift in household tenure with nearly 30% of households now living in private rented accommodation, double the number seen in the last decade. There has been a marked change in attitudes towards renting a home and it is increasingly seen as a longer-term housing option for many Londoners.

Small private landlords own the vast majority of rented homes, but there is now considerable impetus behind the institutional private rental sector (PRS). Estimates of capital poised for investment range between £30 billion and £50 billion, and have received support from both the government and the London mayor.

Croydon, Harrow and Wembley, where Foxtons has strong branch presence, are good examples of where substantial PRS developments are being built and now competing for potential residents. Tenants are widening their search areas to TFL Transport Zones 3-6 given affordability constraints, and Foxtons is well placed to meet this demand, given our broad network of branches in outer London. We are now working with most of the key PRS developers in London to find them quality tenants for their schemes.

It is too early to assess the impact of the government's proposed ban on tenants' fees. The consultation process has started and more detailed proposals are expected later in the year.

The increasing demand for private rentals in London provides a solid base for the Group's lettings business. In addition, the continuing increase in London's population maintains an upward pressure on long-term rental rates. The lettings market continues to be a key element of Foxtons business strategy. It provides a steady, reliable income stream, and it accounts for over half of the Group's business.

#### **Sales market – short-term challenges ahead**

Looking ahead, we expect trading conditions to remain challenging in 2017. Should current levels of sales activity continue in the short-term, it is likely that 2017 volumes will be below those in 2016. In the short-term the prospect of weaker economic growth and fragile consumer sentiment is likely to offset any boost from low interest rates. Greater caution among homebuyers is expected to translate to lower transaction volumes in London, as seen in the months after the referendum vote, and it is unlikely the market will pick up in 2017 until the future political and economic landscape becomes clearer.

In addition, the sales market is also experiencing headwinds with the absorption of higher stamp duty rates, as well as the additional surcharge introduced in March 2016 which has dampened the buy to let market.

In prime central London transaction levels have been lower than that of 2009/10 for some time, and this will in due course remove some of the upward pressure on property prices in that area. Volumes have been relatively stronger in outer London areas, and in the medium-term affordability will continue to drive migration and house building to outer London.

Foxtons now has over 50% of branches outside zones 1 and 2, and is well placed to capture the growth and activities in these areas in both Lettings and Sales.



FOXTONS HAS AN IMPRESSIVE TRACK RECORD OF GROWING ITS BUSINESS BY DELIVERING PREMIUM SERVICE LEVELS. THE GROUP'S STRATEGIC AIM IS TO CONTINUE TO LEVERAGE ITS BRAND, CENTRALISED RESOURCES, TECHNOLOGY AND SALES AND SERVICE CULTURE, IN ORDER TO GROW REVENUE AND PROFIT AS IT EXPANDS ITS BRANCH NETWORK THROUGH LONDON'S HIGHER-VOLUME, HIGHER-VALUE PROPERTY MARKETS.

## DELIVERING PREMIUM SERVICE



### FOXTONS HAS FIVE STRATEGIC PRIORITIES:

#### TARGET HIGHER-VOLUME, HIGHER-VALUE RESIDENTIAL PROPERTY MARKETS IN LONDON

Foxtons current focus is on the higher-volume, higher-value London market, which represents a disproportionately valuable property market. Over time we have the potential to increase significantly the number of existing branches in London.

#### BALANCED BUSINESS

The Group places equal importance on sales and lettings, aiming to achieve a relatively even balance between the financial contributions made by each over time. The Group's lettings business benefits from a strong base of recurring revenue, providing valuable protection against the naturally more cyclical property sales market.

#### PREMIUM SERVICE

The Group delivers high-quality service levels, maximising value for clients by selling or letting their properties at the best price through the innovative application of technology, the utilisation of data and by working harder than competitors. Foxtons branches are open 8am to 8pm, enabling them to work around our clients' busy schedules. Over a third of viewings take place outside normal working hours.

#### KPIs

Related to KPIs: **2, 3, 4, 6**

Related to KPIs: **1**

Related to KPIs: **5, 7, 8**

#### RISKS

Related to principal risks: **1, 2, 5**

Related to principal risks: **1, 2**

Related to principal risks: **2, 4, 5**





#### ORGANIC EXPANSION UNDER A SINGLE STRONG BRAND

The Group has a track record of profitable, organic expansion. The Group's well-invested centralised business model enables rapid scaling at low incremental cost allowing new branches to achieve a rapid payback and a high-return on capital employed. Growth is financed by internal funds.

Related to KPIs: **6**

Related to principal risks: **1, 2, 3, 4, 5**

#### POSITIONED FOR SALES MARKET GROWTH

Residential property sales transaction volumes in London have been depressed since the uncertainties caused by the result of EU referendum. However, the size of the Foxtons branch network across London means it is well positioned to benefit from any future growth in sales volumes.

Related to KPIs: **6**

Related to principal risks: **1, 2, 5**

#### KPIs

Read about our KPIs to understand our progress in achieving our strategic priorities  
p / 20



- 1 Balanced business
- 2 Sales volumes
- 3 Lettings tenancies
- 4 Mortgage volumes
- 5 Adjusted EBITDA Margin
- 6 Number of branches at year end
- 7 Average revenue per branch
- 8 Average revenue per employee

#### RISKS

Read about how we manage risks and their potential impact on our strategy p / 24



- 1 Market risk
- 2 Competitor challenge
- 3 Compliance with the legal and regulatory environment
- 4 IT systems and cyber risk
- 5 People



## COMPETITIVE ADVANTAGE

The Group is based on a business model with a proven significant and sustainable competitive advantage.



### **A single brand with a strong identity**

The Foxtons brand has been supported by significant levels of expenditure on brand and customer marketing communications programmes. Foxtons leading property website, [www.foxtons.co.uk](http://www.foxtons.co.uk), and "0% commission" campaigns, which support each new branch opening, generate strong brand awareness and new business growth. Its distinctive branches and branded MINI fleet reinforce its high street presence and underpin its quality credentials.

### **Business centralisation**

The Group's substantial long-term investment in centralised work groups, business process engineering and technology has created a highly scalable business, delivering unparalleled levels of productivity and service. This centralised approach also delivers significant operational leverage, enabling the Group to expand its branch network at relatively low cost, whilst delivering high profit margins.

### **Innovative application of technology**

Foxtons development has been characterised by the innovative application of technology to estate agency. The Group is recognised as the technology leader in the sector, with sophisticated workflow systems, web applications and content-rich information databases underpinning virtually every aspect of its business model. These systems enable our internal departments to work cohesively together to deliver exceptional levels of service and productivity, and have been a key driver in reducing average costs. Foxtons systems also provide vital performance tools for managers, enabling them to monitor employee performance in real-time.

Foxtons has invested heavily in its website and web-based applications, which are internally developed and maintained, and which have received many industry awards for their innovative features. Foxtons website showcases clients' properties using high-quality images and floorplans and allows users to search for properties using pioneering search criteria. Clients have access to web-based applications, such as the "MyFoxtons" online portal, giving them secure, direct access to key information and documents, and enabling documents to be signed and payments to be made online.

### **Culture and people**

Foxtons people are highly motivated to deliver exceptional results for clients. A wide range of incentives ensures that outstanding personal and team results are rewarded and recognised across the Company. Foxtons recruits high-quality individuals and is a true meritocracy. We always promote sales people from within our current pool of employees, ensuring that our best people experience rapid career progression into leadership positions where they can have the greatest positive impact. Our training and development goal is to create the finest estate agents in the industry with a clear focus on professionalism, integrity and a strong work ethic.

### **Integrated mortgage broker**

Foxtons integrated mortgage broker, Alexander Hall, benefits from low-cost sales leads from the estate agency business and has the potential to grow as Foxtons expands and as property sales transactions increase.





WE RECOGNISE THAT OUR CONTINUED SUCCESS CAN ONLY BE ACHIEVED THROUGH THE COMMITMENT AND DEDICATION OF OUR PEOPLE. WE ARE NOT JUST PASSIONATE ABOUT TRAINING OUR PEOPLE IN HOW TO SELL AND LET PROPERTIES, WE ARE PASSIONATE ABOUT THEIR ONGOING DEVELOPMENT, BOTH PERSONALLY AND PROFESSIONALLY.

## THE KEY TO OUR SUCCESS

### **Unique culture**

In order to offer exceptional service to our clients, it's vital that our people are inspired, engaged and supported. That's why Foxtons culture is energetic, sociable and rewarding. We provide the opportunity for talented and enthusiastic employees to thrive in an incentive-driven environment where outstanding work and customer service is recognised in both team and individual capacities, encouraging every aspect of their development. We also hold regular awards ceremonies, where our employees are recognised for their exceptional performance or contribution.

### **Extensive training**

Much of the value we offer our clients is created thanks to the expertise of our people. We are committed to ensuring that they receive the best training and career development opportunities with a view to building a successful long-term career at Foxtons. Our award-winning training strategy comprises an extensive Foxtons Training Academy programme which consists of nearly 300 modules. Starting from an intensive induction week, made up of 86 tailored modules to accommodate individual learning styles, the training continues with 120 more hours for Negotiators, followed by a similar amount of training hours for new Valuers and Managers. This investment in training continues throughout our peoples' careers irrespective of roles or levels, as we believe that in order to excel you never stop learning. Our commitment to the highest standards of customer service and compliance is demonstrated in the consistent positive feedback from our customers. In 2016 we ranked 4.6/5 stars on Google across our territories and 9.2/10 stars on Trustpilot.

### **Commitment to career progression**

In order to promote loyalty and develop a business of true experts, Foxtons is a true meritocracy and we promote from within. We believe that those trained by us are best suited to drive this Company forward and anyone who demonstrates skill and hard work will aspire to reach the highest level and will experience accelerated progression. Our commitment to opening new offices every year means that we offer fast-track career opportunities for those with the ability and drive to succeed. The average tenure of senior management at Foxtons is nearly 15 years; however, early responsibility and rapid promotion for high achievers is not unusual.

### **Diversity and inclusion**

We are proud of our diversity throughout the Company and our working practices. We hire people from a multitude of backgrounds and our training takes a comprehensive and personal approach allowing us to focus on matching the right people to the right roles. The diversity profile of our workforce reflects that of multicultural society and our client base, with 55 foreign languages spoken by our employees.

We are committed to providing equal opportunities and an entirely non-discriminatory working environment. Our diversity policy aims to ensure that no job applicant or employee receives less favourable treatment because of gender, marital status, race, age, sexual preference, religion, belief or disability. All decisions are based on the merits of the individual concerned. The Group is dedicated to undertaking its business operations in a way which respects individual human rights, treats individuals with dignity and allows freedom of association. We value the contribution of each and every one of our employees and together we have created an inspiring working environment where everyone is engaged, motivated and safe from discrimination so they can fulfil their potential.

Our diversity is evident throughout the organisation where 46% (2015: 45%) of our total staff are female and 21% (2015: 19%) of our senior staff are female. Appointments to the Board are made on merit, against objective criteria and with due regard for the benefits of diversity on the Board. Of the seven Board members at year end, one was female.



## COMPANY DIVERSITY

End of year figures	Male	Female	Male %	Female %
Directors of parent company	6	1	86%	14%
Senior Managers <sup>1</sup>	135	35	79%	21%
All other	500	510	50%	50%
<b>Total</b>	<b>641</b>	<b>546</b>	<b>54%</b>	<b>46%</b>

1 Senior managers are defined as direct reports of the CEO and COO plus sales managers and lettings managers.





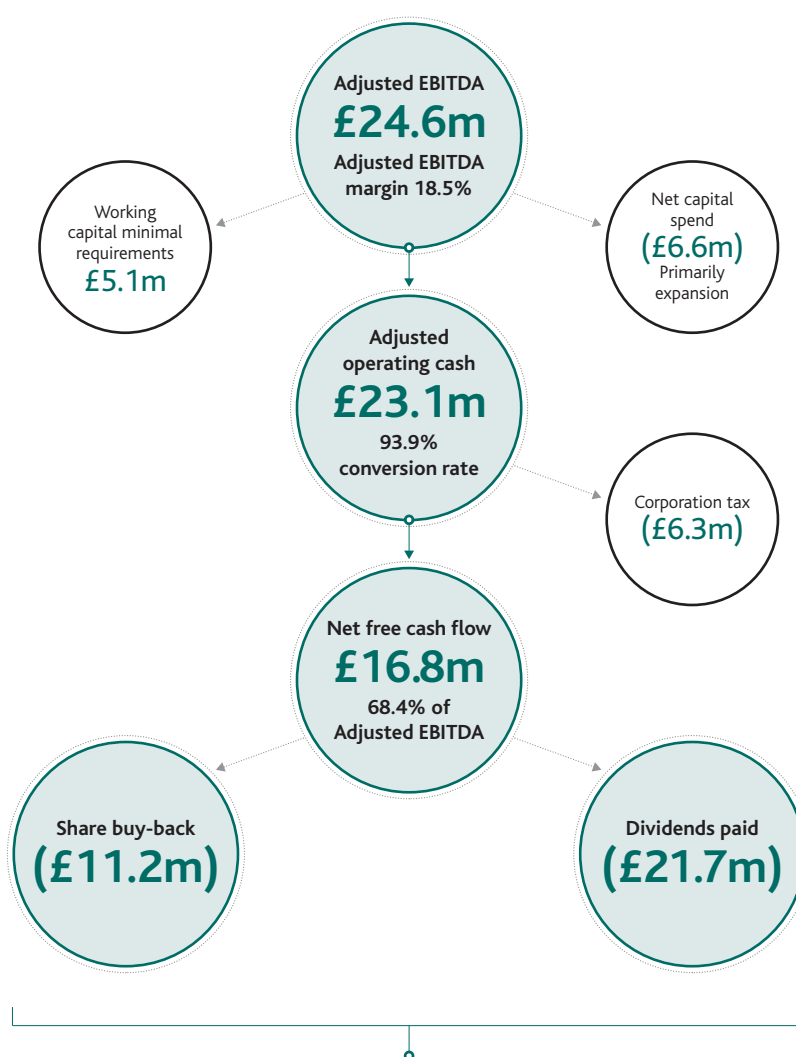
THE COMBINATION OF OUR STRATEGY AND BUSINESS MODEL, WHILST OPERATING WITHIN THE ATTRACTIVE LONDON PROPERTY MARKET, LEADS TO HIGH PROFIT MARGINS AND HIGH CASH GENERATION.





# HIGH PROFITABILITY AND CASH GENERATION

- The absolute level of profit is determined by the market and our branch expansion plan;
- Our strategy and business model generates industry leading margins;
- High profitability, minimal working capital requirements and a relatively low level of capital spend generates high levels of net free cash. In 2016, £16.8 million of net free cash was generated, representing 68.4% of Adjusted EBITDA (2015: 69.6%);
- As the Company is debt-free, net free cash is available to return to Shareholders;
- During 2016 the Company returned £32.9 m to Shareholders in the form of dividends and share buy-backs.



Results in a reduction in cash reserves of £16.1m and a year end cash balance of £9.5m (2015: £25.6m).

## FINANCIAL REVIEW

### Summary income statement

Year ended 31 December	2016	2015	% change
Group revenue	<b>£132.7m</b>	£149.8m	(11%)
Group Adjusted EBITDA	<b>£24.6m</b>	£46.0m	(47%)
Profit before tax	<b>£18.8m</b>	£41.0m	(54%)
Net cash from operating activities	<b>£23.4m</b>	£39.7m	(41%)
Basic Earnings per share	<b>5.7p</b>	12.3p	(54%)
Dividend per share	<b>2.0p</b>	11.0p	(82%)

### Revenue

The Foxtons Group comprises three business segments: Sales, Lettings and Mortgage broking. The majority of operations are in the London area with two branches in the adjacent area of Surrey.

£m	2016	2015	% variance
Sales	<b>55.5</b>	72.5	(23%)
Lettings	<b>68.3</b>	69.0	(1%)
Mortgage broking	<b>8.9</b>	8.3	+7%
Total revenue	<b>132.7</b>	149.8	(11%)

### Sales

The London property sales market was significantly impacted by a marked step down in activity following the result of the EU referendum and stamp duty changes. Revenues fell by 23% versus the prior year to £55.5 million, primarily driven by a 28% fall in volumes. Average revenue per transaction increased by 5% versus prior year as underlying London price inflation was partially offset by the mix effect of volume reductions in the higher valued central London area and increased volumes at lower average sales prices as the business expanded further into outer London. During 2016 the average price of Foxtons property sales was £568k (2015: £550k).

### Lettings

The Lettings business continues to provide a consistent recurring revenue stream which comprises over half of group revenues. Lettings revenue remained resilient and was £68.3 million, marginally down versus prior year, driven by a fall in corporate relocation business and some downward pressure on rents in the second half of the year due to the large amount of stock that came on to the market in April and May.

### Mortgage broking

Mortgage broking revenue increased by 7%, principally driven by higher volumes in the first half of the year ahead of the stamp duty change on buy-to-let properties and second homes which brought a substantial amount of transactions forward into the first quarter.

### Balanced business

A key strategic priority for the Company is to maintain a balanced business. This balance across the Sales and Lettings segments provides financial strength in the Group to withstand fluctuations in the property market.

% of total revenue	2016	2015
Sales	42%	48%
Lettings	51%	46%
Mortgage broking	7%	6%
Total revenue	100%	100%

### Organic expansion

The Group continued its organic expansion in the year, opening a further seven new branches. Average revenue per branch was £2.2 million (2015: £2.7 million) reflecting the fall in Group revenue in the year and the increase in the number of branches from 58 to 65.

### Group Adjusted EBITDA

Business segment profitability was as shown in the Adjusted EBITDA table below.

Adjusted EBITDA	2016 £m	2016 margin	2015 £m	2015 margin
Sales	7.0	12.7%	23.8	32.8%
Lettings	16.2	23.6%	20.9	30.2%
Mortgage broking	1.4	16.1%	1.3	16.0%
Group Adjusted EBITDA	24.6	18.5%	46.0	30.7%

Group Adjusted EBITDA reduced to £24.6 million (2015: £46.0 million) due to a marked step down in sales transaction revenue in the second half of the year following a record first quarter.

The reduction in the sales margin was driven primarily by lower revenue and an increase in the number of newer, less mature branches. The Lettings margin reduced primarily due to the reduction in revenue, an increase in the number of newer, less mature branches and an increased apportionment of shared central costs, which are allocated between sales and lettings according to headcount. Mortgage broking margin remained broadly flat on prior year.

### Seasonality

EBITDA generation is not phased equally during the year. Historically, Adjusted EBITDA is usually weighted towards the second half of the year with Q3 being the peak period for lettings revenues. A typical ratio is circa 47:53 (H1:H2). However, during 2016 the weighting moved towards the first half of the year with a 53:47 ratio due to a marked step down in activity following a record first quarter in the Sales business as buy-to-let transactions were pulled forward ahead of the stamp duty changes which came into effect in April, and the EU referendum.

#### Profit before tax

Profit before tax of £18.8 million (2015: £41.0 million) reduced due to a decline in property sales transactions across London, together with increased costs due to the continued expansion of the branch network into outer London. There were no exceptional items in either the current or prior year.

Profit before tax was after charging administrative expenses of £113.9 million (2015: £108.9 million), an increase of 4.6% driven mainly by the impact of the branch expansion and selective investments in our digital marketing and technology functions. In the second half we reduced costs as market conditions worsened. As a result, overall, first half costs were £58.4 million and £55.5 million in the second half.

#### Taxation

The Group has a low risk approach to its tax affairs. All business activities of Foxtons operate within the UK and are UK tax registered and fully compliant. The group does not have any complex tax structures in place and does not engage in any aggressive tax planning or tax avoidance schemes. Foxtons always sets out to be transparent, open and honest in its dealings with tax authorities. Foxtons' effective tax rates exclusive of the impact on deferred tax of future tax rates movements are 21.5% (2015: 20.5%). This may be compared to the statutory blended corporation tax rate of 20.0% (2015: 20.25%).

The absolute tax charge for the period fell by £3.4 million due to:

- Reduced profitability of £22.3 million resulting in a reduction in the current tax charge of £4.5 million.
- Reduction of £1.0 million in deferred tax in 2016 (2015: £2.0 million), primarily due to reduced corporation tax rates on the deferred tax liability in respect of the intangible brand asset.

Tax payments during the year totalled £6.3 million (2015: £8.3 million), reflecting lower profitability in 2016.

#### Earnings per share (EPS)

Basic EPS was 5.7p (2015: 12.3p), with the reduction primarily due to lower profitability offset partially by a reduced number of shares due to the share buy-back programme.

#### Cash flow

Net free cash flow for the year was £16.8 million (2015: £32.0 million). The reduction was primarily driven by reduced Adjusted EBITDA. The metric "net free cash as a percentage of Adjusted EBITDA" was 68% (2015: 70%).

The Group held net cash of £9.5 million as at 31 December, and has a £10 million Revolving Credit Facility which remains entirely undrawn.

#### Dividends

The Board's priorities for free cash flow are to fund investment in the future development of the business, maintain a strong balance sheet and to return excess cash to shareholders.

An interim dividend of 1.67p per share was paid in September 2016. The Board has proposed a final dividend of 0.33p per share bringing the total ordinary dividend for the year to 2.00p per share (2015: 11.0p per share). The proposed dividend will be paid, subject to shareholders approval at the AGM in May 2017, on 25 May 2017 to shareholders on the register at 28 April 2017.

#### Share buy-backs

The Company commenced a share buy-back programme on 16 December 2015, to make on-market purchases of Foxtons ordinary shares. The programme completed in Q1-2016 at which point the Company had purchased 7.1 million shares at a total cost of £12.0 million of which £11.1 million was incurred in 2016. This and any future buy-back programmes are not intended to lead to a change in the Company's dividend policy.

#### Post balance sheet events

There are no post balance sheet events to report.

#### Treasury policies and objectives

The Group's treasury policy is designed to reduce financial risk.

Financial risk for the Group is low as:

- The Group is debt-free;
- The Group is entirely UK-based with no foreign currency risks; and
- Surplus cash balances are held with major UK based banks.

As a consequence of the above, the Group has not had to enter into any financial instruments to protect against risk.



**Pensions**

The Group does not have any defined benefit schemes in place but is subject to the provisions of auto-enrolment which require the Company to make certain defined contribution payments for our employees.

**Risk management**

The Group has identified its principal risks and uncertainties and they are regularly reviewed by the Board and senior management. See page 22.

**Going concern and viability statement**

The going concern declaration is disclosed in the Directors' Report on page 60, and the viability statement can be found on page 25.

**Related parties**

Related party transactions are disclosed in note 27 to the consolidated set of financial statements.



**Mark Berry**  
Chief Financial Officer

THE GROUP USES A NUMBER OF KPIs TO MEASURE ITS PERFORMANCE AND REVIEW THE IMPACT OF MANAGEMENT STRATEGIES. THE GROUP CONTINUES TO REVIEW THE MIX OF KPIs TO ENSURE THAT THESE BEST MEASURE OUR PERFORMANCE AGAINST OUR STRATEGIC OBJECTIVES.

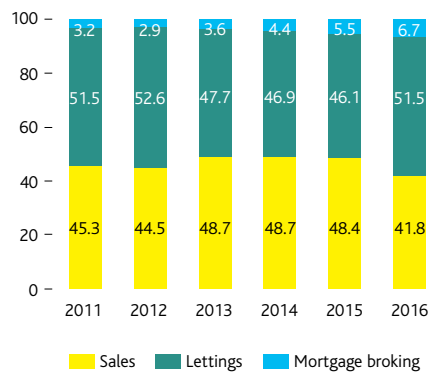
## MEASURING OUR PROGRESS

p / 8

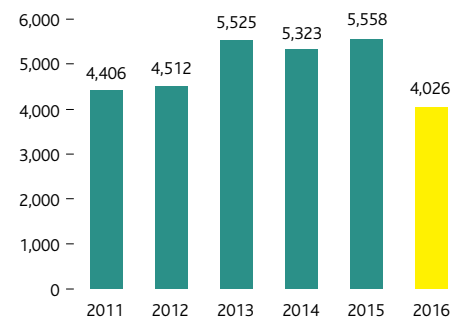


Read about how our KPIs are linked to our strategic priorities

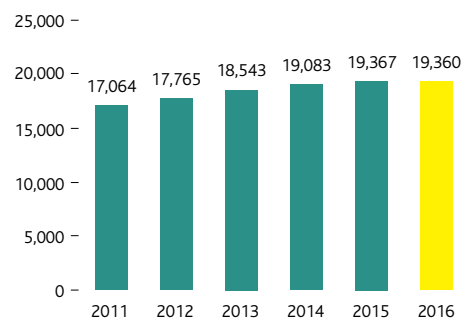
### 1 BALANCED BUSINESS (% of total revenue)



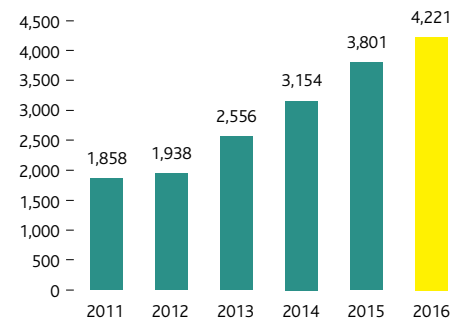
### 2 SALES VOLUMES



### 3 LETTINGS TENANCIES<sup>1</sup>

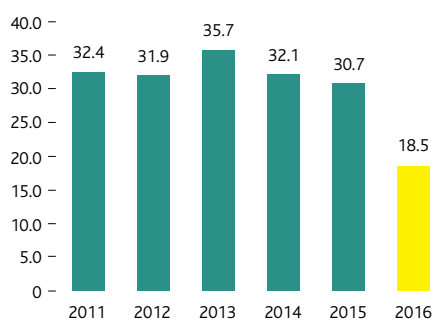


### 4 MORTGAGE VOLUMES

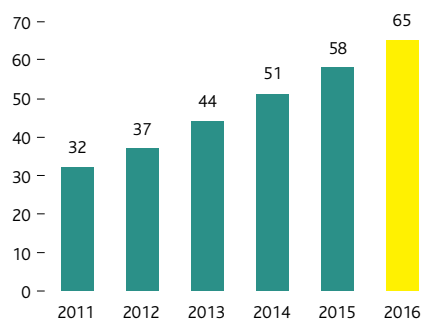


<sup>1</sup> Previously, the Group has presented Lettings volumes as a KPI for lettings. In the current year, this has been adjusted to present number of lettings tenancies as this is considered to be a more relevant measure of the lettings business performance and is a common metric used within the industry.

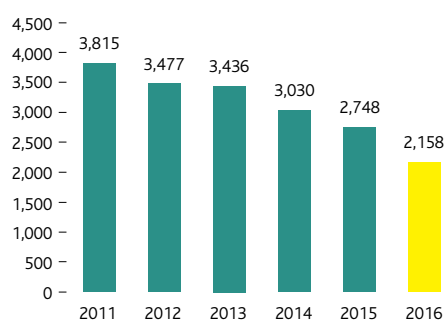
## 5 ADJUSTED EBITDA MARGIN (%)



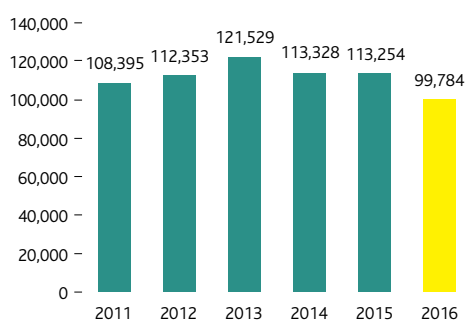
## 6 NUMBER OF BRANCHES AT YEAR END



## 7 AVERAGE REVENUE PER BRANCH (£'000)



## 8 AVERAGE REVENUE PER EMPLOYEE (£)



## RISK MANAGEMENT

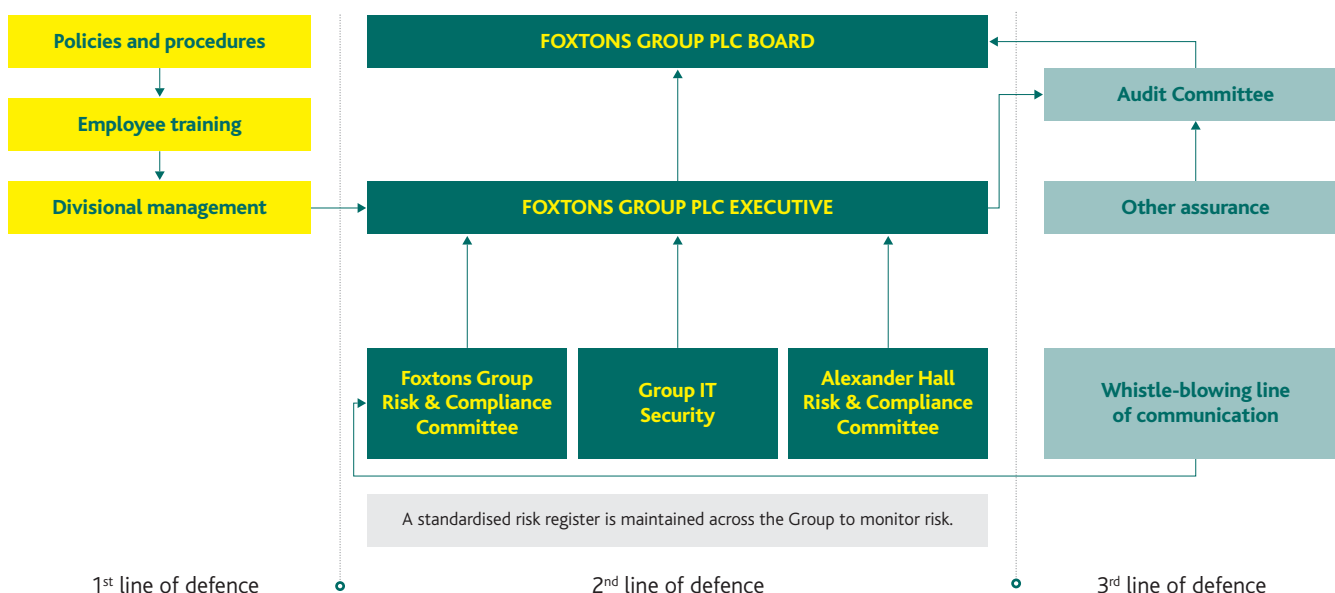
The Board is responsible for establishing and maintaining the Group's system of risk management and internal control, with the aim of protecting its employees and customers and safeguarding the interests of the Company and its Shareholders in the constantly changing environment in which it operates. The Board in conjunction with the Audit Committee regularly undertakes a robust assessment of the principal risks facing the Company together with the relevant mitigating controls. In reviewing the principal risks, the Board considers emerging risks and significant changes to existing risk ratings. In addition, the Board has set guidelines for risk appetite as part of the risk management process (see table overleaf) against which risks are monitored.

The broad structure of risk management is given in the chart below. The identification of risk in the Group is undertaken by specific executive risk committees which analyse overall corporate risk, information technology risk and mortgage broking risk. Other committees exist below this level to focus on specific areas such as anti-money laundering. A common risk register is used across the Group to monitor gross and residual risk with the results being assessed by the Board. The Compliance department constantly reviews operations to ensure that any non-standard transactions have been properly authorised and that procedures are being properly adhered to across the branch network. The Audit Committee monitors the effectiveness of the risk management system through regular updates originating from the various executive risk committees.

The principal risks table on pages 24 and 25 sets out the risks facing the business at the date of this Report analysed between external and internal factors. An assessment of residual likelihood and impact is shown together with an overall risk rating. An indication is also provided of whether the risk has changed over the course of the year. These risk ratings are also shown graphically in a heat map.

The risks detailed do not comprise all of the risks that the Group may face and are not listed in any order of priority. Additional risks and uncertainties not presently known to management or deemed to be less material at the date of this Report may also have an adverse effect on the Group.

### FOXTONS RISK FRAMEWORK CHART



## RISK APPETITE

### The risk agenda

The "risk appetite" statement highlights those risks that the Group is willing to take, as well as those which are unacceptable. The risk appetite statement includes a series of risk assertions which are aligned to our strategy, together with the risk parameters within which we expect our people to work. Compliance with the risk appetite statement is monitored through the Group's standard monitoring and reporting mechanisms. The Board will continue to review and update the risk appetite statement on an annual basis.

### Risk appetite statement













The Group operates in markets with high growth potential which are subject to volatility, particularly in the property sales market. We will pursue ambitious growth targets and we are willing to accept certain levels of risk to increase the likelihood of achieving or exceeding our strategic objectives, subject to the parameters below.

### Risk appetite varies depending on the risk type




The Board's appetite for risk varies depending on the risk type. The Group measures risk by estimating the potential for loss of profit, staff turnover and reputational damage. The Board has a low tolerance for compliance related risk. Conversely, it has a higher tolerance for strategic risk.

Risk type	Risk assertion	Risk parameter	Risk appetite
<b>Strategic</b>	We accept the property sales market can be volatile.  We will not pursue growth at all costs and expect high margins and strong returns on capital.	We will pursue organic growth strategies to meet our market growth objectives. We aim for industry leading operating margins and returns on capital whilst protecting the long-term viability of the Group.	<b>High</b>
<b>Financial</b>	We will manage/avoid situations or actions that might adversely impact the integrity of financial reporting.	It is a critical requirement that financial reporting complies with relevant accounting standards and is fair, balanced and understandable.	<b>Low</b>
<b>Operational</b>	We will manage/avoid situations or actions that might adversely impact the Group's ability to provide a premium service level to our clients and to protect the assets of the Company.	The costs of control systems must be commensurate with the benefits achieved.	<b>Moderate</b>
<b>Compliance</b>	We will ensure we comply with all legal requirements and manage/avoid situations or actions that could have a negative impact on our reputation or brand.	No tolerance for breaches of: • Legislative/statutory requirements • Delegated authority levels • Group and divisional policies • Health and safety regulations	<b>Very low</b>

## EXTERNAL FACTORS

Impact on Group	Mitigation of risk	Residual likelihood	Residual impact	Overall residual risk rating	Assessment of change in risk year-on-year
<b>1 MARKET RISK</b>					
<p>Continuous high property price inflation may impact affordability which in turn may reduce transaction levels in the market. The market may also be affected by a reduction in London's standing as a major financial city caused by the UK's decision to leave the EU.</p> <p>The market is also reliant on the availability of mortgage finance, a deterioration in which may adversely affect Foxtons.</p> <p>The market may also be impacted by any changes in government policy such as increases in stamp duty taxes or increased regulation in the lettings market.</p>	<p>The Company endeavours to maintain a generally even balance between its sales and lettings revenues and profits in order to provide protection against volatility within the property sales market.</p>				 Increasing risk due to Brexit, high property price inflation and increases in stamp duty taxes. In addition the government has announced its intention to ban tenant fees.
<b>2 COMPETITOR CHALLENGE</b>					
<p>Foxtons operates in a highly competitive marketplace. New or existing competitors could develop new services or methods of working including online and hybrid agents which could give them a competitive advantage over Foxtons.</p>	<p>Foxtons continually collects information on competitor activity through its branch network and centralised Business Development teams.</p> <p>Foxtons flat management structure allows this competitor intelligence to be fed back to senior management accurately and quickly so that the Company can rapidly consider appropriate responses.</p> <p>The Board believes that the emotional and complex nature of estate agency transactions means that it is unlikely that online agents will play a major role in the exchange or completion of sales or lettings transactions without the involvement of an estate agent. Any market share gained by online agents is likely to be at the expense of traditional estate agents with low levels of service who compete on price. However, the challenge of online agents will be kept under review.</p>				
<b>3 COMPLIANCE WITH THE LEGAL AND REGULATORY ENVIRONMENT</b>					
<p>Breaches of laws or regulations could lead to financial penalties and reputational damage.</p> <p>The Mortgage broking division is authorised and regulated by the FCA and could be subject to sanction for non-compliance.</p>	<p>The Group is supported by Compliance and Legal teams which monitor regulatory reform proposals and participate in industry forums. Foxtons centralised service structure provides it with a flexible platform from which to respond to regulatory change.</p> <p>The Mortgage broking division has a specific Risk and Compliance Committee which monitors compliance with FCA regulations.</p>				

The assessment of likelihood and impact is based on the following definitions:

Likelihood	Impact	Risk Rating
 Low potential of the risk crystallising	Very limited or isolated impact to the Group and/or its broader customer base	Low
 Moderate potential of the risk crystallising	Moderate impact to the Group and/or our broader customer base	Moderate
 High potential of the risk crystallising	Potentially significant impact to the Group and/or our broader customer base	High



Impact on Group	Mitigation of risk	Residual likelihood	Residual impact	Overall residual risk rating	Assessment of change in risk year-on-year
<b>4 IT SYSTEMS AND CYBER RISK</b>					
Foxtons business operations are dependent on sophisticated IT systems which could fail or be deliberately targeted by cyber-attacks leading to interruption of service or corruption of data.	All key IT systems are closely monitored by internal and external specialist teams. Dedicated in-house IT development and maintenance teams exist to provide rapid response to IT service issues.  Group disaster recovery plans are in place utilising a physically separate location for critical systems.	▲	▲	▲	—
<b>5 PEOPLE</b>					
There is a risk that Foxtons may not be able to recruit and retain sufficient people to satisfy its organic expansion plans. In addition, senior staff may be recruited by competitors.	Foxtons structured approach to recruitment using internal specialist teams enables us to increase the recruitment of high-quality people quickly, should it become necessary to do so. Foxtons continues to invest in training, development and succession planning so that future leaders can be identified and nurtured.  Our culture of promoting from within generates significant staff loyalty within senior and mid-management employees.	▲	▲	▲	—

#### Assessment of change in risk year-on-year

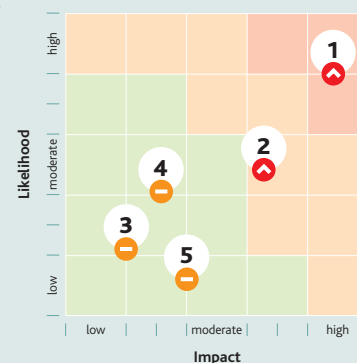
Assessment of whether there has been a change in the level of risk due to either a change in probability or a change in potential impact.

#### Assessment of risk versus Board's appetite for risk

The Board has assessed the risks of the company and with the exception of market risk considers all risks to be within the Board's appetite for risk. The Board recognises that the company operates in markets which are cyclical and subject to volatility. As such the Board's risk appetite for market risk is high. However, despite this high tolerance, current risk levels are considered to exceed acceptable levels due to circumstances beyond the Company's control. Although current volatility levels in the sales market are extremely high, the Board considers that all short-term actions have been taken to mitigate the impact on the company. Company forecasts expect the sales market to return to more normal levels in the medium-term.

### PRINCIPAL RISK RESIDUAL HEAT MAP

The principal risk residual heat map is a visual representation of the principal risks facing the Group. Risks shown in the bottom left-hand corner of the chart have a low risk rating as they have a low likelihood of occurring and a low potential impact on the Group. Conversely, risks shown in the top right-hand corner of the chart have a high risk rating as they have a high likelihood of occurring and a high potential impact on the Group.



#### Viability statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the 'going concern' provision. The Directors believe that three years is the most appropriate timeframe over which the Board should assess the long-term viability of the Group taking into account the volatility of the London property market, with this being the longest period over which the Board considered an appropriate assessment of the principal risks could be made, and that this is consistent with the period over which the Group's strategic review is assessed by the Board.

This assessment has considered the potential impact of the principal risks on the business model, future performance and liquidity of the Group over the period. In making this statement the Directors have considered the resilience of the Group under varying market conditions together with the effectiveness of any mitigating actions. Specifically, the Board has reviewed

its three year financial plan and stress-tested it against property price deflation, reductions in transaction volumes, adverse changes in regulations, potential increased competitor challenge from online and hybrid agents, failure to comply with regulatory requirements, failure of IT systems and loss of key personnel. It was determined that none of the individual risks, in isolation, would compromise the Group's viability. The Directors therefore went on to assess combined principal risks and determined that no two risks combined would compromise the Group's viability.

In coming to this conclusion, the Directors have taken account of the Group's net cash position, the continued availability of the £10m loan facility, strong cash generation and key potential mitigating action of restricting dividend payments. Based upon the results of this analysis, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three year period of their detailed assessment.

## COMMITMENT TO INTEGRITY AND COMMUNITY

We are committed to operating our business in an ethical and responsible manner. As such, looking after the communities and environments in which we operate through our Corporate Social Responsibility (CSR) strategy is an integral part of our Company ethos and plays a major role in leading our people and operations.

### Integrity and the highest of ethical standards

Foxtons business model is built upon our values of honesty and integrity and we work hard to ensure that everything is done with total transparency. Our key strategy is to provide a superior quality of service and integrity is actively promoted in all dealings with employees, Shareholders, customers and suppliers. We recognise that reputation is a valuable and fragile asset gained over a substantial period of time and our CSR initiatives are aligned with our Company values, reinforcing our duty of care and encouraging a positive impact. We promote high ethical standards in carrying out our business activities and have clear guidelines for dealing with gifts, hospitality, corruption, fraud and the use of inside information.

### Communication

Emphasis is placed on effective communication regarding matters that may affect employees and the overall performance of the Group. Employee engagement is achieved through a variety of means, including regular briefings and team meetings.

### Human rights

This Report does not contain information about any policies of the Company in relation to human rights issues since it is not considered necessary for an understanding of the development, performance or position of the Group's business activities.

### Health and safety

Foxtons takes the health and safety of its employees very seriously, with regular training sessions and meetings chaired by the CEO who reports back to the Board.

### Whistle-blowing

Details of the Company's whistle-blowing procedures are included in the governance section on page 38.

### Supporting our local communities

We recognise our responsibility to the communities in which we operate. That's why we are actively involved in supporting local schools and community events and initiatives, of which we have sponsored over 45 during the past year.

### Charities

Alongside our commitments to the local communities, Foxtons is delighted to offer support to three key charities: London's Air Ambulance, Making the Leap and Veterans Aid. As well as various marketing campaigns and fundraising events, our employees participate in Payroll Giving, for which we currently have a 29% take up, achieving the Gold Quality Mark Award, compared to the national average of 6%.

**London's Air Ambulance (LAA)** – LAA is Foxtons first long-term official corporate partnership with a three year commitment following the charity's campaign to acquire and sustain a much-needed second helicopter to reach patients across Greater London. In addition to sponsorship commitments, the partnership is supported by numerous employee fundraising activities, as well as an extensive marketing campaign aimed at increasing public awareness for the non-NHS funded charity. This has helped towards treating over 1,895 patients across London and funding the £8.5 million that it takes to operate the life-saving service.



**Making the Leap (MTL)** – Training and education is a core element of Foxtons strategy and we wanted to share our expertise and knowledge by contributing towards education within the local community. MTL is a charity aimed at raising aspirations of disadvantaged school students and young adults by providing a range of educational programmes. Supporting the invaluable work that MTL does, Foxtons hosts and delivers regular training and interview coaching sessions to help give young people the head start that they deserve. During the first year of our partnership, Foxtons Chiswick Head Office has welcomed over 230 young people, of which 65% have gone on to employment with three offered roles within Foxtons.

Making the Leap.

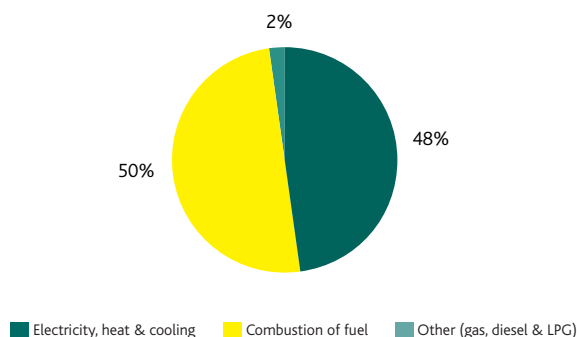
**Veterans Aid** – Foxtons is proud to support Veterans Aid's remarkable work that is aimed at providing vital care to veterans in crisis, ensuring a smooth transition from welfare to well-being. Our ongoing support includes an extensive marketing campaign designed to increase awareness of the charity throughout the capital, plus employment opportunities for the veterans, for whom we have so far provided four positions.



#### Managing our environmental impact

As a rapidly expanding business we are committed to finding ways of reducing our environmental impact and endeavour to be a considerate member of our local communities, as well as looking at the bigger picture. We ensure that all of our estate agency branches' lighting is low energy and voltage or LED, and that lights are only in use during office hours and for maintenance purposes. We are constantly reviewing new technology to improve our energy efficiency. We also only stock Belu as our bottled water of choice, with 100% of profits donated to WaterAid. As a business we actively encourage a paperless environment, but where this is not possible all our offices are equipped with recycling facilities to reduce our consumptive waste.

#### Total CO<sub>2</sub> by emission type



Baseline year	Financial year: 2015
Emission factor data source	Defra 2016
Assessment methodology	The Greenhouse Gas Protocol
Intensity ratio	Emissions per full-time employee (FTE)

#### Greenhouse Gas Emissions Reporting

As a service Company our greenhouse gas emissions are minimal. Full disclosure is given below. We have targeted to reduce our emissions per employee by focusing on efficiencies in the Company. In particular, we aim to increase the efficiency of our car fleet, which is a major element of our CO<sub>2</sub> emissions.

The GHG statement below is based on Foxtons Group plc greenhouse gas emissions from 1 January 2016 to 31 December 2016. It gives a summary of emissions from fuel consumption and the operation of our facilities (scope 1) and from purchased electricity (scope 2), both of which are mandatory.

Our total GHG footprint in line with mandatory reporting requirements, is 5,331 tonnes CO<sub>2</sub>e.

Foxtons Group PLC emission data for period:

Emissions from	2016 Tonnes CO <sub>2</sub> e	2015 Tonnes CO <sub>2</sub> e
<b>Scope 1</b>		
Combustion of fuel	2,690	2,996
Other (gas, diesel & LPG)	83	39
<b>Scope 2</b>		
Purchased electricity	2,558	2,773
<b>Total footprint</b>	<b>5,331</b>	<b>5,808</b>
<b>Group metrics</b>		
FTE (average number during the year)	1,330	1,323
<b>Intensity ratios</b>		
Tonnes of CO <sub>2</sub> per FTE	4.01	4.39

The Strategic Report, from pages 1 to 27, has been reviewed and approved by the Board of Directors on 7 March 2017.

**Nic Budden**  
Chief Executive Officer



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60	Directors' report
63	Directors' responsibilities statement

# GOVERNANCE







## BOARD OF DIRECTORS

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Chief Executive Officer

Appointed to the Board / 1 July 2014

Committee Memberships /  
Disclosure

Experience /

Nic joined Foxtons in 2005 as its Chief Operating Officer. Prior to joining Foxtons, Nic had an international career in business development, operations, marketing, strategy and finance, having held positions at BT Group plc, Cable & Wireless Group and Severn Trent Group. Nic holds a degree in economics from the University of Essex.

External appointments /  
None

### Garry Watts

Non-Executive Chairman

Appointed to the Board / 23 August 2013

Committee Memberships /  
Remuneration, Nomination (Chair),  
Disclosure (Chair)

Experience /

Garry has been chairman of Foxtons since its flotation in 2013. He brings to the Board extensive experience as a public company CEO, executive and non executive Chairman and non executive director from a number of past and present roles. He has a particular focus on Corporate strategy, Board dynamics and investor communication. His experience across a number of industries, in businesses at different stages of development and with a range of challenges and opportunities enables him to bring a valuable breadth to Foxtons Board.

Garry joined Medeva plc as Finance Director in 1996 and in 2000, following a merger with Celltech Chiroscience, he was appointed as Director of Celltech Group plc and became CEO of its Celltech Medeva division. In 2001 Garry joined SSL International plc as Finance Director and was subsequently appointed as its CEO from 2004 to 2010. In addition to his executive roles, Garry was a Non-Executive member of the board, and Chairman of the audit and risk committee, of the UK's Medicines and Healthcare Products Regulatory Agency from 1991 to 2008. Between 2004 and 2008, he was Non-Executive Director and Chairman of the audit committee of Protherics plc. Garry is a chartered accountant and a former partner at KPMG. During 2007 and 2008 he was a member of the Institute of Chartered Accountants' Corporate Governance Committee. Garry is a Fellow of the Institute of Chartered Accountants in England and Wales.

External appointments /

Garry is the Chairman of Spire Healthcare Group plc, Chairman of BTG plc and a Non-Executive Director and Chairman of the audit committee of Coca-Cola European Partners.



Garry Watts



Nic Budden

07HD&AHNN

Chief Financial Officer

Appointed to the Board / 7 November 2016

Committee Memberships /  
Disclosure

Experience /

Mark joined Foxtons as Chief Financial Officer in November 2016. Prior to joining Foxtons, Mark held a number of positions at FTSE 250 recruitment business Hays plc. After early roles in internal audit and as Head of M&A, Mark became European Finance Director in 2006, in which he was responsible for businesses across 15 countries. In 2011 Mark was appointed as Group Financial Controller, a position in which he acted as Deputy Group Finance Director and held until joining Foxtons. Mark has extensive international experience across many areas of finance and over ten years' experience working in an agency business.

Mark qualified as a Chartered Accountant with Deloitte and holds an economics degree from the University of Birmingham.

External appointments /  
None



Mark Berry



**FFAJJA(GKHJ)**  
**Senior Independent Non-Executive Director**

Appointed to the Board / 23 August 2013

Committee Memberships /  
Audit, Remuneration, Nomination

**Experience /**

Annette has been a non-executive director of Foxtons since its flotation in 2013. She has a wealth of experience working on the boards of public companies particularly in the financial sector in executive and non-executive roles with an emphasis on technology and data. She was previously the CEO of Europe General Insurance for Zurich Financial Services group and a member of its Group Executive Committee. She is the former CEO of RBS Insurance/ Direct Line Group and was a member of the Group Executive Management Committee of The Royal Bank of Scotland Group plc. Annette holds a degree in engineering from the University of Oxford.

**External appointments /**

Annette is a Non-Executive Director of Admiral Group plc, Jardine Lloyd Thompson Group plc and a Director of Workshare Ltd. Annette is also Chairman of the Dining Club Group, a private equity backed company. In addition, she is a business mentor for Merryk & Co. Ltd and sits on the advisory board of StreetGames, a charity that helps disadvantaged young people.

**F9HAL98G8D**  
**Independent Non-Executive Director**

Appointed to the Board / 23 August 2013

Committee Memberships /  
Audit, Remuneration (Chair), Nomination

**Experience /**

Andrew has been a non-executive director of Foxtons since its flotation in 2013. He has over 30 years of experience in the City of London in senior positions with Citigroup Corporate Finance, Lazard LLC and BZW. As a corporate financier he has worked extensively in the property advisory field and in other areas of financial service companies and asset management. Andrew holds an MA in law and history of art from the University of Cambridge.

**External appointments /**

Andrew is Chairman of Majedie Investments plc, VPC Speciality Lending Investments plc, JP Morgan European plc and Panmure Gordon Ltd. He is also a Non-Executive Director of F&C Global Smaller Companies plc. During 2016 he was a non-Executive Director of Kleinwort Benson Bank Limited, a position from which he retired on 31 December 2016. He is also a Director of the Courtauld Institute of Art and Chairman of The Samuel Courtauld Trust.



Annette Court



Andrew Adcock



Michael Brown



Ian Barlow

**Ian Barlow**  
**Independent Non-Executive Director**

Appointed to the Board / 23 August 2013

Committee Memberships /  
Audit (Chair), Remuneration, Nomination,  
Disclosure

**Experience /**

Ian has been a non-executive director of Foxtons since its flotation in 2013. He is a past chairman of WSP Group plc and now chairs the audit committees of three other public companies. As a former KPMG Senior Partner, London and chartered accountant and chartered tax adviser, Ian brings a wealth of expertise on financial and accounting matters as well as broader board experience. He holds an MA in engineering science from the University of Cambridge.

**External appointments /**

Ian is a Non-Executive Director of Smith and Nephew Plc, Brunner Investment Trust Plc, and Urban & Civic plc.

**OC8B7AE&HGLF**  
**Non-Independent Non-Executive Director**

Appointed to the Board / 18 December 2009

Committee Memberships /  
None

**Experience /**

Michael joined Foxtons in 2002 as Chief Operating Officer of Foxtons and Chief Executive Officer of Alexander Hall. He was appointed as Chief Executive Officer of the Group in 2007 when BC European Capital acquired a majority interest in the Foxtons business. With effect from 1 July 2014 Michael stepped down as Chief Executive Officer but remains on the Board as a non-independent Non-Executive Director. Prior to joining Foxtons, Michael spent six years at Enron Europe as General Counsel and latterly as Chief Operating Officer. Michael is a former Non-Executive Director of Fitness First Limited and Teesside Gas Processing Plant Limited. Michael started his career as a solicitor at Slaughter and May and holds a degree in law from the University of Leeds.

**External appointments /**  
None

## CHAIRMAN'S INTRODUCTION

### Dear Shareholders,

On behalf of the Board, I am pleased to introduce you to the 2016 Corporate Governance Report.

The Board of Foxtons remains committed to maintaining high standards of corporate governance as we believe this underpins the achievement of the Group's strategy and also creates and maintains value for shareholders and other stakeholders.

Under my leadership, the Board sets the strategic direction and long-term objectives of the Group and monitors management's performance through oversight, constructive challenge and review. Within Foxtons, our system of governance includes policies and procedures which are disseminated and embedded within the Group, a sound and effective system of internal controls with clearly defined levels of authority and accountability, and an internal reporting structure which facilitates the information flow up to the Board. In this review and the reports of the Audit, Remuneration and Nomination Committees that follow, we have outlined more information on our governance framework and the work we have undertaken over the past year.

In addition to having robust processes, the Board also believes that good governance involves ensuring we do the right thing and that appropriate behaviours and culture are instilled throughout the Group, with the tone and expectations set from the top. As a Board we therefore look to make decisions that reflect the culture that we wish to foster and which reinforce the Foxtons Group values.

#### Composition of the Board

In May, the Board announced the appointment of Mark Berry as Chief Financial Officer. We were delighted to welcome Mark to the Board in November and we value the experience and skills that he brings to the role. More information on the appointment process that was undertaken is provided in the Nomination Committee Report on page 40. Whilst Gerard Nieslony has stepped down from the Board, I am pleased that he is remaining with Foxtons as Finance Director which provides further strength and depth to the Finance function.

On 6 March 2017, Annette Court advised the Board that she will be standing down at the Annual General Meeting on 17 May 2017 and will not be seeking re-election. The Board, assisted by the Nomination Committee, will be considering her replacement as Senior Independent Director and will also be reviewing its composition over the coming months.

#### Succession planning and diversity

This year we have continued to review Board and senior management succession planning. Although the Group has no specific gender and diversity targets as we believe that appointments should be based on merit, we strongly support diversity throughout the work force. Information on the Company's diversity and inclusion is provided on pages 12-13. We have reviewed the steps that management are taking in order to increase diversity at the senior management level and will continue to regularly review progress. We believe that better business decisions can be made by having representation from different genders and cultural backgrounds with differing skill sets, experience and knowledge, which reflects the wider population and our customer base.

#### Board evaluation

In the second half of 2016 I oversaw our first external evaluation of the performance of the Board and its Committees. It was undertaken by Independent Audit using an online assessment facility focusing on key areas for the Board. The results were very positive and indicated that the Board has continued to work effectively over the past year. No significant concerns were raised through the evaluation but it did provide some areas for Board focus over the coming months. More information on the results of the evaluation is provided on page 37.

#### Remuneration Policy

This year we will be asking shareholders at the Annual General Meeting to approve the Company's Remuneration Policy for the next three years and also a new share option plan (SOP) which we believe is aligned with the interests of shareholders and reinforces the Company's strategy. The Annual Statement from Andrew Adcock, our Remuneration Chairman on page 44, outlines the details of the proposed new SOP, the key changes from our previous policy and why these are being proposed.

#### Appointment and re-election of Directors

Following the performance evaluation of Directors in 2016, I can confirm that all Directors standing for election/re-election at the AGM continue to be effective, committed to their roles and have sufficient time available to perform their duties. Accordingly, as recommended by the Nomination Committee, Mark Berry will be offering himself for election, and all other Directors (with the exception of Annette Court as mentioned above) offering themselves for re-election, at the Company's Annual General Meeting to be held on 17 May 2017. Further information on the Directors can be found in the Directors' biographies on pages 30 to 31 and in the Directors' Report on page 60.

#### Compliance with UK Corporate Governance Code (the "Code")

We have explained in more detail in the pages that follow how the Company has complied with the principles and provisions of the 2014 edition of the Code. The Company will be required to comply with the 2016 revision of the Code from 1 January 2017 and I anticipate that the Company will be able to report its compliance with the 2016 version of the Code next year.



**Garry Watts**

Chairman, Foxtons Group plc

7 March 2017

## CORPORATE GOVERNANCE STATEMENT

### Board Governance

This Report outlines the key features of the Company's corporate governance framework and sets out how the Company has applied the principles of the UK Corporate Governance Code published in September 2014 (the "Code") and the extent to which it has complied with the Code's provisions. A copy of the Code is available on the Financial Reporting Council website at [www.frc.org.uk](http://www.frc.org.uk).

#### Compliance with the Code

Throughout the year ended 31 December 2016 the Company adhered to all the principles of the Code and complied with all the provisions, except in respect of part of E.1.1. relating to the Senior Independent Director (SID) attending meetings with a range of major Shareholders. The Board believes that there were appropriate mechanisms in place during the year for the Board to understand the views of major Shareholders and to communicate with them. The Non-Executive Directors are available to meet with Shareholders if requested and would instigate such meetings if they became aware of issues or concerns through the procedures in place. The Board believes this is consistent with the main principle of the Code on dialogue with Shareholders.

#### The Board and its responsibilities

The Board is responsible for the long-term success of the Company and for delivering sustainable Shareholder value. It agrees the strategic objectives for the Company and ensures that these are achieved within an appropriate framework of effective controls which enable risk to be assessed and managed.

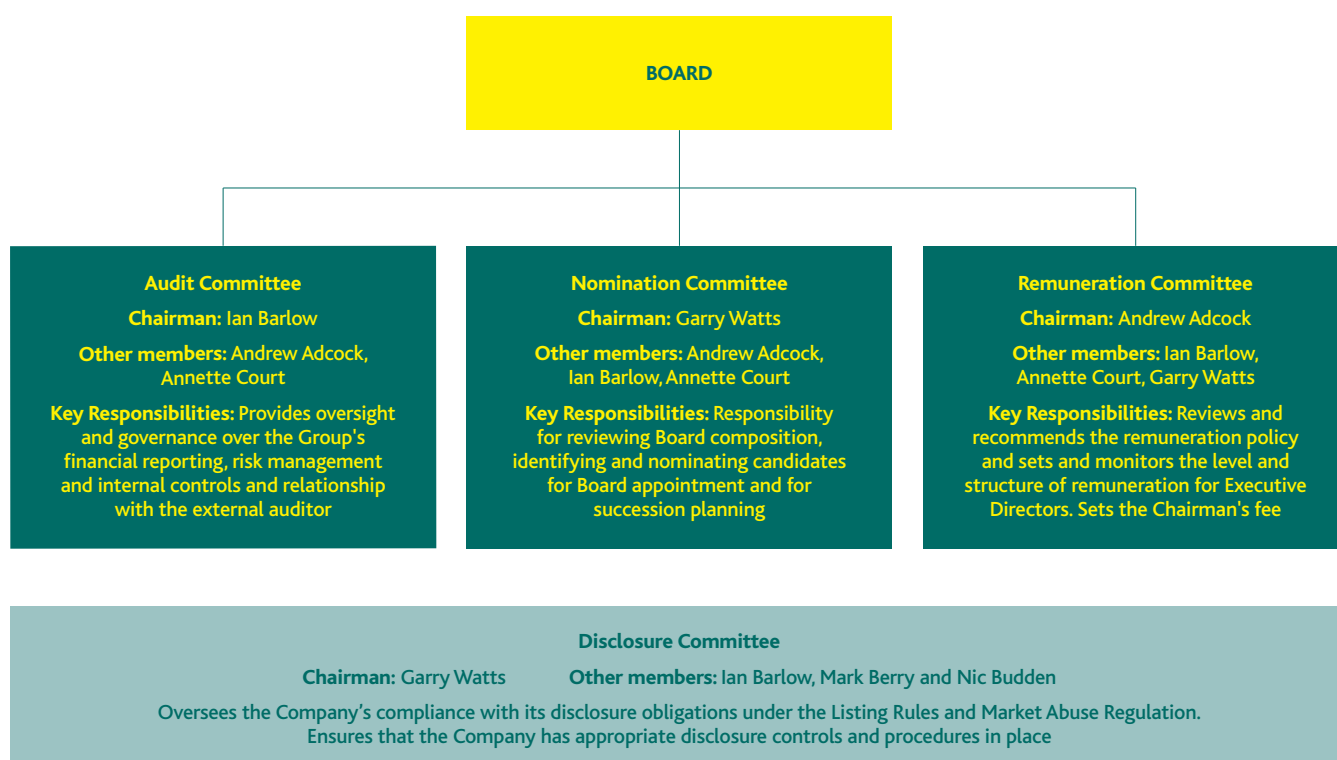
Responsibility for day-to-day operations is delegated by the Board to the Executive Directors within defined authority limits, which are regularly reviewed and updated by the Board. Certain key decisions and matters are reserved for the Board's approval and are not delegated to management or any Board Committees, though it may consider recommendations from them.

The Board's responsibilities include:

- setting the strategic aims and approving the Group's budget and financial plans
- approval of capital expenditure, significant investments and acquisitions
- approval of annual and interim results and trading updates
- payment of interim dividends and recommendation of final dividends to shareholders
- setting the Group's risk appetite and oversight of the internal control, risk management and governance frameworks
- monitoring management's performance
- ensuring succession plans are in place

#### The Foxtons Corporate Governance Structure

The following chart shows the Group's corporate governance structure and provides an overview of the Committees of the Board.



## CORPORATE GOVERNANCE STATEMENT (continued)

The Board comprises the Non-Executive Chairman, three independent Non-Executive Directors, one non-independent Non-Executive Director and two Executive Directors. A list of the Directors, with biographical details, is provided on pages 30 to 31. There is a separation of responsibilities between the Chairman and the Chief Executive Officer which is set out in writing. This division of responsibilities, together with the schedule of matters which are reserved for the Board, ensures that no individual has unfettered powers of decision-making.

By delegating specific responsibilities to its Committees (as shown on the previous page) the Board can ensure that it is operating effectively and efficiently with the right level of attention and consideration being given to relevant matters. The role and responsibilities of each Board Committee are set out in formal Terms of Reference which are determined by the Board and the Chairman ensures that the very significant work of the Committees feeds into, and is influenced by, the full Board. The Chair of each Committee reports to the Board after each Committee meeting on the matters discussed and minutes of each meeting are provided to the Board for information as appropriate. The terms of reference of the Committees are available at [www.foxtonsgroup.co.uk](http://www.foxtonsgroup.co.uk).

### Roles and Responsibilities

#### Chairman

*Garry Watts*

- Provides leadership and promotes a culture of openness and debate between Executive and Non-Executive Directors.
- Sets the Board agenda and ensures that Directors are provided with accurate, timely and clear information to enable the Board to operate effectively.
- Responsible for the integrity and effectiveness of the system of governance.

#### Chief Executive Officer

*Nic Budden*

- Responsible for leading the Group's operating performance and day-to-day management and implementation of strategy, agreed by the Board.

#### Chief Financial Officer

*Mark Berry*

- Responsible for the Group's financial reporting, financial strategy and investor relations programme.
- Provides leadership of the finance function.

#### Non-Executive Directors

*Andrew Adcock, Ian Barlow, Michael Brown, Annette Court*

- Provide a broad range of skills and experience to the Board to assist in formulating the Company's strategy; and provide constructive challenge and support to the Executive Directors based on their breadth of knowledge and experience.

#### Senior Independent Director

*Annette Court*

- Available to Shareholders if they have concerns that cannot be addressed through normal channels, internal sounding board for the Chairman and acts as intermediary for the other Directors with the Chairman, if necessary.

With the exception of Michael Brown, all of the Non-Executive Directors are regarded by the Company as independent and are free from any business or other relationship which could materially interfere with the exercise of their independent judgement.

#### Board activities during the year

The Board dedicates one of its meetings every year to focus on reviewing the Group's strategy and to consider annual objectives. Deep dives on strategic issues are also scheduled during the course of the year, as required. The Board monitors the achievement of the Company's objectives through monthly Board reports which include updates from the Group Chief Executive Officer, Chief Financial Officer and other key personnel. There is a rolling agenda of items that are regularly considered by the Board and this agenda is continually updated to include any topical matters that arise.

The main topics considered by the Board during the year included:

Area	Agenda items
<b>Financial Reporting</b>	<ul style="list-style-type: none"> <li>• Approval of annual results for 2015 and interim results for 2016</li> <li>• Approval of trading updates</li> <li>• Review of dividend policy, dividend payment/recommendation (as appropriate)</li> <li>• Review of monthly financial performance</li> <li>• Approval of £10m revolving credit facility</li> <li>• Cancellation of share premium account</li> </ul>
<b>Budget</b>	<ul style="list-style-type: none"> <li>• Approval of three year financial plan 2017-2019 and 2017 annual budget</li> </ul>
<b>Internal Control and risk management (in conjunction with the Audit Committee)</b>	<ul style="list-style-type: none"> <li>• Consideration of risk appetite and principal risks</li> <li>• Assessment of effectiveness of internal controls and risk management systems</li> <li>• Consideration of viability statement and going concern</li> </ul>
<b>Operations</b>	<ul style="list-style-type: none"> <li>• Review of market performance, trends and outlook</li> <li>• Operational performance monitoring and review</li> <li>• Approval of acquisition of a lettings portfolio</li> <li>• Presentations from, and discussion of, performance of business divisions, including reviews of Alexander Hall's strategy, trading and risk management</li> <li>• Competitor performance review</li> <li>• Review of customer journey, digital proposition (including MyFoxtons portal) and marketing strategy</li> <li>• Customer service and satisfaction review</li> </ul>
<b>Strategy</b>	<ul style="list-style-type: none"> <li>• Consideration of overall strategy, strategic projects and monitoring progress</li> </ul>
<b>Shareholder engagement</b>	<ul style="list-style-type: none"> <li>• Regular updates on views of investors, including independent feedback from brokers following investor meetings and AGM</li> <li>• Consideration of market reaction to key announcements</li> </ul>
<b>Board</b>	<ul style="list-style-type: none"> <li>• Consideration of Board Evaluation results for 2016</li> <li>• Succession planning and appointment of new Chief Financial Officer</li> <li>• Approval of Non-Executive Directors' fees (by Executive Directors and Chairman only)</li> </ul>
<b>Governance</b>	<ul style="list-style-type: none"> <li>• Review of Terms of Reference of Committees and matters reserved for the Board</li> <li>• Review of membership of Board Committees and independence</li> <li>• Review of Company policies and approval of changes to Board delegated authorities</li> <li>• Updates on governance, legal and regulatory matters and the impact of regulatory changes, including the Market Abuse Regulation, on the Group</li> </ul>

#### Board meetings

Directors' attendance at Board and Board Committee meetings held during 2016 is provided in the table below:

Director	Meetings attended			
	Board	Audit Committee	Remuneration Committee	Nomination Committee
Garry Watts	6 of 6	—	4 of 4	3 of 3
Andrew Adcock	6 of 6	4 of 4	4 of 4	2 of 3*
Ian Barlow	6 of 6	4 of 4	4 of 4	2 of 3*
Michael Brown	6 of 6	—	—	—
Nic Budden	6 of 6	—	—	—
Annette Court	6 of 6	4 of 4	4 of 4	3 of 3
Mark Berry (appointed 7 November 2016)	1 of 1	—	—	—
Gerard Nieslony (resigned 7 November 2016)	5 of 5	—	—	—

\* An ad hoc meeting of the Nomination Committee was held in May 2016 at short notice in connection with Mark Berry's appointment. Ian Barlow and Andrew Adcock were unable to attend but were consulted beforehand on the business to be discussed and their views were taken into account at the meeting.



## CORPORATE GOVERNANCE STATEMENT (continued)

### Disclosure Committee

During the year the Board constituted a new Disclosure Committee to oversee the Company's compliance with the inside information regulations in the Listing Rules and the Market Abuse Regulation, on behalf of the Board. The Chairman is Garry Watts and its members are Ian Barlow, Nic Budden and Mark Berry. The Committee will meet on an ad hoc basis when there are matters to be considered within its remit.

### Directors' appointments and service contracts

The Board has a formal procedure in respect of the appointment of new Directors, with the Nomination Committee leading the process and making recommendations to the Board. The steps undertaken in respect of the appointment of Mark Berry are outlined in the Nomination Committee Report on page 40.

All of the Directors have service agreements or letters of appointment which are available for inspection at the Company's registered office during normal business hours. The details of their terms are also set out in the Remuneration Report. No other contract with the Company or any subsidiary undertaking of the Company in which any Director was materially interested subsisted during or at the end of the financial year.

### Directors' induction and professional development

The Company has in place an induction programme, led by the Chairman and the Chief Executive Officer, for new Directors to provide them with a full, formal and tailored introduction on joining the Board, which ensures that they attain sufficient knowledge of the Company to discharge their duties and responsibilities effectively. The programme includes meeting with senior management and advisers and visits to the Group's operational locations. The Board calendar is planned to ensure that Directors are briefed on a wide range of topics, including updates on corporate governance and regulatory matters.

Directors are also given the opportunity to visit the Group's branches and discuss aspects of the business with employees. As well as internal briefings, Directors may also attend appropriate external seminars and briefings.

All Directors have access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring the Board procedures are complied with and that Directors have access to independent and professional advice at the Company's expense, where they judge this to be necessary to discharge their responsibilities as Directors.

### Induction programme for Mark Berry

On appointment, Mark Berry received a full induction programme, meeting with the Chairman, each of the Non-Executive Directors, members of senior management and other staff from across the business, the branch network and the Alexander Hall mortgage brokerage. Mark also met with the Company's lead audit partner. His programme included branch visits, briefings and updates on topical industry issues, in addition to relevant legal, regulatory and governance matters.

### Directors' conflicts of interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Company, unless that conflict is first authorised by the Directors. This includes potential conflicts that may arise when a Director takes up a position with another company. The Company's Articles of Association allow the Board to authorise such potential conflicts, and there is in place a procedure to deal with any actual or potential conflict of interest. No actual or potential conflicts have been identified which have required approval by the Board. Should a Director become aware that they, or their connected parties, have an interest in an existing or proposed transaction with the Company, they should notify the Board. The Board deals with each appointment on its individual merit and takes into consideration all the relevant circumstances.

### Board evaluation and effectiveness

An external evaluation of the performance of the Board and its Committees was carried out during the year. The process of evaluating the performance was undertaken by Independent Audit under the direction of the Chairman. Independent Audit is an independent third party provider of board evaluation services which has no other connection with the Company. The evaluation took the form of a questionnaire and Directors were required to score certain aspects of the Board's and Committees' performance. They were also invited to comment on the areas of focus, which included leadership and accountability, strategy and risk taking, Board culture, Board composition and roles and responsibilities.

The responses to the evaluation of the Board and its Committees were collated and analysed by Independent Audit and then reviewed by them with the Chairman prior to being considered by the full Board. The Chairman also met separately with individual Directors to discuss the Board's effectiveness and individual performance. The results of the evaluation indicated that the Board continues to work well and while there are no significant concerns among the Directors about the Board's effectiveness some detailed observations were made which were considered by the Board. The resulting actions agreed by the Directors will be monitored by the Board during 2017.

As a separate exercise the SID, together with the Non-Executive Directors conducted the Chairman's evaluation. The SID subsequently discussed the outcome of the evaluation with the Chairman.

## 2016 Board Evaluation Results

## Actions to take forward

Whilst not an immediate priority, consideration to be given to succession plan for Non-Executive Directors. Further consideration to be given to Executive Director succession planning and pipeline.	The Nomination Committee will continue to keep under review the composition of the Board and the skills and experience required to ensure that the Group remains well positioned for the future development of the business. Succession planning for Non-Executives and also Executive Directors and senior management will remain a focus for 2017.
More time to be allowed for in-depth debate of scenarios and alternatives when considering strategy and risk.	More time will be given to this at the strategy day in June 2017 with additional 'deep dive' sessions throughout the year as appropriate.
Improve management reporting so it is focussed on strategic objectives and performance rather than just on reporting financial outcomes. KPIs to be enhanced.	This is part of a project to be undertaken by management in the coming months, which will be monitored by the Board.
Focus on ensuring that the required culture and values are appropriately instilled throughout the Group.	This will be an area of focus for the Board during 2017.
Continue to further engage with the business and to have more interaction with senior management and risk owners.	Over the past year there has been an increase in members of senior management presenting to the Board and this will continue in 2017. Individual meetings with the management team and branch visits also to be arranged for Non-Executive Directors.
Annual Report to better explain appropriateness of the Board mix and skills sets of the Directors.	The biographies in the 2016 Annual Report include more details of the skills and experience that each Director brings to their role on the Board.

## 2015 Board Evaluation Results

## Actions taken

Continue to develop the talent pipeline and increase diversity.	Succession planning and diversity were considered by the Nomination Committee in 2016. Management has taken steps to increase diversity through mentoring, coaching and development programmes, and the results from these programmes will continue to be monitored by the Nomination Committee.
Continue to review succession planning within the Executive Team.	Executive Director succession planning was reviewed during the year and work was undertaken to ensure that there are either longer term succession plans in place or plans for short-term, emergency cover should this be necessary.
Make enhancements to the risk reporting to the Audit Committee and Board.	As part of the work undertaken to prepare for publishing the viability statement in the 2015 Annual Report, the Group undertook a project to enhance the risk management system and reporting. This was completed early in 2016.
Senior management to meet with and present to the Board on a more regular basis.	Arrangements were made for senior management to present to the Board on a more regular basis.
Revisit the format of the annual strategy session and adapt it to ensure more time for presentation and debate.	Further time was allowed for the strategy session in June and included additional presentations from senior management.

## CORPORATE GOVERNANCE STATEMENT (continued)

### Accountability and audit

#### Financial reporting

The Group has in place a comprehensive financial review cycle, which includes a detailed annual financial planning process where budgets are prepared for approval by the Board. The Group uses a number of KPIs to measure both operational and financial activity within the business. Depending on the measure, these are reported and reviewed on a weekly or monthly basis. In addition, management receives a weekly and monthly pack of indicators which are the basis of regular operational meetings, where corrective action is taken if necessary. At a Group level, a well-developed comprehensive management accounts pack, including income statements, balance sheets, cash flow statements as well as key ratios, is reviewed monthly by management and at Board meetings. A re-forecast of the current year numbers is carried out quarterly. Management monitors the publication of new reporting standards and reports on any updates to the Board.

#### Risk management and internal controls

The Audit Committee, on behalf of the Board, keeps under review the effectiveness of the Group's risk management and internal control systems to ensure that controls in place are effective in order to safeguard Shareholders' investments and the Group's assets. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board has defined its risk appetite for strategic, financial, operational and compliance risks. A standard methodology for risk assessment is applied across the Group to assist with monitoring gross and residual risk and comparing residual risk against the appropriate risk appetite. As required by the Code, the Board has carried out a robust assessment of the principal risks facing the Company, including those that could threaten its business model, future performance, solvency or liquidity. This is more fully described in the Risk Management section on pages 22 to 25.

The Group has the following key procedures in place to provide effective internal control:

- an ongoing process to identify, evaluate and manage significant risks, which is monitored and regularly reviewed by the Executive Team with significant issues presented to the Board and Audit Committee;
- the Group's Compliance department continuously reviews operations to ensure that transactions have been properly authorised and procedures are adhered to across the Group;
- the Group's controls include appropriate segregation of duties and are fully documented and embedded within the organisation;
- the Audit Committee reviews fraud, anti-bribery and whistle-blowing policies and procedures and considers any whistle-blowing incidents; and
- the Group has in place a system for planning, reporting and reviewing financial performance, including performance against strategy and the business plan as described under the Financial Reporting above.

On the basis of the above procedures and the monitoring processes employed, and having regard to the "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting" issued by the Financial Reporting Council in September 2014, the Board, advised by the Audit Committee, has concluded that the systems of internal controls within the Group are effective. No significant control failings or weaknesses were identified during the period under review.

The Directors confirm that the processes described above have been in place during the 2016 financial year and up to the date of the approval of this Annual Report and Accounts.

#### Whistle-blowing

The Group believes that it is important to have a culture of openness and accountability in order to prevent situations relating to possible impropriety, financial or otherwise, from occurring or to address them when they do occur. The Company's independent whistle-blowing hotline continues to be in operation and reports are provided to the Audit Committee on any material matters reported to the independent whistle-blower hotline.

#### Fair, balanced and understandable

The Group has a comprehensive and thorough assurance process in respect of the preparation, verification and approval of periodic financial reports. The process involves:

- The involvement of qualified and appropriately experienced staff, under the direction of the CFO;
- A comprehensive review and verification process which deals with the factual content of the reports and ensures consistency across various sections;
- A common understanding amongst senior staff which ensures consistency and overall balance;
- A transparent process to ensure full disclosure of information to the external auditors;
- Engagement of a professional and experienced firm of external auditors who understand the Foxtons business and business model; and
- Oversight by the Audit Committee which, among other things, reviews:
  - the key accounting judgements and key sources of estimation uncertainty;
  - the consistency of, and any changes to, significant accounting policies and practices;
  - significant adjustments arising from the external audit;
  - the Company's statement on risk management and internal control; and
  - the going concern and viability assumptions.

The process outlined, together with the review and challenge of management by the Audit Committee and its recommendation to the Board, provides comfort to the Board that the Annual Report taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Company's business model, strategy, position and performance.



#### **Relations with Shareholders**

Responsibility for Shareholder relations rests with the Chairman, Chief Executive Officer and Head of Investor Relations. The Board receives regular updates at Board meetings on the views of its Shareholders, and the SID is available to meet Shareholders if they wish to raise issues separately. The Chairman, Chief Executive Officer and Head of Investor Relations also ensure that there is effective communication with Shareholders on matters such as governance and strategy, and are responsible for ensuring that the Board understands the views of major Shareholders.

The Board aims to present a balanced and clear view of the Group in communications with Shareholders and believes that being transparent in describing how we see the market and the prospects for the business is extremely important. We communicate with Shareholders in a number of different ways. The formal reporting of our full and half year results is a combination of presentations, group calls and one-to-one meetings. The full and half-year reporting are followed by investor meetings in a variety of locations where we have institutional Shareholders. We regularly meet with existing and prospective Shareholders to update them on our latest performance or to introduce them to the Company and periodically arrange a visit to the business to give analysts and major Shareholders a better understanding of how we manage our business. These visits and meetings are principally undertaken by the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer and Head of Investor Relations with any relevant material being uploaded to the Company's corporate website to make it available to all Shareholders.

## CORPORATE GOVERNANCE STATEMENT (continued)

### Nomination Committee Report

Welcome to the Company's Nomination Committee Report for 2016.

#### Nomination Committee

Chairman: Garry Watts

Other members: Ian Barlow, Andrew Adcock, Annette Court  
(all independent Non-Executive Directors)

#### Role and responsibilities

The Committee's responsibilities, as outlined in its terms of reference (which are reviewed annually), are:

- to keep under review the structure, size and composition (including the skills, knowledge, expertise and diversity) of the Board and the membership of its Committees
- to consider succession planning for the Board and other senior executives
- to assist with the selection process for the appointment of new Directors, both Executive and Non-Executive, including the Chairman

#### Activities during the year

The Committee met three times during the year. Attendance at the meetings is shown in the table on page 35.

#### Appointment of new Chief Financial Officer

One of the main issues that the Committee considered this year was the appointment of Mark Berry as the Company's new Chief Financial Officer in November. Egon Zehnder, who do not have any connection with the Company, were engaged to assist in identifying potential candidates and were given a role profile outlining the skills, attributes and experience sought. A range of candidates, both male and female, from various backgrounds and industries were considered and a short list was compiled. Following an initial interview with the Chief Executive Officer, those on the shortlist then met the Chairman and other Non-Executive Directors. The Committee concluded that Mark Berry was a suitable individual for the role, with his broad experience in finance and corporate development, which will be influential in supporting the Company's continual growth. On the recommendation of the Committee, the Board agreed the appointment.

#### Senior Independent Director

Annette Court has advised the Board that she will not be seeking re-election at the Company's 2017 Annual General Meeting. The Committee will be considering her replacement as the Senior Independent Director and will make an appropriate recommendation to the Board in due course. In addition, the Committee will be undertaking a review of the Board's composition with a view to future appointments over the coming months.

#### Succession Planning

During the year, the Committee considered succession planning for the Executive Directors and reviewed the Chief Executive Officer's plan for senior management succession. The Company's policy is to develop the talent pipeline and promote from within, wherever possible. Due to the nature of the Company's operations and size it is not practicable for the Company to have an internal successor identified for all senior management roles, but where there is no obvious successor, the Committee is satisfied that the Company has a plan for appropriate short-term cover until a permanent successor can be recruited. Senior management succession planning will continue to be a focus for 2017.

The Committee also reviewed the size, composition and skill set of the Board during 2016 and concluded that there was an appropriate mix of experience, skills and knowledge to provide strong and effective leadership. Following Annette Court's decision to step down from the Board, the Committee will be reviewing the Board composition (as mentioned above). Board succession planning will continue to be a focus in the coming year and beyond in order to ensure that the Board retains the right balance of skills and experience to meet the requirements of the business as it evolves.

#### Diversity

The Company believes that diversity throughout the business is important for the Group in order to reflect the varied nature of the communities that Foxtons operates in and its customer base. The Board's policy on diversity is to ensure that the Directors on the Board have a broad range of experience, skills and knowledge, with diversity of thinking and perspective. Appointments to the Board are always made on merit against objective criteria, having regard to the benefits of diversity, including gender diversity, and the current and future needs of the business. The Board has not set any specific gender or diversity targets. When identifying candidates for appointment to the Board, any search firm engaged will be instructed to include a range of candidates, including women, from diverse backgrounds for consideration.


As part of its review of succession planning, the Committee considered the diversity of the senior management team. The Committee is broadly satisfied with the diversity within the Company but aspires to improve the gender balance and ethnic diversity at the senior level. Management has in place a range of measures designed to address this, including coaching, mentoring, development programmes and flexible working, and the Committee will continue to monitor progress on behalf of the Board over the coming year. More information on Foxtons' diversity policy and the diversity of its workforce is provided on page 12.

#### Annual evaluation of the Nomination Committee's performance

As part of the external Board evaluation this year, the performance of the Nomination Committee was reviewed. I am pleased to report that there were no areas of significant concern and it was concluded that the Committee was operating effectively. Actions arising for the Committee from the evaluation of both the Board and the Committee are detailed on page 37.

#### Directors' Performance and Re-Election

Following consideration, and taking into account the results of the recent Board Evaluation, the Committee has concluded that each Director on the Board standing for election/re-election at the AGM continues to demonstrate the necessary skills, experience and commitment to contribute effectively and add value to the Board. Taking into account the continuing effective performance of the directors, the Committee has recommended to the Board that Mark Berry should be put forward for election, and all other Directors for re-election, at the Annual General Meeting (with the exception of Annette Court who will not be seeking re-election).



Garry Watts  
Chairman of the Nomination Committee

7 March 2017

## Audit Committee Report

Dear Shareholders,

I am pleased to report on the activities of the Audit Committee in 2016. We undertook a number of non-routine reviews to provide additional assurance to the Board which included:

- In the prior year the Committee had commissioned an extended IT assurance audit which resulted in a number of recommendations. The Committee followed up on this report during the year, receiving confirmation that the actions have been fully implemented which included enhancements to IT governance and amendments to risk monitoring
- An in-depth review of compliance and risk management within the group's mortgage broking division
- Reviewed further development of group risk management, in particular the assessment of residual risk against the Board's appetite for risk within the business

The Committee held four meetings during the year with attendance disclosed on page 35.

### Current members of the Audit Committee

Chairman: Ian Barlow

Other members: Annette Court, Andrew Adcock

There were no changes to the Committee members from the previous year. Each member is an independent Director and deemed to have recent and relevant financial experience with the Chairman, Ian Barlow, being a chartered accountant and chartered tax adviser.

### Role, responsibilities and main activities

The primary function of the Audit Committee is to assist the Board in fulfilling its responsibilities to protect the interests of the Shareholders with regard to the integrity of the financial reporting, audit, risk management and internal controls. Since the last Audit Committee Report the Committee has held four meetings, with the principal work being:

Role	Tasks	Jul 2016	Sep 2016	Nov 2016	Feb 2017
Financial reporting	Monitoring and reviewing the Group's accounting policies, practices and significant accounting judgements				▲
	Reviewing the plan and progress for the production of the 2016 Annual Report and Accounts			▲	
	Receiving the annual and half yearly financial statements and advising the Board on whether the Annual Report and Accounts are fair, balanced and understandable. In fulfilling this task the Audit Committee reviewed the process undertaken to produce the Annual Report and Accounts, which included guidance given to contributors, internal verification processes and content approval procedures. The Committee also reviewed supporting papers to ensure the Annual Report and Accounts were factually correct	▲			▲
	Reviewing the going concern paper which analysed the profitability and cash generation of the Company and agreeing with the adoption of the going concern basis	▲			▲
	Considering and reviewing the viability statement and supporting sensitivity analysis which assessed the potential impact of the principal risks on the future performance and liquidity of the Group over a three year period. For each principal risk the Company assessed adverse scenarios and their potential impact				▲

## CORPORATE GOVERNANCE STATEMENT (continued)

Role	Tasks	Jul 2016	Sep 2016	Nov 2016	Feb 2017
<b>External audit</b>	Approving the appointment of, and recommending the reappointment of, the external Auditor and their terms of engagement and fees		▲		▲
	Considering the scope of work to be undertaken by the external Auditor and reviewing the results of that work		▲		▲
	Receiving the external Auditor's audit planning paper for 2016 and reviewing materiality thresholds and areas of risk where the Auditors would concentrate		▲		
	Reviewing and monitoring the independence of the external Auditor and approving their provision of non-audit services				▲
	Reviewing the effectiveness of the external Audit process				▲
	Reviewing the policy for approval of non-audit services provided by the external Auditor – details are on our website: <a href="http://www.foxtongroup.co.uk">www.foxtongroup.co.uk</a>	▲			
	Receiving the external Auditor's interim review report to the Audit Committee in which there were no issues of concern identified	▲			
<b>Internal controls</b>	Ensuring compliance with the Code				▲
	Reviewing whether the Company should have an internal audit function. Again it was concluded that this was not required because of the simplicity of the Group's centralised business model combined with existing assurance activity in key control areas. This will continue to be reviewed annually		▲		
	Assessing and advising the Board on the internal financial, operational and compliance controls			▲	
	Reviewing the whistle-blowing policy and helpline reports				▲
<b>Risk management</b>	Reviewing the Company's risk appetite and risk monitoring systems which assess gross risk, mitigating controls and residual risk across the Company and comparing residual risk against the Board's risk appetite	▲		▲	▲
	Receiving an update report on progress against recommendations made on controls within the IT function	▲	▲		
	Receiving an in-depth report on compliance and risk management within the group's mortgage broking business			▲	
	Advising the Board on the appropriateness of the Company's systems of internal controls in order to allow the Board to assert as such in the Annual Report and Accounts				▲
<b>Governance</b>	Reviewing the Committee's terms of reference and recommending changes to the Board		▲		

### Governance processes

The Audit Committee usually invites the full Board, plus the external Auditor, to attend each meeting. Other members of management attend as and when requested. The Committee holds a private session with the external Auditor after the February meeting at which the Annual Report is reviewed and at other times during the year without members of management being present, where necessary.



### Critical accounting judgements and key sources of estimation uncertainty

The Audit Committee reviewed the following judgements, estimates and assumptions made by the Directors in the production of the accounts all of which were consistent with prior years.

<b>Revenue recognition in respect of lettings commission</b>	For lettings commission, as the business has substantially completed all of its obligations at the point of signing the contract, with the exception of the administration in respect of the cash collection service, the Group is able to recognise the majority of the lettings commission upfront. However, for those leases with break clauses, the Group is required to refund any commissions related to the associated period should these break clauses be activated. The Audit Committee reviewed management's methodology and judgement in assessing the recognition of lettings commission which is based on historical average contract lengths, average break clause lengths and average commission rates. The Audit Committee concurred with their approach. (See notes 3 and 4 of the financial statements.)
<b>Impairment of goodwill and intangibles with an indefinite life</b>	The Group has goodwill and intangible assets with indefinite lives amounting to £19.2 million and £99 million respectively. The Audit Committee considered the impairment review methodology used by management including relevant forecasts and discount rates. The Audit Committee concurred with management's view that, despite the reduction in profitability of the Group in 2016, no impairment was required. The Audit Committee noted, that although headroom in the analysis had reduced, it also noted that a series of possible adverse scenarios, individually, would not change the conclusion of the impairment review. However, a combination of all of these scenarios occurring at once would remove the headroom of the sales CGU. (See note 13 of the financial statements.)
<b>Client funds</b>	The rationale for not showing client funds in the consolidated statement of financial position was reviewed and the Committee concurred with management's view that, as these funds belong to the client, the asset and liability should not be recorded in the accounts. (See note 4 of the financial statements.)

### External Auditor

The external Auditor, Deloitte LLP, has audited the accounts of the Group since 2009. The 2016 audit process was led by Claire Faulkner. No tender has been conducted since Deloitte's appointment.

In accordance with the requirements of the Code and recent changes to the EU regulatory framework, the Company will ensure that the external audit contract is put out to tender at least every 10 years from the appointment date of the current Auditors. There are no contractual obligations on the Company which restrict the choice of Auditor.

As noted, the Committee has reviewed the effectiveness of the external audit process. The Committee did this by:

- Reviewing the proposed external Auditor's plan for the 2016 audit;
- Discussing the results of the external Auditor testing, including their views on material accounting issues and key judgements and estimates and their audit report;
- Considering the robustness of the audit process;
- Reviewing the quality of people and service provided by Deloitte; and
- Confirming the independence and objectivity of Deloitte.

We concluded that we were satisfied with the performance and independence of Deloitte LLP as external Auditors and recommended their re-appointment.

### Non-audit services

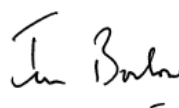
The details of our non-audit services policy are set out on our website [www.foxtonsgroup.co.uk](http://www.foxtonsgroup.co.uk). In brief, there are certain services termed "excluded services" that are not permitted to be provided by the external Auditor. Excluded services refers to the situation where the Auditor could audit their own work or work to which

they have contributed. All permitted non-audit services provided by the external Auditor are subject to prior approval by the Audit Committee. The main engagement under permitted non-audit services was that of tax compliance, as the Committee considers that the Group benefits from the knowledge and experience of Deloitte while maintaining objectivity and independence by the tax team being separate from the audit team. However, in light of the new EU restrictions regarding non-audit services, the Group appointed PwC to provide tax compliance services with effect from the 2016 corporation tax computations. Consequently, corporation tax computations for 2015 will be the last financial year for which our Auditors, Deloitte, will provide tax services.

Total non-audit services provided by Deloitte LLP for the year ended 31 December 2016 were £0.2 million (2015: £0.1 million) (note 7 on page 77) of which £0.2m relate to tax compliance services which will not re-occur. Audit fees for the year total £0.2 million (£2015: £0.2 million).

### Independent evaluation of the Audit Committee's performance

As part of the external evaluation conducted by Independent Audit in 2016, the performance of the Audit Committee was reviewed. There were no areas of concern and it was concluded that the Audit Committee had effectively fulfilled its role.



**Ian Barlow**  
Chairman of the Audit Committee  
7 March 2017

## DIRECTORS' REMUNERATION REPORT

### Annual statement from the Remuneration Committee Chairman

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2016, which has been prepared in accordance with the relevant provisions of the Listing Rules, section 421 of the Companies Act 2006 and Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended).

This Report is set out in two parts:

- the Policy Report. This year we will be asking shareholders to approve a revised remuneration policy at our 2017 AGM. Further details are provided below; and,
- the Annual Report on Remuneration which sets out how Directors were paid for 2016 and how we will apply the Policy (subject to shareholder approval) in 2017. This will be subject to an advisory vote at the 2017 AGM.

#### Remuneration Policy review

As foreshadowed in last year's remuneration report, during the year the Committee reviewed the Remuneration Policy approved at the 2014 AGM to ensure it continues to be appropriate to the Group's strategy and business needs, and reinforces alignment between the interests of our shareholders and those of our Directors and senior managers. We welcomed the conclusions of the IA Executive Remuneration Working Group and the updated IA guidelines which encourage remuneration committees to adopt the remuneration structure which is appropriate to the company strategy and business needs. Following our review, we believe a different long-term incentive structure is appropriate for this Company, and that the proposed new share option scheme is simple, straightforward and well-aligned with shareholder interests.

Overall the Committee considers that current fixed pay (comprising salary, pension and benefits) and annual bonus plan which reinforces the Company's key business priorities continue to be appropriate. However the LTIP which is based 70% on 3-year EPS growth and 30% on 3-year relative TSR is perceived not to be working well. Foxtons has few good listed comparators so it is difficult to find a benchmark which is both relevant and robust. Secondly, the cyclicity of the London property market means it is difficult to set robust long-term financial targets.

Following consultation with major Shareholders, the Committee is proposing changes to future executive long-term incentive arrangements which it believes will reinforce our business strategy, aid simplification, encourage a longer-time horizon and align with shareholder interests. Details on remuneration going forward follows:

#### Fixed pay

There are no changes to our Policy on base salary, pensions and benefits.

#### Annual bonus

Following the changes made to 2016 bonuses, outlined in last year's remuneration report, there are no material changes to Policy. The Policy will have a single limit (from a usual maximum and absolute maximum) and provide for a maximum bonus opportunity of up to 150% of salary.

#### Future long-term incentive arrangements: a proposed share option plan to replace future LTIP awards

The Committee is proposing to make future long-term incentive awards under a new share option plan with the following key features:

- One-off award of market value 5-year options to be made to Executive Directors shortly after the 2017 AGM with a fair value broadly equivalent to the current LTIP (subject to shareholder approval).
- Vesting on Foxtons' 5-year TSR of 10% p.a. to 16% p.a.
- Earliest exercise 5 years after grant. 10 year option life.
- Proposed award of market value options to the CEO and CFO of 6.5m and 2.15m options respectively. Foxtons will continue to operate within the IA limit for new-issue shares of 10% in 10 years for all plans.
- Exercise price equal to the share price at grant less cumulative dividends per share between grant and exercise.
- Leaver rules to be in line with market practice.
- Malus and clawback provisions will apply.

The Committee considered the full range of alternative incentive structures and the proposed share option plan was identified as the most likely to help reinforce success. It is simple, it encourages a longer time horizon, and it aligns with shareholder interests. The design rewards absolute TSR so that management only gain if shareholders gain. If the 5-year TSR is below 10% p.a. there is no vesting. If 5-year TSR is in the range 10% – 16% p.a., the vesting is 25% – 100%. For 5-year TSR above 16% p.a., the options vest in full.

The Committee wishes to ensure the proposed share option plan does not discourage dividend payments. To achieve this, the exercise price of the options is based on the share price at grant less cumulative dividends per share between grant and exercise. This helps ensure management is not penalised for returning cash to shareholders.

The option grant sizes are to ensure a broadly similar cost to the LTIP awards being replaced.

Subject to shareholder approval of the proposed plan at AGM, it is intended that no further awards will be granted to Executive Directors under the LTIP and that no follow-on long-term incentive award will vest within 5 years.

As part of the Remuneration Policy, the Committee sought the views of its largest shareholders as well as the Investment Association and ISS. In light of their feedback, the Committee agreed a TSR-based vesting condition of 10% p.a. to 16% p.a. over 5 years. The new scheme is broadly equivalent in terms of IFRS 2 P&L cost to the scheme being replaced.

#### **Remuneration decisions for 2016**

The London property sales market has been significantly impacted by uncertainty following the result of the EU referendum and longer term changes to stamp duty. In the sales market we saw falling volumes across London and particularly in the higher value markets where Foxtons has historically focused. Adjusted EBITDA for 2016 was £24.6m. During the year seven new branches were successfully opened to increase the network to 65 branches and progress was achieved in succession planning, promotion of the brand and Foxtons social media presence.

Overall, this performance warranted an annual bonus of 36.5% of maximum for the CEO.

The Company's EPS and relative TSR performance over the 3-year period to 31 December 2016 warranted nil vesting of the 2014 LTIP awards.

The former CFO, Gerard Nieslony resigned from the Board on 7 November 2016. As he remains an employee of the Group, his outstanding 2015 and 2016 LTIP awards continue and will vest at the normal time, subject to performance. Taking into account corporate and individual performance he received an annual bonus of 38.4% of maximum. His 2014 LTIP lapsed in line with the CEO.

On 7 November 2016, Mark Berry joined the Group as its new CFO. He joined with a salary of £282,000 and a 2017 maximum bonus of 125% of salary (he was not eligible for a 2016 bonus). He did not receive any compensation for awards forfeited when he left his previous employer.

#### **Remuneration decisions for 2017**

The base salary of the CEO is unchanged.

The 2017 annual bonus for Executive Directors will be based 60% on EBITDA, 20% on market share and 20% on personal/strategic objectives. Bonus opportunities are unchanged from 2016 at 150% of salary for the CEO and 125% of salary for the CFO.

As described earlier, the Committee proposes to make one-off awards under the new share option plan to the CEO and CFO, shortly after the AGM, subject to shareholder approval of the new policy.

The Committee believes the proposed share option plan better places the Group to achieve its business objectives. We continue to value all feedback from shareholders and hope to receive your support at the forthcoming AGM.

Andrew Adcock

#### **Andrew Adcock**

Chairman of the Remuneration Committee

7 March 2017

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## DIRECTORS' REMUNERATION REPORT (continued)

### Remuneration Policy Report (unaudited)

This Remuneration Policy will be submitted for Shareholder approval at the 17 May 2017 AGM. If approved, it will come into effect on that date and will apply to incentive awards with performance periods beginning on or after 1 January 2017.

As described in the Chairman's statement, the principal changes to the Policy approved by Shareholders at the May 2014 AGM are:

- future long-term incentive awards to be made under a new Share Option Plan. No further awards to be granted to Executive Directors under the LTIP
- single policy limit for the annual bonus plan of up to 150% of salary (replacing the usual maximum and absolute maximum)

#### Policy table for Executive Directors

Component	Purpose and link to strategy	Operation	Maximum	Performance framework
<b>Base salary</b>	Core element of remuneration set at a level to attract and retain Executive Directors of the required calibre to successfully deliver Foxtons strategy.	<ul style="list-style-type: none"> <li>• Fixed cash amount paid monthly.</li> <li>• A number of factors are taken into account when setting salary, including: <ul style="list-style-type: none"> <li>– Scope and responsibilities of role;</li> <li>– Skills, experience and circumstances of individual;</li> <li>– Appropriate market data; and,</li> <li>– Pay and conditions elsewhere in Foxtons.</li> </ul> </li> <li>• Salary levels are typically reviewed on an annual basis.</li> </ul>	<ul style="list-style-type: none"> <li>• Although the Committee does not consider it appropriate to set a defined maximum limit on pay increases, the intention is that ordinarily the Executive Directors' increases will be in line with those given to our employees whose pay is non-commission based.</li> <li>• Increases may be made above this in certain circumstances, including: <ul style="list-style-type: none"> <li>– Progression within the role;</li> <li>– Increase in scope and responsibility of the role; and,</li> <li>– Increase in experience where an individual has been recruited on a lower salary initially.</li> </ul> </li> </ul>	N/A
<b>Benefits</b>	To provide Executive Directors with market competitive benefits consistent with the role.	<ul style="list-style-type: none"> <li>• Benefits provided to Executive Directors may include a company car (or cash equivalent), life assurance, private medical insurance, health club membership and other benefits as appropriate.</li> <li>• Executive Directors would also be able to participate in any all-employee share plans on the same basis as other eligible employees, should such plans be implemented by the Group.</li> </ul>	<ul style="list-style-type: none"> <li>• Although the Committee does not consider it appropriate to set a maximum benefits level, they are set at an appropriate level for the specific nature of the role.</li> </ul>	N/A
<b>Retirement benefits</b>	To provide funding for Executive Directors' retirement at market competitive levels consistent with the role.	<ul style="list-style-type: none"> <li>• Pension contributions are made to a personal pension scheme or cash allowances in lieu of contributions paid.</li> </ul>	<ul style="list-style-type: none"> <li>• 20% of base salary.</li> </ul>	N/A



Policy table for Executive Directors (continued)

Component	Purpose and link to strategy	Operation	Maximum	Performance framework
<b>Annual bonus</b>	Variable pay opportunity set at a market competitive level designed to motivate and reward Executive Directors for the achievement of business objectives on an annual basis.	<ul style="list-style-type: none"> <li>• Payments are typically made in cash based on annual performance against targets set and assessed by the Committee. The Committee may determine that an element of the bonus is deferred into shares.</li> <li>• All payments are at the discretion of the Committee who can therefore adjust them to ensure payouts are reflective of performance.</li> <li>• Bonus earned for performance periods will be subject to malus and clawback provisions. These provisions allow the Committee in certain circumstances, such as an individual engaging in misconduct, miscalculation or a material misstatement of results, the discretion to: <ul style="list-style-type: none"> <li>– Reduce or cancel entitlement to a potential bonus;</li> <li>– Delay payment;</li> <li>– Impose additional conditions;</li> <li>– Amend performance conditions; and,</li> <li>– Request the participant pays back up to 100% of any bonus paid in circumstances detailed above.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• 150% of base salary.</li> </ul>	<ul style="list-style-type: none"> <li>• Performance measures are determined with reference to Foxtons key strategic business objectives for the year.</li> <li>• No less than 50% of the bonus will be dependent on financial measures, with the remainder based on non-financial measures aligned to the strategic priorities of the business.</li> <li>• At threshold performance, 25% of the maximum pays out. Below this level of performance, no bonus pays out.</li> </ul>
<b>Share Option Plan</b>	Variable pay opportunity designed to align Executive Directors interests with those of Shareholders by rewarding for the creation of long-term superior Shareholder returns.	<ul style="list-style-type: none"> <li>• One-off award of market value share options.</li> <li>• Vesting is dependent on performance normally measured over 5 years.</li> <li>• Earliest exercise date is normally 5 years after grant for Executive Directors.</li> <li>• The option term is up to 10 years.</li> <li>• The exercise price is equal to the share price at grant less cumulative dividends per share between grant and exercise. The exercise price cannot be less than zero.</li> <li>• In certain circumstances such as an individual engaging in misconduct, miscalculation or a material misstatement of results, the Committee has discretion to: <ul style="list-style-type: none"> <li>– Reduce or cancel unvested or unexercised options;</li> <li>– Delay vesting or exercise;</li> <li>– Impose additional conditions;</li> <li>– Amend how the exercise price is adjusted for cumulative dividends; and,</li> <li>– Request the participant pays up to 100% of the proceeds earned from any share options exercised within two years based on circumstances detailed above.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Up to 6.5m options may be granted to the CEO. Up to 2.15m options may be granted to other Executive Directors.</li> <li>• The Company will continue to operate within the IA limit for new-issue shares of 10% in 10 years for all plans.</li> </ul>	<ul style="list-style-type: none"> <li>• Vesting of options is dependent on the achievement of an absolute TSR performance condition.</li> <li>• For threshold performance, 25% of options may vest. Below this level of performance, no options will vest. 100% of options will vest for maximum performance. Vesting between these points will be on a straight-line basis.</li> </ul>

## DIRECTORS' REMUNERATION REPORT (continued)

### Notes to the policy table

#### Outstanding LTIP awards

Subject to formal Shareholder approval at the 2017 AGM, future long-term incentive awards to Executive Directors will be granted under the new Share Option Plan and Executive Directors will not receive any further awards under the LTIP. The CEO holds outstanding awards under the LTIP cycles granted in 2014, 2015 and 2016 which are due to vest in 2017, 2018 and 2019 respectively. Therefore, for ease of reference, detailed below is the section of the policy table for the LTIP disclosed in last year's Policy Report which was approved at the 2014 AGM.

Component	Purpose and link to strategy	Operation	Maximum	Performance framework
LTIP	Variable pay opportunity set at a market competitive level designed to motivate and reward Executive Directors for the achievement of business objectives over the longer term.	<ul style="list-style-type: none"> <li>Usually a contingent award of shares or grant of nil cost options is made annually.</li> <li>Vesting of the award is dependent on the achievement of performance targets, typically measured over a three year period.</li> <li>In certain circumstances such as an individual engaging in misconduct, miscalculation or a material misstatement of results, the Committee has discretion to: <ul style="list-style-type: none"> <li>Reduce or cancel unvested awards;</li> <li>Delay vesting;</li> <li>Impose additional conditions; and</li> <li>Amend performance conditions.</li> </ul> </li> <li>LTIP awards granted after 2016 will also have clawback provisions which allow the Company within two years of any award vesting to claim back up to 100% of the award based on circumstances detailed above.</li> </ul>	<ul style="list-style-type: none"> <li>Usual maximum of 150% of base salary.</li> <li>Absolute maximum of 200% of base salary provided for in plan rules.</li> </ul>	<ul style="list-style-type: none"> <li>At least 50% of the LTIP will be based on financial measures with the remainder based on share price related measures.</li> <li>For threshold levels of performance, 25% of the award will vest. Below this level of performance, the award will not vest. 100% of the award will vest for maximum performance. Vesting between these points will be on a straight-line basis.</li> </ul>

#### Rationale for Share Option Plan

The current LTIP, based on relative TSR and EPS, is perceived not to work by management and the Board: Foxtons has few good listed comparators and the cyclical nature of the London property market means it is difficult to set robust long-term EPS targets. The Committee considered the full range of alternative incentive structures and the proposed share option plan was identified as the most likely to help reinforce success. It is simple, it encourages a longer-time horizon and it aligns with shareholder interests.

#### Discretion

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) that are not in line with the Policy set out above where the terms of the payment were agreed:

- before the Policy came into effect; or
- at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company.

For these purposes "payments" includes the Committee satisfying awards of variable remuneration and an award over shares is "agreed" at the time the award is granted.

The Committee will operate the annual bonus, the share option plan and the LTIP in accordance with the relevant plan rules. The Committee retains discretion as to the operation and administration of these plans as follows:

#### **Annual bonus**

- The Committee may settle an award in cash or shares; and
- The Committee may amend the performance targets applying to an award in exceptional circumstances if the new performance targets are considered fair and reasonable and are neither materially more nor materially less challenging than the original performance targets.

#### **Share Option Plan**

- The Committee may settle the gain in shares or cash;
- The Committee may amend the performance conditions applying to an award in exceptional circumstances if the new performance conditions are considered fair and reasonable and are neither materially more nor materially less challenging than the original performance conditions; and
- In the event of a variation of share capital, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of an award, the Committee may adjust the number of share options or the option price.

#### **LTIP**

- The Committee may settle an award in cash;
- The Committee may amend the performance conditions applying to an award in exceptional circumstances if the new performance conditions are considered fair and reasonable and are neither materially more nor materially less challenging than the original performance conditions; and
- In the event of a variation of share capital, demerger, special dividend, distribution or any other corporate event which may affect the current or future value of an award, the Committee may adjust the number of shares or the option price.

Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major Shareholders.

#### **Takeover or other corporate event**

For share options, on a takeover or other corporate event, generally the vesting period will end on the date of the event. The Committee will determine the extent to which performance conditions have been achieved and any share options vesting will be immediately exercisable. Such early vesting would generally be on a time pro-rata basis.

For outstanding LTIP awards, on a takeover or other corporate event, generally the performance period will end on the date of the event. The Committee will determine the extent to which performance conditions have been achieved at this point taking into account relevant factors given the shortened period. Again such early vesting would generally be on a time pro-rata basis.

Alternatively, in certain circumstances the Committee may allow awards to continue in line with the original terms of the Share Option Plan or LTIP.

The Committee has the discretion to take other action as appropriate if other events occur which may have an effect on awards.

In the event that all-employee plans are operated, they would be expected to vest on a takeover or other corporate event and those which have to meet requirements to benefit from tax benefits would vest in accordance with those requirements.

#### **Minor changes**

The Committee may make minor amendments to the Policy set out above (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining Shareholder approval for that amendment.

#### **Performance measures and target setting**

The annual bonus is based on both financial and non-financial performance measures which are aligned with Foxtons' annual strategic plan. Targets are set on an annual basis by the Committee and take into account a number of internal and external reference points including historic performance, internal expectations and broker forecasts.

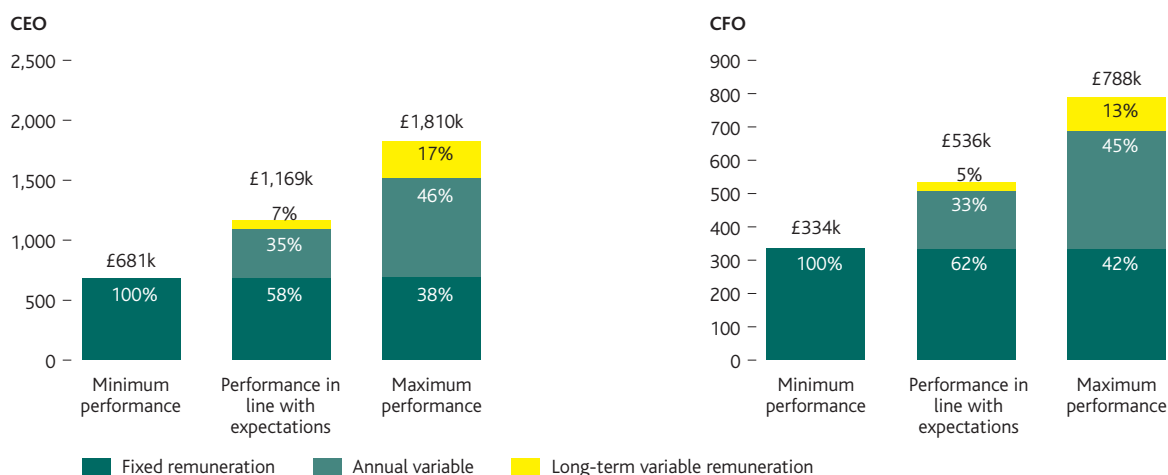
The Committee considers that absolute TSR (under the proposed share option plan) helps align executives with shareholder interests and is a simple objective and transparent measure of the Company's performance and shareholder value creation. Performance targets are set to be stretching with regard to particular strategic priorities and the economic environment.

## DIRECTORS' REMUNERATION REPORT (continued)

### Illustrations of Remuneration policy for 2017 (£'000)

The charts below illustrate the application of the Remuneration Policy set out in the policy table for the Executive Directors.

The share option plan is a one-off award granted over a 5 year period, therefore in the maximum scenario we have estimated the value of the award based on one fifth of the IFRS 2 fair value of the options calculated on 28 February 2017.



The assumptions used for these charts are as follows:

Levels of performance		Assumptions
<b>Fixed pay</b>	All scenarios	<ul style="list-style-type: none"> <li>Total fixed pay comprises base salary, benefits and pension.</li> <li>Base salary – effective as at 1 January 2017.</li> <li>Benefits – as provided in the single figure table on page 55.</li> <li>15% of base salary pension contributions.</li> </ul>
<b>Variable pay</b>	Minimum performance	<ul style="list-style-type: none"> <li>No payout under the annual bonus.</li> <li>No vesting under the share option plan.</li> </ul>
	Performance in line with expectations	<ul style="list-style-type: none"> <li>50% of the maximum annual bonus.</li> <li>25% vesting of share option award, amortised over 5 years.</li> </ul>
	Maximum performance	<ul style="list-style-type: none"> <li>100% of the maximum annual bonus.</li> <li>100% vesting of share option award, amortised over 5 years.</li> </ul>



### Policy for Chairman and Non-Executive Director fees

The Committee does not consider it appropriate to set a maximum limit on increases in the fees of the Chairman and Non-Executive Directors. However, the fees have been and will be set within the aggregate limits set out in the Company's Articles of Association as approved by Shareholders.

Purpose and link to strategy	Operation	Fee levels
To enable Foxtons to attract and retain Non-Executive Directors of the required calibre by offering market competitive fees.	<ul style="list-style-type: none"> <li>The Chairman is paid an all-inclusive fee for all Board responsibilities.</li> <li>Non-Executive Directors receive a basic Board fee.</li> <li>Additional fees may be payable for additional Board responsibilities such as chairmanship or membership of a Committee.</li> <li>The Committee reviews the fees paid to the Chairman and the Board reviews the fees paid to Non-Executive Directors, periodically. The Committee or the Board (as the case may be) may increase the fees, and any such increases will take into account factors including: <ul style="list-style-type: none"> <li>Scope and responsibility of the role, and</li> <li>Appropriate market data.</li> </ul> </li> <li>No Director plays a role in determining their own remuneration.</li> </ul>	<ul style="list-style-type: none"> <li>The fee increases for 2016 are as set out on page 59.</li> <li>The fee levels are unchanged for 2017.</li> <li>These fees are the only element of Chairman and Non-Executive Director remuneration.</li> </ul>

### Approach to remuneration on recruitment

#### Overarching principle

In order to maintain Foxtons competitive advantage, it is important that we are able to recruit Directors of the calibre required to deliver successfully our strategic priorities.

#### Recruitment of Executive Directors

When determining the remuneration arrangements of a new appointment to the Board (including internal promotions), the Committee will seek to apply the following principles:

- Although we operate in a competitive market for talent, we are mindful to pay no more than is necessary to attract and retain high-quality talent;
- The maximum level of variable remuneration will be in line with individual limits set out in the policy table;
- It may be necessary to "buy-out" remuneration arrangements forfeited on leaving a previous employer on appointment. Such payments or awards could include cash as well as performance and non-performance related share awards, and would be in such form as the Committee considers appropriate taking into account all relevant factors such as the form, expected value, anticipated vesting and timing of the forfeited remuneration. The Committee's intention is that the value awarded would be no more than the value forfeited;
- An Executive Director may initially be hired on a contract requiring 24 months' notice, which then reduces pro-rata over the course of the first year of the contract to 12 months' notice;

- Appropriate relocation costs and support may be provided and where an Executive Director is appointed from within the organisation, the normal policy of the Company is that any legacy arrangements would be honoured in line with the original terms and conditions. Similarly, if an Executive Director is appointed following Foxtons acquisition of or merger with another company, legacy terms and conditions would be honoured.

The Committee retains discretion to make appropriate remuneration decisions outside the standard Policy to meet the individual circumstances of recruitment when:

- An interim appointment is made to fill an Executive Director role on a short-term basis; and
- Exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis.

#### Recruitment of Chairman and Non-Executive Directors

On the appointment of a new Chairman or Non-Executive Director, the fee will normally be consistent with the Policy set out above. Where specific cash or share arrangements are delivered to the Chairman or Non-Executive Directors, these will not include share options or any other performance related elements.

#### Service contracts

The current service contracts of the CEO and CFO can be terminated by not less than 12 months' respectively given in writing by either party to the contract.

The appointment of the Chairman and each of the Non-Executive Directors is for an initial period of three years, which is renewable, and is terminable by the Chairman/Non-Executive Director (as applicable) or the Company on three months' notice. No contractual payments would be due on termination.

## DIRECTORS' REMUNERATION REPORT (continued)

### Policy on payment for loss of office

Where an Executive Director leaves employment, the Committee's approach to determining any payment for loss of office will normally be based on the following principles:

- The Committee's objective is to find an outcome which is in the best interests of both Foxtons and its Shareholders, while taking into account the specific circumstances of cessation of employment;
- The Committee must satisfy any contractual obligations agreed with the Executive Director. This is dependent on the contractual obligations (i) not being in contradiction with the Policy set out

in this Report, or (ii) if so, not having been entered into on a date later than 27 June 2012, in accordance with the relevant legislation; and

- Other than in circumstances where the Company is entitled to terminate employment summarily, if the employment of an Executive Director is terminated with immediate effect, a payment in lieu of notice may be made which would not exceed 12 months' base salary for the current CEO and CFO. This payment may be subject to mitigation if alternative employment is taken up during this period.

The treatment of outstanding incentive awards will be governed by the relevant plan rules as set out in the table below:

Plan	Automatic Good Leaver categories	Treatment for Good Leavers	Treatment for all other reasons for leaving
<b>Annual bonus</b>	<ul style="list-style-type: none"> <li>• Death.</li> <li>• Ill-health, injury or disability.</li> <li>• Employing company being transferred to an entity which is not a Group member.</li> <li>• Transfer of undertaking.</li> <li>• Any other reason, except summary dismissal as the Committee determines.</li> </ul>	<ul style="list-style-type: none"> <li>• The participant will normally retain their entitlement to the bonus to the extent that the performance targets have been met.</li> <li>• Bonuses will normally be subject to time pro-rating to reflect the period in employment, although the Committee has the discretion to vary this.</li> <li>• The Committee may determine that the bonus payment is calculated and made, at their discretion, at cessation instead of at the end of the performance period.</li> </ul>	<ul style="list-style-type: none"> <li>• All other leavers will forfeit their entitlement to an annual bonus payment.</li> </ul>
<b>Share Option Plan</b>	<ul style="list-style-type: none"> <li>• Death.</li> <li>• Ill-health, injury or disability.</li> <li>• Employing company being transferred to an entity which is not a Group member.</li> <li>• Transfer of undertaking.</li> <li>• Any other reason, except summary dismissal, as the Committee determines.</li> </ul>	<ul style="list-style-type: none"> <li>• Awards will normally vest on a time-apportioned basis taking into account the achievement of the relevant performance conditions at the vesting date.</li> <li>• The vesting date for such awards will normally be the original vesting date, although the Committee has the flexibility to determine that awards can vest upon cessation of employment.</li> <li>• On death, the Committee may exercise discretion to allow awards to vest, as soon as practicable, taking into account performance achieved.</li> <li>• On vesting, participants will normally have up to six months from the date of vesting to exercise their awards (12 months in the case of death).</li> </ul>	<ul style="list-style-type: none"> <li>• Awards will normally lapse in full (unless otherwise determined by the Committee).</li> </ul>
<b>LTIP</b>	<ul style="list-style-type: none"> <li>• Death.</li> <li>• Ill-health, injury or disability.</li> <li>• Employing company being transferred to an entity which is not a Group member.</li> <li>• Transfer of undertaking.</li> <li>• Any other reason, except summary dismissal as the Committee determines.</li> </ul>	<ul style="list-style-type: none"> <li>• Awards will normally vest on a time-apportioned basis taking into account the achievement of the relevant performance conditions at the vesting date.</li> <li>• The vesting date for such awards will normally be the original vesting date, although the Committee has the flexibility to determine that awards can vest upon cessation of employment.</li> <li>• On death, the Committee may exercise discretion to allow awards to vest, as soon as practicable, taking into account performance achieved.</li> <li>• On vesting, shares will be transferred to the participant as soon as practicable. For options, participants will have up to six months from the date of vesting to exercise their awards.</li> </ul>	<ul style="list-style-type: none"> <li>• Awards will normally lapse in full (unless otherwise determined by the Committee).</li> </ul>

In the event that a buy-out award is made on recruitment, the leaver provisions would be determined at the time of the award.

#### Differences in remuneration policy for Executive Directors compared with other employees

As for our Executive Directors, the remuneration for the majority of our employees is weighted towards variable pay. However, unlike our Executive Directors, whose variable pay is linked to a mixture of short-term and long-term Group-wide performance measures, the majority of our employees' remuneration is linked to individual/team performance measured over the shorter term. This is consistent with their focus on the selling and letting of properties within particular geographical areas. During 2015, the Company introduced the Senior Management LTIP to accommodate grants of shares to employees, which are normally subject to performance conditions over a three year period.

Subject to Shareholder approval at 2017 AGM, it is intended that selected senior employees will participate in awards under the Share Option Plan on a similar basis as awards to the Executive Directors.

The Company continues to operate within the dilution limit of no more than 10% in 10 years for all schemes.

Executive Directors may not participate in the Senior Management LTIP, although awards granted to an individual who subsequently is appointed to the Board will continue to vest.

#### Consideration of employment conditions elsewhere in Foxtons

Although pay and employment conditions elsewhere in the Company are taken into account to ensure the relationship between the pay of Executive Directors and employees remains appropriate, the Committee does not consult with employees when formulating the Remuneration Policy set out in this Report.

#### Consideration of Shareholder views

The Committee consulted with major shareholders, IA and ISS as part of its review of the Remuneration Policy this year.

In light of their feedback, the Committee agreed a TSR-based vesting condition of 10% p.a. to 16% p.a. over 5 years. The new scheme is broadly equivalent in terms of IFRS 2 P&L cost to the scheme being replaced.

The Committee takes an active interest in the views of Shareholders and these help shape the structure of the Directors' remuneration arrangements of Foxtons. The Committee also monitors published Shareholder and remuneration governance guidelines and intends to incorporate any emerging best practice features as appropriate.

#### Summary of Shareholder voting at the 2016 Annual General Meeting (unaudited)

The following table shows the results of the votes on the Annual Report on Remuneration at the AGM in May 2016:

Resolution	Votes for	% for	Votes against	% against	Total votes cast	Votes withheld
Approval of the Directors' Annual Report on Remuneration	183,576,785	79.30%	47,907,719	20.70%	231,484,504	451,038

At the May 2014 AGM, 91.99% of the votes cast were in favour of the policy report.

At the 2016 AGM, the Annual Report of Remuneration received 79.30% 'for' vote. The Committee recognises that this vote was due to the changes in the CEO's package in 2016, in particular the salary increase. Prior to the AGM, the Committee consulted with the majority of the Company's shareholder base regarding the changes and this is reflected in the significant level of support received for the Report. We recognise, however, that not all shareholders voted in support.

## DIRECTORS' REMUNERATION REPORT (continued)

### Annual Report on Remuneration

#### **Consideration by Directors of matters relating to Directors' remuneration (unaudited)**

The Remuneration Committee is responsible for reviewing and making recommendations to the Board regarding the Remuneration Policy of the Group and for reviewing compliance with the Policy. During 2016, the Remuneration Committee consisted of the following Directors: Andrew Adcock (Chairman), Ian Barlow, Annette Court and Garry Watts. The Committee met four times during the year with attendance disclosed on page 35.

In addition, the CEO and CFO attended Committee meetings to provide valuable input. No individual was present when their own remuneration was being discussed.

During 2016, the Remuneration Committee received independent advice on executive remuneration from Kepler Associates, a brand of Mercer (Kepler). Kepler was appointed in May 2014 as independent advisers to the Remuneration Committee following a formal tender process. Kepler is a signatory to the Remuneration Consultants' Code of Conduct. Other than in relation to advice on remuneration, neither Kepler nor its parent Mercer provided other services to the Company. The fees paid to Kepler for advice provided to the Remuneration Committee was £76,650. The Committee is satisfied that Kepler provides independent remuneration advice to the Committee and does not have any connections with Foxtons that may impair its independence.

The following section provides details of how our remuneration policy was implemented during the financial year ending 31 December 2016, and how the Committee intends to implement the new Policy (subject to Shareholder approval) in 2017.

We are committed to maintaining an open and transparent dialogue with our Shareholders and hope that the level of disclosure we have provided this year will ensure that decisions made on remuneration are fully explained, thereby helping us to build a positive relationship with our Shareholders.



### Single figure of total remuneration (audited)

The table below set out the total remuneration for the Directors for 2016 and 2015:

£'000	2016					
	Salary and fees	Benefits <sup>1</sup>	Bonus <sup>2</sup>	LTIP <sup>3</sup>	Pension <sup>4</sup>	Total
<b>Current Executive</b>						
Nic Budden	550	48	301	–	83	982
Mark Berry <sup>5</sup>	42	2	–	–	6	50
<b>Former Executive</b>						
Gerard Nieslony <sup>6</sup>	246	10	118	–	37	411
<b>Non-Executive</b>						
Garry Watts	184	–	–	–	–	184
Ian Barlow	63	–	–	–	–	63
Annette Court	63	–	–	–	–	63
Andrew Adcock	63	–	–	–	–	63
Michael Brown	63	–	–	–	–	63
<b>Total</b>	<b>1,274</b>	<b>60</b>	<b>419</b>	<b>–</b>	<b>126</b>	<b>1,879</b>

£'000	2015					
	Salary and fees	Benefits <sup>1</sup>	Bonus <sup>2</sup>	LTIP <sup>3</sup>	Pension <sup>4</sup>	Total
<b>Current Executive</b>						
Nic Budden	461	29	297	–	69	856
Mark Berry	–	–	–	–	–	–
<b>Former Executive</b>						
Gerard Nieslony	282	10	181	–	42	515
<b>Non-Executive</b>						
Garry Watts	179	–	–	–	–	179
Ian Barlow	62	–	–	–	–	62
Annette Court	62	–	–	–	–	62
Andrew Adcock	62	–	–	–	–	62
Michael Brown	62	–	–	–	–	62
<b>Total</b>	<b>1,170</b>	<b>39</b>	<b>478</b>	<b>–</b>	<b>111</b>	<b>1,798</b>

#### Notes to the table

- The benefits paid in respect of 2016 and 2015 related to a car allowance for Mark Berry and Gerard Nieslony and the provision of a car for Nic Budden.
- In 2016, Nic Budden and Gerard Nieslony were awarded bonuses of 36.5% and 38.4% of maximum, equivalent to 54.8% and 48.0% of salary. In 2015, they were awarded bonuses of 51.5% of maximum, equivalent to 64.4% of salary. Further details of the performance criteria, achievement and resulting awards for the 2016 bonus can be found on page 56.
- The 2016 figure for Nic Budden and Gerard Nieslony includes the 2014 LTIP, which lapsed based on the performance over the three-year period ending 31 December 2016. Further details of the performance criteria, achievement and resulting awards for the 2014 LTIP can be found on page 56.
- "Pension" includes payments in lieu of pension. For 2016, the Executive Directors received contributions of 15% of salary.
- Remuneration covers only the period since his appointment as a Director. Mark Berry was appointed CFO on 7 November 2016 on a salary of £282,000 p.a.. His salary, benefits and pension are pro-rated to reflect the period from 7 November 2016 to 31 December 2016.
- Gerard Nieslony stepped down as CFO and from the Board on 7 November 2016, becoming the Finance Director of Foxtons. As a result, his salary, benefits, bonus and pension are pro-rated to reflect the period from 1 January 2016 to 7 November 2016. The vesting of his 2014 LTIP has been shown in full (nil).

## DIRECTORS' REMUNERATION REPORT (continued)

### Base salary for 2016

As explained in last year's Annual Report on Remuneration, Nic Budden and Gerard Nieslony's base salaries were increased to £550,000 and £288,922 respectively at the start of January 2016, following a review of their salaries. Mark Berry was appointed on the 7 November 2016 on a salary of £282,000.

### Annual bonus outcomes for 2016 (unaudited)

For the 2016 financial year, the maximum bonus opportunity for Nic Budden and Gerard Nieslony was 150% and 125% of salary respectively. Mark Berry was not eligible for a 2016 bonus.

Bonuses were based 60% on Foxtons Adjusted EBITDA, 20% on the successful opening of new branches on time and on budget and 20% on personal/strategic measures. The following table provides the performance targets set and actual performance during the year.

Measure	Weighting	Threshold	Performance targets		Actual performance	Payout (% of maximum)	
			On-Target	Maximum		CEO	FD (ex-CFO)
Adjusted EBITDA <sup>1</sup>	60%	£46.6m	£49.0m	£51.5m	£24.6m	0.0%	0.0%
Opening of new branches <sup>2</sup>	20%	–	7	–	7	100.0%	100.0%
Personal/strategic objectives	20%	(Assessment based on defined targets)				82.5%	92.1%
Total	100%	–	–	–	–	36.5%	38.4%

<sup>1</sup> For 2016 bonuses, 25% of this element pays out at threshold, 50% at target and full payout at maximum.

<sup>2</sup> Single target for 2016.

For Nic Budden, personal/strategic objectives for 2016 included market share, succession planning and digital marketing objectives while for Gerard Nieslony objectives included strength of stakeholder relationships, business continuity planning and other tax and accounting projects.

Following an assessment of corporate performance and performance against personal/strategic objectives by the Committee, Nic Budden and Gerard Nieslony were awarded bonuses of 36.5% and 38.4% of maximum, equivalent to 54.8% and 48.0% of salary. Annual bonuses will be paid in cash.

### 2014 LTIP outcomes (unaudited)

On 23 September 2014, Nic Budden and Gerard Nieslony were granted awards under the LTIP. Vesting was dependent 70% on EPS growth and 30% on relative TSR over the three year performance period to 31 December 2016. The TSR comparator group is the FTSE 250 (excluding financial services and oil & gas companies). Details of the performance conditions are set out below:

	Basic EPS growth over the three year performance period (70% of the award)	Relative TSR performance against the comparator group over the three year performance period (30% of the award)
Threshold (25% vesting)	19%	Median
Stretch (100% vesting)	44%	Upper quartile

Neither the EPS or TSR performance conditions were met. Therefore, nil% of the 2014 LTIP will vest. Details of the 2014 LTIP awards are summarised in the table below:

	Number of shares held	Vesting (% of grant)
Nic Budden	391,304	nil
Gerard Nieslony	179,348	nil

#### Scheme interests awarded in 2016 (audited)

On 15 April 2016, Nic Budden and Gerard Nieslony were granted awards under the LTIP. Mark Berry did not receive an award.

Details are summarised in the table below.

Executive	Basis of award	Face value <sup>1</sup>	Number of shares awarded	Threshold vesting	Performance period
Nic Budden	150% of salary	£825,000	510,836	25%	1 January 2016 to 31 December 2018
Gerard Nieslony	150% of salary	£433,384	268,349		

<sup>1</sup> Calculated using the share price of 161.50p which is the average share price over the three trading days immediately preceding the date of grant.

Awards were granted in the form of nil-cost options, which will, subject to the rules of the LTIP, vest following the Committee's determination of the extent to which the performance conditions have been satisfied.

As described in last year's Annual Report on Remuneration, 2016 LTIP awards may vest based 70% on three year EPS growth and 30% on three year relative TSR. The TSR comparator group is the FTSE 250 (excluding financial services and oil & gas companies). Details of the performance conditions are set out below:

	Basic EPS growth over the three year performance period (70% of the award)	Relative TSR performance against the comparator group over the three year performance period (30% of the award)
Threshold (25% vesting)	15%	Median
Stretch (100% vesting)	45%	Upper quartile

There will be straight-line vesting between these performance points.

#### Statement of Directors' shareholding and share interests (audited)

The Committee believes that Directors should build a sizeable shareholding in Foxtons over time to ensure that they are as closely aligned as possible with the Shareholder experience. The guideline for Executive Directors is two times their gross basic salary. The tables below show the Directors' share ownership as at 31 December 2016:

	Shares held		Shareholding guideline (% of basic salary)	Actual share ownership (% of basic salary)*
	Owned outright	Unvested shares subject to performance		
<b>Current Executive</b>				
Nic Budden	1,304,660	870,719	200%	242%
Mark Berry**	—	—	200%	—
<b>Former Executive</b>				
Gerard Nieslony	666,512	488,278	200%	235%

\* The shareholding as a percentage of basic salary has been calculated based on the share price on 31 December 2016 of 102p. Only shares owned outright have been included.

\*\* Joined 7 November 2016.

## DIRECTORS' REMUNERATION REPORT (continued)

The table below shows the Non-Executive Directors' shareholdings as at 31 December 2016

	Shares held as at 31 December 2016
Garry Watts	43,477
Ian Barlow	117,987
Annette Court	32,608
Andrew Adcock	43,477
Michael Brown (former CEO)	22,730,022

No changes in Directors' interests have occurred between 31 December 2016 and 7 March 2017.

### Payments to past Directors and payments for loss of office (audited)

There were no payments to former Directors during the year.

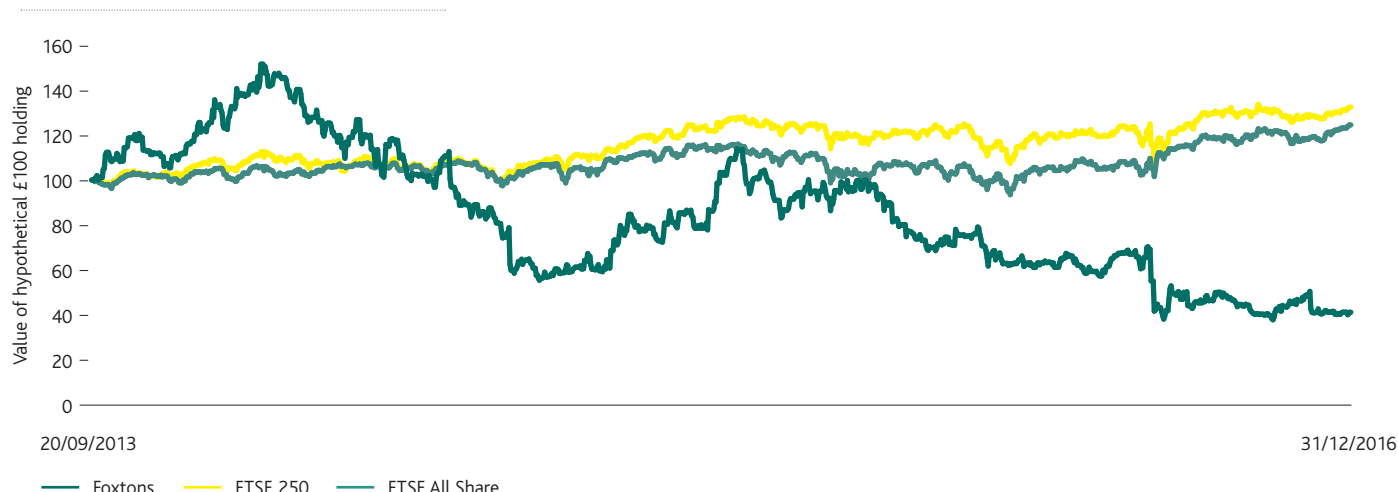
### Performance graph and table (unaudited)

The chart below illustrates Foxtons TSR performance against the FTSE 250 and FTSE All Share since listing in September 2013. The FTSE 250 has been chosen as Foxtons was a constituent of this index during some of the period shown, and remains close in size to companies ranked towards the bottom of the FTSE 250. Note that this does not represent either the comparator group or the time period against which performance is assessed under the LTIP.

The table below shows the total remuneration paid to the CEO between 2013 and 2016:

	2013 £'000	2014 £'000	2015 £'000	2016 £'000
Nic Budden (from 1 July 2014)				
Single figure of remuneration	n/a	327	856	982
Annual bonus payout (% of maximum)	n/a	20%	51.5%	36.5%
LTIP vesting (% of maximum)	n/a	n/a	n/a	0%
Michael Brown (to 30 June 2014)				
Single figure of remuneration	624	257	n/a	n/a
Annual bonus payout (% of maximum)	n/a	n/a	n/a	n/a
LTIP vesting (% of maximum)	n/a	n/a	n/a	n/a

Pay for performance: TSR chart (£'000)



### Percentage change in remuneration of Director undertaking the role of Chief Executive Officer (unaudited)

The table opposite illustrates the percentage change in salary, benefits and annual bonus for the CEO as against all other employees who do not participate in Foxtons commission arrangements and whose remuneration structures are thus comparable to the Executive Directors.

	% change in basic salary (2016/2015)	% change in benefits (2016/2015)	% change in annual bonus (2016/2015)
CEO	19.2%	65.6%	1.0%
All other employees (at Head office <sup>1</sup> )	5.4%	4.2%	n/a%

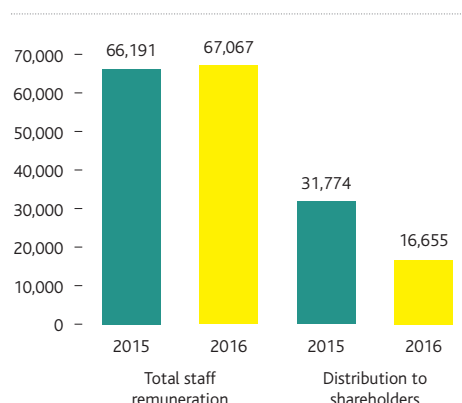
<sup>1</sup> Excludes branch-based staff where pay is largely commission based.



### Relative importance of spend on pay (unaudited)

The charts below illustrate the year-on-year change in total remuneration for all employees and total Shareholder distributions.

Relative importance of spend on pay (£'000)



### Implementation for 2017 (unaudited and subject to shareholder approval of remuneration policy)

#### Base salary

Executive Director salaries are unchanged for 2017.

	Base salary at	
	1 January 2016	1 January 2017
Nic Budden	£550,000	£550,000
Mark Berry	n/a	£282,000*

\* Joined Board in November 2016.

#### Benefits

For 2017, Executive Directors continue to be provided with a company car (or cash equivalent) and will be provided with life assurance and private medical insurance.

#### Annual bonus

2017 bonuses are up to 150% of salary for the CEO and 125% of salary for the CFO. Bonuses are based 60% on Foxtons annual Adjusted EBITDA, 20% on market share objectives and 20% on personal/strategic objectives.

Adjusted EBITDA and market share are important measures of annual performance. We continue to strive to achieve high levels of profitability through our focus on higher-volume, higher-value markets combined with the real competitive advantage that our business model provides.

The remaining 20% will be based on the achievement of personal/strategic objectives to help reinforce achievement of annual business priorities.

Shareholders will recognise that we operate in a very competitive market and so we will not be disclosing prospective bonus performance targets for reasons of commercial sensitivity. We will, however, provide a full retrospective rationale each year of why bonuses were paid to ensure that Shareholders can clearly identify the close link between pay and performance at the Group.

### Share option plan

Subject to approval of the revised remuneration policy at the 2017 AGM, the Group intends to grant one-off awards of market value share options to the CEO of 6.5 million options and 2.15 million options to the CFO.

These options will vest after 5 years based on Foxtons' 5-year absolute TSR. 25% of the award will vest for TSR of 10% p.a. increasing on a straight-line basis to full vesting for TSR of 16% p.a.

The exercise window is from 5 years up to 10 years after grant. The exercise price is equal to the share price at grant less the cumulative dividends per share between grant and exercise.

The Committee considered the full range of alternative incentive structures and the proposed share option plan was identified as the most likely to help reinforce success. It is simple, it encourages a longer time horizon, and it aligns with shareholder interests. The design rewards absolute TSR so that management only gain if shareholders gain.

The Committee wishes to ensure the proposed share option plan does not discourage dividend payments. To achieve this, the exercise price of the options is based on the share price at grant less cumulative dividends per share between grant and exercise. This helps ensure management is not penalised for returning cash to shareholders.

The option grant sizes are to ensure a broadly similar cost to the LTIP awards being replaced.

It is intended that no follow-on long-term incentive will vest within five years nor will any further LTIP award be granted to Executive Directors.

#### Pension

For 2017 pension contributions are unchanged. Contributions of 15% of salary will be made to the Executive Directors' personal pension schemes. Alternatively, a cash allowance equal to this value may be paid.

#### Non-Executive Director fees

For 2017, the fees for the Chairman and Non-Executive Directors were increased as follows:

Chairman of Company	0%
Basic fee for other Non-Executive Directors	0%

Andrew Adcock

#### Andrew Adcock

Chairman of the Remuneration Committee

7 March 2017

## DIRECTORS' REPORT

### Corporate structure

Foxtons Group plc is the holding company of the Foxtons group of companies. It is a public company limited by shares, incorporated in England and Wales and its shares are traded on the main market of the London Stock Exchange. The Company has no branches outside the UK.

### Corporate governance

A report on corporate governance and the Company's compliance with the UK Corporate Governance Code is set out on pages 32 to 59 and forms part of this report by reference.

### The Board of Directors

The members of the Board of Directors and their biographical details are shown on pages 30 to 31 of this Annual Report and are incorporated into this report by reference. During the year Mark Berry, the Company's new Chief Financial Officer, was appointed to the Board on 7 November 2016 and Gerard Nieslony resigned as a Director of the Company with effect from the same date.

Subsequent to the year end Annette Court notified the company that she will not be seeking re-election at the AGM on 17 May 2017 and has resigned with effect from that date.

### Appointment and replacement of Directors

The appointment and replacement of Directors is governed by the Company's Articles of Association (the "Articles"), the Companies Act 2006 and related legislation. The Articles provide that the Directors may be appointed by ordinary resolution of the shareholders or by the Board. The Company must have not less than two, nor more than 12 Directors. Where Directors are appointed by the Board they may only hold office until the next AGM of the Company where they will be eligible for election. Each Director must then retire from office at the third AGM after the AGM at which he was last elected. However, the Board has decided to comply with best practice corporate governance on a voluntary basis, and all Directors will seek re-election at each AGM. The Company may remove a Director by special resolution or by ordinary resolution where special notice has been given and the necessary statutory procedures are complied with. The Company may alter its Articles by special resolution passed at a general meeting of the Company. The Company's Articles are available on the Company's website [www.foxtonsgroup.co.uk](http://www.foxtonsgroup.co.uk).

### Powers of Directors

Subject to the Articles, the Companies Act 2006 and related legislation, and any directions given by special resolution of the shareholders, the business of the Company will be managed by the Board which may exercise all the powers of the Company.

### Articles of Association

The Company may alter its Articles by special resolution at a general meeting of the Company.

### Directors' indemnity

The Company has granted a third party indemnity to each of its Directors against any liability that attaches to them in defending proceedings brought against them, to the extent permitted by English law. In addition, Directors and Officers of the Company and its subsidiaries are covered by Directors' and Officers' liability insurance which gives appropriate cover for legal action brought against the directors.

### Compensation for loss of office

The Company does not have arrangements with any Director that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover. Further information is provided in the Directors' Remuneration Report on pages 44 to 59.

### Dividends

An interim dividend of 1.67p per share was paid on 27 September 2016. The Board recommends a final dividend of 0.33p per share for the year ended 31 December 2016. Shareholders will be asked to approve the dividend at the AGM on 17 May 2017, for payment on 25 May 2017 to Shareholders whose names are on the register on 28 April 2017.

Total ordinary dividends paid and proposed for the year ended 31 December 2016 amount to 2.00p per share, resulting in a total return of £5.5 million to Shareholders.

### Post balance sheet events

There are no post balance sheet events to report.

### Future developments in the business of the Company

Details of the Group's business activities and the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 1 to 27 and form part of this report by reference.

### Greenhouse gas emissions

Information on the Group's greenhouse gas emissions is set out in the Corporate Social Responsibility statement on pages 26 to 27 and forms part of this report by reference.

### Research and development

The Group does not undertake any material activities in the field of research and development.

### Political donations

No political donations were made in 2016 (2015: nil).

### Employee involvement and policy regarding disabled persons

The Group provides employees with information on the Group's performance and on matters concerning them on a regular basis. Considerable value is placed on the involvement of employees, which is reflected in the principles of Foxtons Corporate Practice and its related guidance, which require regular, open, fair and respectful communication, zero tolerance for human rights violations, fair remuneration and, above all, a safe working environment.

Foxtons operates an equal opportunities policy that aims to treat individuals fairly and not to discriminate on the basis of sex, race, ethnic origin, disability or any other basis. The Company's policy and procedures are designed to provide for full and fair consideration and selection of disabled applicants, to ensure they are properly trained to perform safely and effectively and to provide career opportunities that allow them to fulfil their potential. Where an employee becomes disabled in the course of their employment, the Company will actively seek to retain them wherever possible by making adjustments to their work content and environment or by retraining them to undertake new roles.

Further information on the Company's policies on diversity, inclusion and career progression are contained in the Our People section on pages 12 and 13.

### Directors' interests

The beneficial interests of the Directors of the Company and their closely associated persons in the issued ordinary shares of the Company at 31 December 2016 are provided on pages 57 and 58, within the Directors' Remuneration Report. Details of any changes in those interests between 31 December 2016 and 7 March 2017 are also shown on page 58.

### Share capital

Details of the Company's issued share capital can be found in note 21 to the financial statements on page 87.

At the 2016 AGM Shareholders passed a special resolution approving the cancellation of the entire amount standing to the credit of the share premium account, subject to confirmation by the High Court. On 22 June 2016 the confirmation from the High Court was issued, the share premium account was cancelled and the amount of £52,726,493 was credited to a distributable reserve.

### Rights and obligations attaching to shares

The Company has a single class of ordinary shares in issue. Holders of the ordinary shares are entitled to receive dividends (when declared) and a copy of the Company's Annual Report, attend and speak at general meetings of the Company, appoint proxies and exercise voting rights. At any general meeting, on a show of hands, every Shareholder present shall have one vote and, on a poll, every Shareholder present in person or by proxy shall have one vote for every share of which they are the holder. Subject to certain thresholds being met, holders of ordinary shares may requisition the Board to convene a general meeting or propose resolutions at AGMs. On liquidation, holders of ordinary shares may share in the assets of the Company.

None of the ordinary shares carry any special rights with regard to control of the Company and there are no restrictions on voting rights. Major Shareholders have the same voting rights per share as all other Shareholders. The Company is not aware of any arrangements under which financial rights are held by a person other than the holder of the shares.

### Major interests in shares

Institution	Voting rights at 31 December 2016	% of capital at 31 December 2016	Nature of holding
Caledonia (Private) Investments Pty Ltd	55,149,879	20.05	Direct
Select Equity Group, L.P. – George Loening	32,964,682	11.98	Indirect
Michael Brown	22,730,022	8.07	Direct
BlackRock, Inc	17,142,515	6.23	Indirect – 4.98% SL* – 0.63% CFD* – 0.60%
Hunter Hall Investment Management Limited	20,705,469	7.53	Direct
Templeton Investment Counsel LLC	14,415,106	5.18	Indirect

\* SL – Securities Lending CFD – Contracts for difference.

As at 7 March 2017 the Company had received notification under DGTR 5 that:

- Hunter Hall Investment Management Limited had reduced its holding to below 3% of the issued share capital
- BlackRock, Inc had reduced its holding to below 5% of the issued share capital
- Platinum Investment Management Limited had acquired voting rights over 14,676,008 ordinary shares, being 5.33% of the issued share capital (of which 5.25% was direct and 0.08% was indirect).

The Foxtons Group Employee Benefit Trust is an Employee Benefit Trust which holds ordinary shares in the Company in trust for employees within the Group. The Trustee of the Trust has the power to exercise the rights and powers incidental to, and to act in relation to, the ordinary shares subject to the Trust in such manner as the Trustee in its absolute discretion thinks fit. The Trustee of the Employee Benefit Trust has waived its rights to dividends on ordinary shares held by the Trust as these have not yet vested unconditionally in employees.

### Restrictions on transfers of securities

There are no restrictions on the transfer of securities in the Company and no requirement for any person to obtain the approval of the Company, or other holders of the Company's securities, in order to transfer securities. The Company is not aware of any agreements between Shareholders that may result in restrictions on the transfer of securities or on voting rights.

### Authority to allot shares

The Company was granted a general authority by its Shareholders at the 2016 AGM to allot shares up to 33.33% of the Company's issued share capital as at 29 March 2016. The Company also received authority to allot shares for cash on a non pre-emptive basis up to 5% of the Company's issued share capital as at 29 March 2016. As at the date of this Report, no shares have been issued under these authorities. These authorities will expire at the conclusion of the 2017 AGM. Resolutions will be proposed at the 2017 AGM to renew these authorities.

### Major interests in shares

Information on major interests in shares provided to the Company under the Disclosure Guidance and Transparency Rules (DGTRs) of the UK Listing Authority is published via a Regulatory Information Service and on the Company's website [www.foxtongroup.co.uk](http://www.foxtongroup.co.uk).

The table below shows notifications received by the Company in accordance with DGTR 5. This information was correct at the date of notification. It should be noted that these holdings may have changed since notified to the Company. However, notification of any change is not required until the next applicable threshold is crossed.

## DIRECTORS' REPORT (continued)

### Buy-back of own shares

Between 1 January and 23 February 2016 the Company repurchased 6,561,794 ordinary shares for cancellation utilising its general authority to make on-market purchases of shares pursuant to its policy of returning surplus cash to Shareholders. The ordinary shares purchased had a nominal value of £65,617, being 2.39% of the issued ordinary share capital at 31 December 2016. The total consideration for these repurchases was £11.1 million.

### Authority for the company to purchase its own shares

The Company was granted authority by its Shareholders at the 2016 AGM to purchase up to 27,510,439 of its ordinary shares, being 10% of the issued share capital as at 29 March 2016. This authority will expire at the conclusion of the 2017 AGM. No shares have been bought under this authority.

At 31 December 2016, there were 275,104,391 ordinary shares of £0.01 each in issue. Each ordinary share carries one vote, therefore, the total votes in issue at 31 December 2016 were 275,104,391.

The Company does not have any current intention to purchase any of its own ordinary shares, however, in order to retain flexibility the Company will propose a resolution at the 2017 AGM to renew the Company's authority to purchase up to approximately 10% of its ordinary shares at the Directors' discretion. If the resolution is passed, the new authority will replace the existing authority and will lapse at the conclusion of the 2018 AGM.

### Significant agreements

The Company is not a party to any significant agreements that would take effect, alter or terminate on a change of control of the Company.

### Financial risk management

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out in note 26 to the Group's consolidated financial statements on pages 90 to 92.

### Information presented in other sections

Certain information is required to be included in the Annual Financial Report by Listing Rule 9.8.4. The following table provides references to where this information can be found in this Annual Report. If a requirement is not shown, it is not applicable to the Company.

Section	Listing Rule Requirement	Location	Page
4	Details of long term incentive schemes	Directors' Remuneration Report	47-48
12 and 13	Shareholder waivers of dividends and future dividends	Directors' Report	61

### Going concern

The financial position of the Group, its cash flows and liquidity position are set out in the Financial Statements section.

Furthermore, note 26 on page 90 to the consolidated financial statements includes the Group's objectives and policies for managing its capital, its financial risk management objectives, details of its financial instruments and its exposure to credit and liquidity risk.

The Directors believe the Group is in a strong financial position due to its profitable operations and strong cash generation and that the Group has adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. The Directors have made this assessment after consideration of the Company's budgeted cash flows and related assumptions and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the UK Financial Reporting Council in September 2014.

### Statement on disclosure to the auditor

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- The Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming AGM.

### AGM

The Company's AGM will take place on 17 May 2017 at the Company's registered office at Building One, Chiswick Park, 566 Chiswick High Road, London, W4 5BE. The Notice of Meeting which sets out the resolutions to be proposed at the forthcoming AGM accompanies this Annual Report and can also be found on the Company's website at [www.foxtonsgroup.co.uk](http://www.foxtonsgroup.co.uk).

The AGM is the Company's principal forum for communication with Shareholders. The Chairman of the Board and the Chairmen of the Committees, together with the other Directors, will be available to answer Shareholders' questions at the meeting.

The Directors look forward to meeting Shareholders at the meeting.

On behalf of the Board



**Nic Budden**  
Chief Executive Officer

7 March 2017



**Mark Berry**  
Chief Financial Officer



## DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under Company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether Financial Reporting Standard 101 Reduced Disclosure Framework has been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for Shareholders to assess the Company's performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 7 March 2017 and is signed on its behalf by:



**Nic Budden**  
Chief Executive Officer

7 March 2017



**Mark Berry**  
Chief Financial Officer

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# FINANCIAL STATEMENTS





## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
<b>Continuing operations</b>			
<b>Revenue</b>	5	<b>132,688</b>	149,788
Administrative expenses		<b>(113,877)</b>	(108,867)
<b>Operating profit</b>		<b>18,811</b>	40,921
Finance income	9	<b>34</b>	150
Finance costs		<b>(80)</b>	(22)
<b>Profit before tax</b>		<b>18,765</b>	41,049
Tax	10	<b>(3,043)</b>	(6,460)
<b>Profit and total comprehensive income for the year</b>	6	<b>15,722</b>	34,589
<b>Earnings per share</b>			
Basic and diluted (pence per share)	12	<b>5.7</b>	12.3



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 £'000	2015 £'000
<b>Non-current assets</b>			
Goodwill	13	19,168	19,168
Other intangible assets	13	100,104	99,501
Property, plant and equipment	14	28,077	27,016
Deferred tax assets	17	468	294
		<b>147,817</b>	145,979
<b>Current assets</b>			
Trade and other receivables	16	7,753	12,147
Prepayments		5,681	6,106
Cash and cash equivalents	24	9,476	25,619
		<b>22,910</b>	43,872
<b>Total assets</b>		<b>170,727</b>	189,851
<b>Current liabilities</b>			
Trade and other payables	18	(11,313)	(10,926)
Current tax liabilities		(1,184)	(3,672)
Provisions	20	(286)	(195)
Deferred revenue and lettings refund liability	19	(4,473)	(4,653)
		<b>(17,256)</b>	(19,446)
<b>Net current assets</b>		<b>5,654</b>	24,426
<b>Non-current liabilities</b>			
Deferred tax liabilities	17	(16,830)	(17,820)
		<b>(16,830)</b>	(17,820)
<b>Total liabilities</b>		<b>(34,086)</b>	(37,266)
<b>Net assets</b>		<b>136,641</b>	152,585
<b>Equity</b>			
Share capital	21	2,751	2,817
Other capital reserve	36	2,582	2,582
Capital redemption reserve	21	71	5
Own shares held	22	(1,540)	(1,540)
Share premium	23	–	52,727
Retained earnings		132,777	95,994
<b>Total equity</b>		<b>136,641</b>	152,585

The financial statements of Foxtons Group plc, registered number 07108742, were approved by the Board of Directors on 7 March 2017.

Signed on behalf of the Board of Directors



**Mark Berry**  
Chief Financial Officer

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Notes	Share capital £'000	Own shares held £'000	Other capital reserve £'000	Capital redemption reserve £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1 January 2016</b>		<b>2,817</b>	<b>(1,540)</b>	<b>2,582</b>	<b>5</b>	<b>52,727</b>	<b>95,994</b>	<b>152,585</b>
Total comprehensive income for the year		–	–	–	–	–	15,722	15,722
Dividends	11	–	–	–	–	–	(21,694)	(21,694)
Share buy-back	21	(66)	–	–	66	–	(11,163)	(11,163)
Share premium cancellation net of transaction costs		–	–	–	–	(52,727)	52,703	(24)
Credit to equity for share based payments	29	–	–	–	–	–	1,215	1,215
<b>Balance at 31 December 2016</b>		<b>2,751</b>	<b>(1,540)</b>	<b>2,582</b>	<b>71</b>	<b>–</b>	<b>132,777</b>	<b>136,641</b>

	Notes	Share capital £'000	Own shares held £'000	Other capital reserve £'000	Capital redemption reserve £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 1 January 2015</b>		<b>2,822</b>	<b>(1,540)</b>	<b>2,582</b>	<b>–</b>	<b>52,727</b>	<b>89,699</b>	<b>146,290</b>
Total comprehensive income for the year		–	–	–	–	–	34,589	34,589
Dividends	11	–	–	–	–	–	(27,970)	(27,970)
Share buy-back	21	(5)	–	–	5	–	(927)	(927)
Credit to equity for share based payments	29	–	–	–	–	–	603	603
<b>Balance at 31 December 2015</b>		<b>2,817</b>	<b>(1,540)</b>	<b>2,582</b>	<b>5</b>	<b>52,727</b>	<b>95,994</b>	<b>152,585</b>

## CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
<b>Net cash from operating activities</b>	24	<b>23,385</b>	39,704
<b>Investing activities</b>			
Interest received		34	150
Proceeds on disposal of property, plant and equipment		399	233
Purchases of property, plant and equipment		(6,296)	(7,564)
Purchases of intangibles		(704)	(518)
<b>Net cash used in investing activities</b>		<b>(6,567)</b>	(7,699)
<b>Financing activities</b>			
Dividends paid	11	(21,694)	(27,970)
Cancellation of share premium expenses		(24)	–
Interest paid		(80)	(22)
Share buy-back		(11,163)	(927)
<b>Net cash used in financing activities</b>		<b>(32,961)</b>	(28,919)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(16,143)</b>	3,086
<b>Cash and cash equivalents at beginning of year</b>		<b>25,619</b>	22,533
<b>Cash and cash equivalents at end of year</b>		<b>9,476</b>	25,619

## NOTES TO THE FINANCIAL STATEMENTS

### 1. General information

Foxtons Group plc (the "Company") is a company incorporated in the United Kingdom under the Companies Act. The address of the Company's registered office is Building One, Chiswick Park, 566 Chiswick High Road, London W4 5BE. The principal activity of the Company and its subsidiaries (collectively, the "Group") is the provision of services to the residential property market in the UK.

These financial statements are presented in pounds sterling which is the currency of the primary economic environment in which the Group operates.

### 2. Adoption of new and revised standards

The Group has adopted the following Standards and Interpretations during the current year, which had no significant effect on the Group's results:

IAS 19 (amended)	<i>Employee Benefits</i>
Annual Improvements to IFRSs	<i>(2010 – 2012) Cycle</i>
Annual Improvements to IFRSs	<i>(2011 – 2013) Cycle</i>

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 9	<i>Financial Instruments</i>
IFRS 14	<i>Regulator Deferral Accounts</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
IFRS 16	<i>Leases</i>
IAS 19 (amended)	<i>Employee Benefits</i>
Annual Improvements to IFRSs	<i>(2012 – 2014) Cycle</i>

The Directors of the Company (the "Directors") expect that the adoption of the standards listed above will not have a material impact on the financial statements of the Group in future periods, with the exception of:

- IFRS 9 – will impact both the measurement and disclosures of financial instruments
- IFRS 15 – may impact Group revenue and additional disclosure will be required
- IFRS 16 – is expected to result in a material increase to both the assets and liabilities of the Group and may also impact the timing of recognition of operating costs.

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed during 2017.

### 3. Significant accounting policies

#### Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. IFRS includes the standards and interpretations approved by the International Accounting Standards Board (IASB) including International Accounting Standards (IAS) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC).

The accounting policies set out below have been applied in preparing the financial statements for the years ended 31 December 2015 and 2016, with the exception of note 2.

#### Basis of preparation

These financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

#### Basis of consolidation

The financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year. Control is achieved where the Company has the power over the investee; is exposed, or has rights, to variable return from its involvement with the investee; and has the ability to use its power to affect its returns.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.



### 3. Significant accounting policies (continued)

#### Going concern

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, having considered the Group forecasts and projections, taking account of reasonably possible changes in trading performance and the current economic uncertainty. Accordingly, they have adopted the going concern basis in preparing the financial statements. Further detail is contained in the Directors' Report on page 60.

#### Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held equity interest (if any) in the entity over the net of the acquisition-date fair value of the identifiable assets acquired and the liabilities assumed.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs) expected to benefit from the synergies of the combination. CGUs to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the CGU is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

#### Other intangible assets

Intangible assets other than goodwill that are acquired by the Group, representing the acquired Foxtons brand name, software and purchased contracts, are stated at cost less accumulated impairment losses. The brand name is considered to have an indefinite economic life because of the institutional nature of the brand name, its proven ability to maintain market leadership and profitable operations over long periods of time, and the Group's commitment to develop and enhance its value. The carrying value of the brand is subject to an annual impairment review, and adjusted to its recoverable amount if required. Purchased contracts and software are amortised on a straight line basis over their estimated useful economic lives of five years. Amortisation is included within administrative expenses in the consolidated statement of comprehensive income.

#### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts (if any) and VAT. Revenue is generated from the Group's operations which are wholly based in the UK.

#### Rendering of services

Commission earned on sales of residential property is recognised on exchange of contract.

In connection with lettings, the Group offers the following services:

- (1) Securing the letting for the landlord including rent collection; and
- (2) Managing the letting on behalf of the landlord.

Commissions earned on the above services are recognised as follows:

- (1) Commissions on securing the letting are recognised immediately subject to the following:
  - (a) a percentage of contracts have break clauses and may require a refund if the tenant breaks early for which the Group recognise an estimated lettings refund liability (see note 19) based upon the historical experience of commission repayments over the last 12 months; and
  - (b) a deferral of revenue in recognition that the Group is contracted to provide a rent collection service for the estimated duration of the outstanding tenancies and the related revenue associated with the service is recognised on a straight-line basis over that period.
- (2) The management fee is billed and recognised monthly at a fixed percentage of the monthly rental.

Commission earned on financial services is recognised when insurance policies go on risk and when mortgage contracts complete. Income from other services is recognised in the period or periods when the services are provided. Commission is recognised at fair value which takes account of expected future cancellations.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 3. Significant accounting policies (continued)

#### Interest income

The Group deposits its cash with reputable financial institutions. Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. The Group earns interest income on own funds which is shown as finance income. It also earns interest on client funds which is included within Lettings revenue. See note 28.

#### Operating leases

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease. In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

#### Exceptional items

As permitted by IAS 1: Presentation and Disclosure, certain items are presented separately in the consolidated statement of comprehensive income as exceptional where, in the judgement of the Directors, they need to be disclosed separately by virtue of their nature, size or incidence in order to obtain a clear and consistent presentation of the Group's underlying business performance. No exceptional items were present in the year ended 31 December 2016 or 2015.

#### Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

#### Current tax

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's current tax liability is calculated at the statutory rate for the period which in the year ended 31 December 2016 is a blended rate of 20% (2015: 20.25%).

#### Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that 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 that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and amended to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

#### Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is recognised so as to write off the cost of assets (other than land and assets under construction) less their residual values over their useful lives, using the straight-line method, on the following bases:

Leasehold improvements	Over the term of the lease
Fixtures, fittings and equipment	Between 20% and 25% straight-line
Motor vehicles	25% straight-line

### 3. Significant accounting policies (continued)

The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or scrapping of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of comprehensive income.

Capitalisation of expenditure on new branches totalled £4,628k (2015: £5,537k) and is reflected in leasehold improvements £4,172k (2015: £3,852k) and fixtures, fittings and equipment £456k (2015: £1,685k). Depreciation is charged on assets once the office set up is complete.

#### **Impairment of tangible and intangible assets excluding goodwill**

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of comprehensive income.

#### **Financial instruments**

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument.

#### **Financial assets**

All financial assets are recognised and derecognised on a trade date where the purchase or sale of the financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned and are initially measured at fair value plus transaction costs.

All financial assets, other than cash and cash equivalents, are classified as loans and receivables.

#### *Loans and receivables*

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

#### *Impairment of financial assets*

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated statement of comprehensive income.

#### **Financial liabilities and equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 3. Significant accounting policies (continued)

#### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

#### Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

#### Effective interest method

The effective interest method is used in calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

#### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

#### Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### Valuation of share options

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market-based vesting conditions. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 29.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each balance sheet date, the Group revises its estimate of the number of equity instruments expected to vest as a result of the effect of non-market-based vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves.

### 4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

#### Critical judgements in applying the Group's accounting policies

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

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

#### 4. Critical accounting judgements and key sources of estimation uncertainty (continued)

##### Revenue recognition – Estimate of lettings refund liability

For those contracts with break clauses, there is judgement involved in determining the appropriate refund liability to be recognised in relation to the potentially refundable portion of the commission. Since the Group uses standard terms for its letting contracts, and its lettings business is focused in one geographical area (London), management considers its lettings portfolio to be a homogenous population and estimates the amount of the commission that will be refunded based upon historical data for all lettings contracts, which is considered reliable evidence supporting this judgement. The Group maintains robust data which demonstrates that patterns of rental behaviour do not change significantly period by period, and thus the Group believes that historical data is a relatively accurate proxy for future trends and circumstances.

##### Useful economic life of the brand

The Company completed the acquisition of 100% of the equity of Foxtons Intermediate Holdings on 30 March 2010. The Directors identified one material intangible asset: the Foxtons brand, which was deemed to have an indefinite life as there is no foreseeable limit to the period over which the asset is expected to generate cash inflows.

##### Client funds

Client monies and the associated liabilities are not shown on the consolidated balance sheet because the Company treats the monies as belonging to clients and not as its own funds, (note 28 refers). Client monies are held by the Company in specifically designated client accounts and, on that basis, the company expects that, in the event of the Company becoming insolvent, such monies would be ring-fenced and not be available to the Company's creditors as a whole. They are not available for offset against any other account held with the bank. Treatment of client monies are subject to Association of Residential Lettings Agency Rules.

##### Key sources of estimation uncertainty

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

##### Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated, and the group of CGUs to which intangible assets (i.e. the Foxtons brand) have been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate present value. The carrying amount of goodwill and intangible assets at the balance sheet date was £119.3 million. There have been no impairments to the value of goodwill and intangible assets. See note 13 for details of the tests for impairment.

#### 5. Business and geographical segments

##### Products and services from which reportable segments derive their revenues

Management has determined the operating segments based on the monthly management pack reviewed by the Directors, which is used to assess both the performance of the business and to allocate resources within the entity. Management has identified that the Directors are the chief operating decision-makers in accordance with the requirements of IFRS 8 'Operating segments'.

The operating and reportable segments of the Group are (i) Sales, (ii) Lettings and (iii) Mortgage Broking.

The Sales segment generates commission on sales of residential property. The Lettings segment earns fees from the letting and management of residential properties and income from interest earned on tenants' deposits. As these two segments operate out of the same premises and share support services, a significant proportion of costs have to be apportioned between the segments. The basis of apportionment used is headcount in each segment.

The Mortgage Broking segment receives commission from the arrangement of mortgages and related products under contracts with financial service providers and receives administration fees from clients.

Previously the Group has presented other revenue separately from the operating segments of Sales, Lettings and Mortgage Broking. The Group has re-presented the 2015 segmental analysis, with other revenue categorised between Sales and Lettings based upon the nature of the income. £0.2 million of the other revenue in 2015 related to conveyancing commissions and has been categorised to Sales. The remaining other revenue of £0.2 million relates primarily to rental income and has been apportioned between Sales and Lettings.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Adjusted EBITDA represents the profit before tax for the period earned by each segment before allocation of finance costs, finance income, depreciation, amortisation, profit on disposal of fixed assets, share based payments and exceptional items. This is the measure reported to the Directors for the purpose of resource allocation and assessment of segment performance.

All revenue for the Group is generated from within the UK and there is no intra-group revenue.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 5. Business and geographical segments (continued)

#### Segment revenues and results

The following is an analysis of the Group's revenue and results by reportable segment for the year ended 31 December 2016:

	Sales £'000	Lettings £'000	Mortgage Broking £'000	Consolidated £'000
<b>Revenue</b>	<b>55,489</b>	<b>68,349</b>	<b>8,850</b>	<b>132,688</b>
Adjusted EBITDA	7,021	16,155	1,425	24,601
<i>Adjusted EBITDA margin</i>	12.7%	23.6%	16.1%	18.5%
Depreciation				(4,949)
Amortisation				(101)
Profit on disposal of property, plant and equipment				113
Finance income				34
Finance cost				(80)
Share based payment charge				(854)
Profit before tax				<b>18,765</b>

The following is an analysis of the Group's revenue and results by reportable segment for the combined year ended 31 December 2015:

	Sales £'000	Lettings £'000	Mortgage Broking £'000	Consolidated £'000
<b>Revenue</b>	<b>72,494</b>	<b>69,043</b>	<b>8,251</b>	<b>149,788</b>
Adjusted EBITDA	23,811	20,873	1,323	46,007
<i>Adjusted EBITDA margin</i>	32.8%	30.2%	16.0%	30.7%
Depreciation				(4,491)
Amortisation				(17)
Profit on disposal of property, plant and equipment				109
Finance income				150
Finance cost				(22)
Share based payment charge				(687)
Profit before tax				<b>41,049</b>

Segment assets and liabilities, including depreciation, amortisation and additions to non-current assets, are not reported to the Directors on a segmental basis and are therefore not disclosed. Goodwill and intangible assets have been allocated to reportable segments as described in note 13.

## 6. Profit and total comprehensive income for the period

Profit and total comprehensive income for the period has been arrived at after charging/(crediting):

	2016 £'000	2015 £'000
Operating leases	13,427	12,162
Depreciation of property, plant and equipment	4,949	4,491
Amortisation of intangible assets	101	17
Gain on disposal of property, plant and equipment	(113)	(109)
Impairment loss on trade receivables	419	334
Staff costs (see note 8)	67,067	66,191

## 7. Auditor's remuneration

	2016 £'000	2015 £'000
The audit of the Company	78	92
The audit of the Company's subsidiaries	79	92
<b>Total audit fees</b>	<b>157</b>	<b>184</b>
Taxation compliance services	169	68
Other taxation advisory services	43	31
Other assurance services	3	3
Interim review	21	21
Other services	–	–
<b>Total non-audit fees</b>	<b>236</b>	<b>123</b>

Details of the Company's policy on the use of Auditors for non-audit services, the reasons why the Auditor was used rather than another supplier and how the Auditor's independence and objectivity was safeguarded are set out in the Audit Committee report on page 41. No services were provided pursuant to contingent fee arrangements. In light of the new EU restrictions regarding non-audit services, the Group appointed PwC to provide tax compliance services with effect from 2016.

Non-audit fees in the current year are higher than prior year, as a result of a combination of certain one-off services and advanced billing on the recurring tax services ahead of the Group's transition to a new tax provider from 1 January 2017.

## 8. Staff costs

The average monthly number of full-time equivalent employees (including Executive Directors) was:

	2016 Number	2015 Number
Sales	847	832
Administration	490	491
	<b>1,337</b>	<b>1,323</b>

Their aggregate remuneration comprised:

	2016 £'000	2015 £'000
Wages and salaries	60,149	59,459
Social security costs	6,625	6,462
Pension costs	293	270
	<b>67,067</b>	<b>66,191</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 9. Finance income

	2016 £'000	2015 £'000
Interest income on bank deposits	34	150

### 10. Tax

	2016 £'000	2015 £'000
<b>Current tax</b>		
Current period UK corporation tax	4,065	8,235
Adjustments in respect of prior periods	(231)	(377)
Total current tax	3,834	7,858
<b>Deferred tax</b>		
Origination and reversal of temporary differences	–	89
Impact of change in tax rate	(990)	(1,970)
Adjustment in respect of prior periods	199	483
Total deferred tax	(791)	(1,398)
Tax on profit on ordinary activities	3,043	6,460

Corporation tax for the year ended 31 December 2016 is calculated at 20% (year ended 31 December 2015: 20.25%) of the estimated taxable profit for the period.

On 1 April 2014, the UK corporate tax rate was reduced from 23% to 21%. From 1 April 2015, the UK corporate tax rate fell to 20%.

There will be a reduction in the UK corporation tax rate to 19% from April 2017 and a further reduction to 17% from April 2020.

The reduction in future corporation tax rates has resulted in a deferred tax credit of £1.0 million (2015: £2.0 million) primarily relating to the intangible brand asset.

The deferred tax adjustment in respect of prior periods relates primarily to capital allowances for the prior year for both 2016 and 2015.

The charge for the period can be reconciled to profit in the consolidated statement of comprehensive income as follows:

	2016 £'000	2015 £'000
Profit before tax	18,765	41,049
Tax at the UK corporation tax rate (see above)	3,753	8,312
Tax effect of expenses that are not deductible in determining taxable profit	545	161
Offset of losses brought forward	(169)	(17)
Other short-term timing differences	(64)	(132)
Adjustment in respect of previous periods – current tax	(231)	(377)
Adjustment in respect of previous periods – deferred tax	199	483
Impact on deferred tax of change in tax rate	(990)	(1,970)
Origination and reversal of timing differences	–	–
Tax on profit on ordinary activities	3,043	6,460

Group relief is claimed and surrendered between Group companies for consideration equal to the tax benefit.

## 11. Dividends

	2016 £'000	2015 £'000
<b>Amounts recognised as distributions to equity holders in the period:</b>		
Final and special dividends year ended 31 December 2015: 6.23p (2014: 5.16p) per ordinary share	<b>17,108</b>	14,535
Interim and special dividends year ended 31 December 2016: 1.67p (2015: 4.77p) per ordinary share	<b>4,586</b>	13,435
	<b>21,694</b>	27,970

For 2016, the Board recommends a final dividend of 0.33p per ordinary share (£0.9 million) to be paid in May 2017. These financial statements do not reflect these dividends payable.

## 12. Earnings per share

	2016 £'000	2015 £'000
<b>Earnings for the purposes of basic and diluted earnings per share being profit for the year</b>	<b>15,722</b>	34,589
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	<b>275,161,239</b>	281,656,997
Effect of dilutive potential ordinary shares	<b>786,455</b>	512,631
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>275,947,694</b>	282,169,628
Basic and diluted earnings per share (in pence per share)	<b>5.7</b>	12.3

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 13. Intangible assets

	Goodwill £'000	Brand £'000	Software £'000	Purchased contracts £'000	Total £'000
<b>Cost</b>					
At 1 January 2016	19,168	99,000	13	505	118,686
Additions	–	–	715	(11)	704
At 31 December 2016	19,168	99,000	728	494	119,390

Software additions of £715k relate to a project under development. Amortisation will commence on completion of the project.

	Goodwill £'000	Brand £'000	Software £'000	Purchased contracts £'000	Total £'000
<b>Accumulated amortisation</b>					
At 1 January 2016	–	–	–	17	17
Charge for the period	–	–	–	101	101
At 31 December 2016	–	–	–	118	118

	Goodwill £'000	Brand £'000	Software £'000	Purchased contracts £'000	Total £'000
<b>Carrying amount</b>					
At 31 December 2016	19,168	99,000	728	376	119,272
At 1 January 2016	19,168	99,000	13	488	118,669



### 13. Intangible assets (continued)

	Goodwill £'000	Brand £'000	Software £'000	Purchased contracts £'000	Total £'000
<b>Cost</b>					
At 1 January 2015	19,168	99,000	–	–	118,168
Additions	–	–	13	505	518
At 31 December 2015	19,168	99,000	13	505	118,686
	Goodwill £'000	Brand £'000	Software £'000	Purchased contracts £'000	Total £'000
<b>Accumulated amortisation</b>					
At 1 January 2015	–	–	–	–	–
Charge for the period	–	–	–	17	17
At 31 December 2015	–	–	–	17	17
	Goodwill £'000	Brand £'000	Software £'000	Purchased contracts £'000	Total £'000
<b>Carrying amount</b>					
At 31 December 2015	19,168	99,000	13	488	118,669
At 1 January 2015	19,168	99,000	–	–	118,168

Goodwill for the years ended 31 December 2015 and 2016 has been allocated to segments as follows: Sales £9,819k, Lettings £9,349k and Mortgage Broking (£nil).

The goodwill and brand intangible assets were recognised on the acquisition of Foxtons Intermediate Holdings Limited and its subsidiaries.

The recoverable amount of the above has been calculated using value in use determined from cash flow projections from formally approved budgets and forecasts covering a three year period for each cash-generating unit (CGU). The key assumptions in determining the cash flows are expected changes in sales and lettings volumes and direct costs to be incurred during the forecast period. These assumptions are based upon a combination of past experience of recently observable trends and expectations of future changes in the market.

To evaluate the recoverable amount of each CGU or group of CGUs, a terminal value has been assumed after the third year and includes a growth rate in the cash flows of 2% (2015: 2%) into perpetuity. The discount rates used reflect the risks specific to the CGUs.

The brand asset has been tested for impairment by aggregating the value in use amounts computed in the goodwill impairment test for each CGU, being the aggregation of Sales and Lettings. This grouping of CGUs represents the lowest level at which management monitors the brand internally, and reflects the way in which the brand asset is viewed as relating to the Sales and Lettings segments as a whole, rather than being allocated to each segment on an arbitrary basis.

The pre-tax rate used to discount cash flows from Sales is 9.9% (2015: 10.30%), from Lettings is 9.4% (2015: 9.80%) and from the aggregation of Sales and Lettings is 9.7% (2015: 10.05%).

A reasonable possible change of 2% in the growth rate beyond 2019 or a 1% increase in the discount rate or a 10% reduction in revenue would not change the conclusion of the impairment review. A combination of all of these reasonably possible changes occurring would remove the headroom of £41m in the Sales CGU.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 14. Property, plant and equipment

	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Motor Vehicles £'000	Assets under construction £'000	Total £'000
<b>Cost</b>					
At 1 January 2016	29,437	12,800	1,875	1,876	45,988
Additions	320	897	1,538	3,541	6,296
Disposals	(85)	–	(756)	–	(841)
Reclassification/transfer	4,172	456	–	(4,628)	–
At 31 December 2016	33,844	14,153	2,657	789	51,443
	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Motor Vehicles £'000	Assets under construction £'000	Total £'000
<b>Accumulated depreciation</b>					
At 1 January 2016	10,264	8,093	615	–	18,972
Charge for the period	2,584	1,718	647	–	4,949
Disposals	–	–	(555)	–	(555)
At 31 December 2016	12,848	9,811	707	–	23,366
	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Motor Vehicles £'000	Assets under construction £'000	Total £'000
<b>Carrying amount</b>					
At 31 December 2016	20,996	4,342	1,950	789	28,077
At 1 January 2016	19,173	4,707	1,260	1,876	27,016

## 14. Property, plant and equipment (continued)

	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Motor Vehicles £'000	Assets under construction £'000	Total £'000
<b>Cost</b>					
At 1 January 2015	25,583	10,557	1,533	1,340	39,013
Additions	22	561	908	6,073	7,564
Disposals	(20)	(3)	(566)	–	(589)
Reclassification/transfer	3,852	1,685	–	(5,537)	–
At 31 December 2015	29,437	12,800	1,875	1,876	45,988
	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Motor Vehicles £'000	Assets under construction £'000	Total £'000
<b>Accumulated depreciation</b>					
At 1 January 2015	7,981	6,400	565	–	14,946
Charge for the period	2,295	1,693	503	–	4,491
Disposals	(12)	–	(453)	–	(465)
At 31 December 2015	10,264	8,093	615	–	18,972
	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Motor Vehicles £'000	Assets under construction £'000	Total £'000
<b>Carrying amount</b>					
At 31 December 2015	19,173	4,707	1,260	1,876	27,016
At 1 January 2015	17,602	4,157	968	1,340	24,067

## 15. Subsidiaries

A list of the investments in subsidiaries is included below:

Name	Place of incorporation and operation <sup>1</sup>	Principal activity	Proportion of ownership interest held in ordinary shares %	Proportion of voting power held %
Foxtons Intermediate Holdings Limited <sup>2</sup>	United Kingdom	Holding company	100%	100%
Foxtons Operational Holdings Limited	United Kingdom	Holding company	100%	100%
Foxtons Limited	United Kingdom	Estate agency	100%	100%
Alexander Hall Associates Limited	United Kingdom	Mortgage broker	100%	100%
Alexander Hall Direct Limited	United Kingdom	Dormant	100%	100%

<sup>1</sup> All subsidiaries have their registered office at Building One, Chiswick Park, 566 Chiswick High Road, London W4 5BE.

<sup>2</sup> Direct holding of Foxtons Group plc. All other subsidiaries are indirect holdings.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 16. Trade and other receivables

	2016 £'000	2015 £'000
Trade receivables	9,225	13,287
Allowance for doubtful debts	(1,974)	(1,722)
Net trade receivables	7,251	11,565
Other debtors	502	582
	7,753	12,147

Trade receivables disclosed above are classified as loans and receivables and are therefore measured at amortised cost.

Trade and other receivables are all current and any fair value difference is not material. Trade receivables are considered past due once they have passed their contracted due date.

Amounts invoiced to customers on exchange of sales contract or signing of lettings contract are due immediately, albeit in the case of lettings they may be collected over time through initial rental payments received. For sales, the vast majority of our receivables are received directly from the conveyancing lawyer working on behalf of the vendor. These processes facilitate the prompt collection of receivables. Our negotiators track payment and are incentivised to collect these receivables promptly as commission is based on amounts received in cash. Should a debt become 21 days overdue this is referred to our legal department unless there is a valid reason to the contrary. Outstanding debts are also monitored by Branch Managers and Area Directors. The finance team liaises closely with the legal team and is notified should it be decided that a debt is unlikely to be recovered. The Group has recognised an allowance for doubtful debts of 100% against all receivables over 180 days because historical experience has been that receivables which are past due beyond 180 days are not recoverable. Allowances against doubtful debts recognised against trade receivables between 30 days and 180 days are based on estimated irrecoverable amounts when information comes to our attention that a receivable is irrecoverable.

The Group does not hold any collateral or other credit enhancements over any of its trade receivables nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

Trade receivables disclosed above include amounts which are past due at the reporting date but against which the Group has not recognised an allowance for doubtful receivables as we are not aware of any information to suggest that there has been a significant change in credit quality and consequently the amounts are still considered recoverable.

Trade debtor days at the year end were 21 days (2015: 27 days).

#### Movement in the allowance for doubtful debts

	Allowance for doubtful debts £'000
<b>Foxtons Group plc</b>	
At 31 December 2014	(1,812)
Amounts provided for during the period	(334)
Amounts utilised during the period	424
At 31 December 2015	(1,722)
Amounts provided for during the period	(419)
Amounts utilised during the period	167
At 31 December 2016	(1,974)

The concentration of credit risk is limited due to the customer base being large and unrelated.

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value.

## 16. Trade and other receivables (continued)

Ageing of receivables	2016			2015		
	Gross trade receivables £'000	Impairment £'000	Net trade receivables £'000	Gross trade receivables £'000	Impairment £'000	Net trade receivables £'000
0 – 30 days	4,152	–	4,152	6,881	–	6,881
30 – 60 days	1,504	–	1,504	2,469	–	2,469
61 – 90 days	509	–	509	684	–	684
91+ days	3,060	(1,974)	1,086	3,253	(1,722)	1,531
	9,225	(1,974)	7,251	13,287	(1,722)	11,565

The analysis of the age of financial assets which are past due at the end of the reporting period but not impaired is shown above as "net trade receivables". All of the receivables in the table above are past due but not impaired, with the exception of those included in the category 91+ days.

## 17. Deferred tax

Deferred tax assets and liabilities are only offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

	2016 £'000	2015 £'000
Deferred tax assets	468	294
Deferred tax liabilities	(16,830)	(17,820)
	(16,362)	(17,526)

Deferred tax liabilities relate to the intangible asset, the Foxtons brand, which has an indefinite life. This deferred tax liability will not reverse unless the Foxtons brand is impaired or sold by the Group. The deferred tax credit of £0.99 million (2015: £1.98 million) in respect of intangible assets arose as a result of reduction in future corporation tax rates.

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting periods.

Foxtons Group plc	Fixed assets £'000	Other temporary differences £'000	Tax losses carried forward £'000	Intangible assets £'000	Total £'000
At 1 January 2015	39	390	447	(19,800)	(18,924)
(Charge)/credit to profit or loss	(92)	(262)	(228)	1,980	1,398
At 31 December 2015	(53)	128	219	(17,820)	(17,526)
(Charge)/credit to profit or loss	(37)	430	(219)	990	1,164
At 31 December 2016	(90)	558	–	(16,830)	(16,362)

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

### Tax losses carried forward

A deferred tax asset totalling £nil million (2015: £0.2 million) has been recognised in relation to tax losses carried forward. This relates to £nil million (2015: £1.2 million) of unused tax losses in Foxtons Intermediate Holdings Limited at 31 December 2016. Foxtons Intermediate Holdings Limited has £42.7 million of unused losses (2015: £40.9 million) for which a deferred tax asset has not been recognised on the basis that it is not considered probable that there will be future taxable profits available. These losses may be carried forward indefinitely.



## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 18. Trade and other payables

	2016 £'000	2015 £'000
Trade creditors	1,563	2,786
Social security and other taxes	2,468	2,615
VAT	851	1,565
Accruals	6,280	3,742
Other creditors	151	218
	<b>11,313</b>	<b>10,926</b>

The Directors consider that the carrying amount of trade payables approximates their fair value. The average trade creditor days as at 31 December 2016 were 15 days (31 December 2015: 22 days).

### 19. Deferred revenue and lettings refund liability

	2016 £'000	2015 £'000
Deferred revenue	406	425
Lettings refund liability	4,067	4,228
	<b>4,473</b>	<b>4,653</b>

### 20. Provisions

Foxtons Group plc	Sales provision £'000	Other provisions £'000	Total £'000
At 1 January 2016	143	52	195
Increase in provision	156	27	183
Utilisation of provision	(76)	(16)	(92)
At 31 December 2016	<b>223</b>	<b>63</b>	<b>286</b>

All provisions are classified as current liabilities.

#### Sales provision

This relates to the repayment of commissions within Alexander Hall Associates Limited which are expected to be used within the following four years.

#### Other provisions

These are incurred in the ordinary course of business and primarily includes the complaints provision. This provision relates to unresolved client complaints which may result in compensation within the following year.

## 21. Share capital

	2016 £'000	2015 £'000
<b>Authorised, allotted, issued and fully paid:</b>		
<b>Ordinary shares of £0.01 each</b>		
At 1 January	2,817	2,822
Share buyback	(66)	(5)
At 31 December	2,751	2,817

At 1 January 2016, the Company had 281,666,185 ordinary shares (1 January 2015: 282,176,468) with 6,561,794 (2015: 510,823) repurchased at a cost of £11.1 million with nominal value of £66k (2015: £924k with nominal value of £5k). As at 31 December 2016, the Company has 275,104,391 ordinary shares (2015: 281,666,185). Shares purchased during the period were cancelled.

The nominal value of shares purchased during the period was transferred to the Capital Redemption Reserve.

## 22. Own shares held

	2016 £'000	2015 £'000
Balance at 1 January	1,540	1,540
Acquired in period	–	–
Balance at 31 December	1,540	1,540

The own shares reserve represents the cost of shares in Foxtons Group plc purchased in the market and held by the Foxtons Group plc Employee Benefit Trust to satisfy options under the group's share options schemes (see note 29). The number of ordinary shares held by the Employee Benefit Trust at 31 December 2016 was 500,000 (2015: 500,000).

## 23. Share premium account

	Share premium £'000
Balance at 1 January 2015, 31 December 2015	52,727
Cancellation of share premium	(52,727)
Balance at 31 December 2016	–

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 24. Notes to the cash flow statement

	2016 £'000	2015 £'000
Operating profit	18,811	40,921
Adjustments for:		
Depreciation of property, plant and equipment	4,949	4,491
Gain on disposal of property, plant and equipment	(113)	(109)
Amortisation of intangibles	101	17
Increase/(decrease) in provisions	91	66
Share based payment cost	854	687
Operating cash flows before movements in working capital	24,693	46,073
(Increase)/decrease in receivables	4,819	(1,151)
Increase/(decrease) in payables	195	3,126
Cash generated by operations	29,707	48,048
Income taxes paid	(6,322)	(8,344)
Net cash from operating activities	23,385	39,704
<b>Cash and cash equivalents</b>		
	2016 £'000	2015 £'000
Cash and cash equivalents	9,476	25,619

Cash and cash equivalents comprise cash and short-term bank deposits with an original maturity of three months or less, net of outstanding bank overdrafts. The carrying amount of these assets is approximately equal to their fair value. Cash and cash equivalents excludes client monies. See note 28.

## 25. Operating lease arrangements

### The Group as lessee

	2016 £'000	2015 £'000
Lease payments under operating leases recognised as an expense in the period	13,427	12,162

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £'000	2015 £'000
Within one year	12,119	13,161
In the second to fifth years inclusive	39,601	33,066
After five years	43,776	31,987
	95,496	78,214

Operating lease payments represent rentals payable by the Group for certain of its office properties and cars under contract hire. Leases on offices are negotiated for an average term of 15 years and rentals are fixed for an average of five years.

### The Group as lessor

	2016 £'000	2015 £'000
Lease receipts under operating leases recognised in the period	343	333

At the balance sheet date, third parties had outstanding commitments due to the Group for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016 £'000	2015 £'000
Within one year	286	331
In the second to fifth years inclusive	936	1,022
After five years	–	200
	1,222	1,553

Operating lease payments represent rentals payable to the Group for certain recharges for rental of a proportion of its office properties.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 26. Financial instruments

#### Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns whilst maximising the return to Shareholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to Shareholders, undertake share buy-backs, return capital to Shareholders, issue new shares or negotiate debt facilities.

The capital structure of the Group consists of equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

A regulated subsidiary of the Group, Alexander Hall Associates Limited, is subject to externally imposed capital requirements. The required amount is calculated as 2.5% of the subsidiary's annual revenue as defined by the Financial Conduct Authority. As at 31 December 2016, the threshold was £215k (2015: £206k), for which the entity is in compliance.

#### Gearing ratio

The gearing ratio at each period end is as follows:

	2016 £'000	2015 £'000
Cash and cash equivalents	9,476	25,619
Net funds/(debt)	9,476	25,619
Equity	136,641	152,585
Net funds to equity ratio	(7)%	(17)%

Equity includes all capital and reserves of the Group that are managed as capital.

#### Categories of financial instruments

	2016 £'000	2015 £'000
<b>Financial assets</b>		
Cash and bank balances	9,476	25,619
Loans and receivables	7,753	12,147
<b>Financial liabilities</b>		
Financial liabilities recorded at amortised cost	(8,845)	(8,311)

#### Financial risk management objectives

The Group closely monitors cash requirements to ensure sufficient funds are held for the operations of the Group.

#### Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group earn interest on client deposits (see note 28).

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

#### Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at balance sheet date was outstanding for the whole period.

If interest rates had been 1% higher/lower and all other variables were held constant, the Group's profit before tax and total equity for the 12 months ended 31 December 2016 would increase/decrease by £1.0 million (year ended 31 December 2015: decrease/increase by £1.1 million).



## 26. Financial instruments (continued)

### Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

Trade receivables consist of a large number of customers and are monitored on an ongoing basis.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk to any counterparty did not exceed 1% of gross monetary assets at any time during the period.

The credit risk on liquid funds is considered to be limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk as no collateral or other credit enhancements are held.

Client funds (see note 28) are held with three financial institutions with high credit ratings assigned by international credit-rating agencies. The credit risk of banks cannot be totally eliminated. However, as the funds are client monies there is the additional protection of the Financial Services Compensation Scheme (FSCS) under which the government guarantees amounts of up to £75k each. This guarantee applies to each individual client's deposit monies, not the sum total on deposit.

### Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The inclusion of information on non-derivative financial assets is necessary to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

The Group's non-derivative financial assets and liabilities consist of trade and other receivables, cash and trade and other payables. The Group's expected maturity for its non-derivative financial assets and liabilities is less than one month as trade receivables and payables are payable on exchange.

	Less than 1 month £'000
<b>31 December 2016</b>	
Cash and cash equivalents	9,476
Trade and other receivables	7,753
Trade and other payables	(11,313)
	5,916
<b>31 December 2015</b>	
Cash and cash equivalents	25,619
Trade and other receivables	12,147
Trade and other payables	(10,926)
	26,840

The Group does not hold any financial instruments categorised as level 1, 2 or 3 by IFRS 13.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 26. Financial instruments (continued)

Management considers that the book value of financial assets and liabilities recorded at amortised cost and their fair value are approximately equal.

The book value and fair value of the Group's financial assets, liabilities and derivative financial instruments are as follows:

	2016 £'000	2015 £'000
Cash and cash equivalents	9,476	25,619
Trade and other receivables	7,753	12,147
Trade and other payables	(11,313)	(10,926)

### 27. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

#### Remuneration of key management personnel

The remuneration of the key management personnel of the Group is set out below in aggregate for each of the categories specified in IAS 24: Related Party Disclosures. Our definition of key management personnel in the year includes the Executive and Non-Executive Directors of Foxtons Group plc and the Chief Operating Officer of Foxtons Limited.

	2016 £'000	2015 £'000
Short – term employee benefits	2,079	1,981
Share – based payments	94	56
	2,173	2,037

### 28. Client monies

At 31 December 2016, client monies (all held by Foxtons Limited) in approved bank and building society accounts amounted to £87.4 million (31 December 2015: £84.8 million). Neither this amount nor the matching liabilities to the clients concerned is included in the consolidated balance sheet. Foxtons Limited's terms and conditions provide that interest income on these deposits accrues to the Company.

Client funds are protected by the Financial Services Compensation Scheme (FSCS) under which the government guarantees amounts up to £75,000 each. This guarantee applies to each individual client's deposit monies, not the sum total on deposit.

## 29. Share based payments

### Equity-settled share option scheme

The Company has a share option scheme for employees of the Group. The awards have been made in the form of an option with a nil option price. The vesting period is under three years. If the options remain unexercised after a period of ten years from the date of grant the options expire. The treatment of leavers before options vest is determined by good leaver/bad leaver provisions detailed in the plan rules as set out in the table on page 52.

Employer's NI is being accrued, where applicable, at the rate of 13.8% which management expects to be the prevailing rate at the time the options are exercised. The total NI charge for the year was £12,177 (2015: £83,327).

Details of the share options outstanding during the year are as follows.

	2016 £'000		2015 £'000	
	Number of share options	Weighted average exercise price (in £)	Number of share options	Weighted average exercise price (in £)
Outstanding at beginning of period	2,896,837	–	1,609,652	–
Granted during the period	3,743,842	£nil	1,485,392	£nil
Forfeited during the period	(156,342)	–	(198,207)	–
Outstanding at the end of the period	6,484,337	£nil	2,896,837	£nil
Exercisable at the end of the period	–	–	–	–

The options outstanding at 31 December 2016 had a weighted average remaining contractual life of 9 years (2015: 9 years).

In 2016, options were granted on 15 April 2016. The aggregate of the estimated fair values of the options granted is £4.1 million (2015: £2.1 million). The inputs into the Black-Scholes and Monte Carlo models are as follows:

	2016	2015	2014
Weighted average share price	157p	190p	221p
Weighted average exercise price	Nil	Nil	Nil
Expected volatility	27.6%	27%	27%
Expected life	2.96 years	2.96 years	2.44 years
Risk-free rate	0.58%	0.9%	0.5%
Expected dividend yield	7.53%	4.8%	5.9%

Expected volatility was determined by calculating the historical volatility of the share price of comparable listed companies over the previous 3 years. This is estimated based on comparable companies in line with IFRS 2 as there was insufficient historical information for Foxtons as it listed in September 2013. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £842k (net of NI) in the year ended 31 December 2016 (2015: £603k) related to equity-settled share-based payment transactions.

A summary of the main features of each scheme is given below.

### Long term incentive plan (LTIP)

Awards are subject to market and non-market performance conditions and vest over a three year period, with discretion available to the Remuneration Committee.

### Senior management long term incentive plan (SLTIP)

Awards are subject to market and non-market performance conditions and vest over a three year period, with discretion available to the Remuneration Committee.

### Restricted share incentive plan (RSIP)

Awards are subject to non-market performance conditions and vest over a three year period, with discretion available to the Remuneration Committee.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### 30. Operating cash conversion and net free cash flow

Operating cash conversion is defined as the ratio of Adjusted operating cash to Adjusted EBITDA. Adjusted operating cash is defined as Adjusted EBITDA less the movement in working capital and net capital spend.

	2016 £'000	2015 £'000
<b>Adjusted EBITDA</b>	<b>24,601</b>	46,007
(Increase)/decrease in receivables	4,819	(1,151)
Increase/(decrease) in payables	195	3,126
Increase/(decrease) in provisions	91	66
Purchases of property, plant and equipment	(6,296)	(7,564)
Purchases of intangibles	(704)	(518)
Proceeds on disposal of property, plant and equipment	399	233
<b>Adjusted operating cash</b>	<b>23,105</b>	40,199
<b>Operating cash conversion</b>	<b>93.9%</b>	87.4%

Net free cash flow is used as a measure of financial performance and is highlighted on page 1. It is defined as net cash from operating activities less net cash used in investing activities exclusive of exceptional items.

	2016 £'000	2015 £'000
<b>Net cash from operating activities</b>	<b>23,385</b>	39,704
<b>Investing activities</b>		
Interest received	34	150
Proceeds on disposal of property, plant and equipment	399	233
Purchases of property, plant and equipment	(6,296)	(7,564)
Purchases of intangibles	(704)	(518)
<b>Net cash used in investing activities</b>	<b>(6,567)</b>	(7,699)
<b>Net free cash flow</b>	<b>16,818</b>	32,005

## PARENT COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2016 £'000	2015 £'000
<b>Non-current assets</b>			
Investment in subsidiaries	33	32,729	31,887
		32,729	31,887
<b>Current assets</b>			
Trade and other receivables	34	27,441	28,959
Cash and cash equivalents		4	17,982
		27,445	46,941
<b>Current liabilities</b>			
Trade and other payables	35	(568)	(601)
<b>Net current assets</b>		26,877	46,340
<b>Net Assets</b>		59,606	78,227
<b>Equity</b>			
Share capital	21	2,751	2,817
Other capital reserve	36	2,582	2,582
Capital redemption reserve	21	71	5
Own shares reserve	22	(1,540)	(1,540)
Share premium		–	52,727
Retained earnings		55,742	21,636
<b>Equity attributable to owners of the Company</b>		59,606	78,227

The Company reported a profit for the financial year ended 31 December 2016 of £13.4 million (2015: £28.0 million).

The financial statements of Foxtons Group plc, registered number 07108742, were approved by the Board of Directors on 7 March 2017.

Signed on behalf of the Board of Directors



**Mark Berry**  
Chief Financial Officer



## PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital £'000	Own shares reserve £'000	Capital redemption reserve £'000	Other capital reserve £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 31 December 2015</b>		<b>2,817</b>	<b>(1,540)</b>	<b>5</b>	<b>2,582</b>	<b>52,727</b>	<b>21,636</b>	<b>78,227</b>
Total comprehensive income for the year		–	–	–	–	–	13,418	13,418
Dividends	11	–	–	–	–	–	(21,694)	(21,694)
Share premium cancellation net of transaction costs	23	–	–	–	–	(52,727)	52,703	(24)
Share buy-back	21	(66)	–	66	–	–	(11,163)	(11,163)
Capital contribution given relating to share based payments	33	–	–	–	–	–	842	842
<b>Balance at 31 December 2016</b>		<b>2,751</b>	<b>(1,540)</b>	<b>71</b>	<b>2,582</b>	<b>–</b>	<b>55,742</b>	<b>59,606</b>

	Notes	Share capital £'000	Own shares reserve £'000	Capital redemption reserve £'000	Other capital reserve £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
<b>Balance at 31 December 2014</b>		<b>2,822</b>	<b>(1,540)</b>	<b>–</b>	<b>2,582</b>	<b>52,727</b>	<b>21,937</b>	<b>78,528</b>
Total comprehensive income for the year		–	–	–	–	–	27,993	27,993
Dividends	11	–	–	–	–	–	(27,970)	(27,970)
Share buy-back	21	(5)	–	5	–	–	(927)	(927)
Capital contribution given relating to share based payments	33	–	–	–	–	–	603	603
<b>Balance at 31 December 2015</b>		<b>2,817</b>	<b>(1,540)</b>	<b>5</b>	<b>2,582</b>	<b>52,727</b>	<b>21,636</b>	<b>78,227</b>

At 31 December 2016, retained earnings is fully distributable.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS

### 31. Significant accounting policies

The accounting policies set out below have been applied in preparing the financial statements for the years ended 31 December 2015 and 2016. The principal accounting policies adopted are the same as those set out in note 3 and 4 to the consolidated financial statements except as noted below.

#### Basis of preparation

The Company's financial statements are prepared in accordance with the Companies Act 2006. The Company meets the definition of FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015 the Company decided to adopt FRS 101 and has undergone transition from reporting under UK GAAP to FRS 101 as issued by the Financial Reporting Council. Accordingly, the financial statements have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. This transition is not considered to have a material effect on the financial statements. The financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payments, financial instruments, capital management, presentation of a cash flow statement, standards not yet effective and related party transactions.

The company has applied FRS 101 'Reduced Disclosure Framework' incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments made to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective date of accounting periods beginning on or after 1 January 2016.

#### Investments in subsidiary companies

Investments in subsidiaries are recognised at cost less provisions for impairment.

#### Going concern

After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future having considered the Company forecasts and projections, taking account of reasonably possible changes in trading performance and the current economic uncertainty. Accordingly, they have adopted the going concern basis in preparing the financial statements.

### 32. Profit for the year

As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own income statement for the financial year. The Company's profit for the year was £13.4 million (2015: £28.0 million).

The Company has no employees at 31 December 2016 (2015: none).

The auditor's remuneration for audit and other services is disclosed in note 7 to the consolidated financial statements.

### 33. Investment in subsidiary undertakings

Investments in subsidiary undertakings were as follows:

	£'000
At 31 December 2014	31,284
Capital contribution arising from share based payments	603
At 31 December 2015	<b>31,887</b>
Capital contribution arising from share based payments	<b>842</b>
<b>At 31 December 2016</b>	<b>32,729</b>

Investments in subsidiaries are stated at cost, less any provision for impairment.

The subsidiary undertakings, all of which are wholly owned and included in the consolidated accounts, are shown in note 15 to the consolidated financial statements.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS (continued)

### 34. Trade and other receivables

	2016 £'000	2015 £'000
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiary undertakings	27,370	28,854
Prepayments and accrued income	71	105
	<b>27,441</b>	<b>28,959</b>

Amounts owed by subsidiary companies are unsecured and repayable on demand.

### 35. Trade and other payables

	2016 £'000	2015 £'000
<b>Amounts falling due within one year:</b>		
Accruals	(568)	(601)
	<b>(568)</b>	<b>(601)</b>

### 36. Other capital reserve

	2016 £'000	2015 £'000
Balance at 1 January and 31 December	<b>2,582</b>	<b>2,582</b>

Prior to IPO a ratchet mechanism reduced the number of shares in issue resulting in a reduction in share capital and transfer to the other capital reserve.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FOXTONS GROUP PLC

### Opinion on financial statements of Foxtons Group plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise:

- the Consolidated Statement of Comprehensive Income;
- the Consolidated and parent company statement of financial position;
- the Consolidated and parent company statements of changes in equity;
- the Consolidated cash flow statement; and
- the related notes 1 to 36.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

### Summary of our audit approach

<b>Key risks</b>	<p>The key risks that we identified in the current year were:</p> <ul style="list-style-type: none"> <li>• impairment of goodwill and other intangible assets; and</li> <li>• revenue recognition in respect of lettings commission.</li> </ul> <p>The key risks are consistent with those disclosed in the prior year.</p>
<b>Materiality</b>	<p>The materiality that we used in the current year was £1.7 million which was determined with reference to the Group's average profit before tax over a five year period (2012 – 2016).</p>
<b>Scoping</b>	<p>Our Group audit scope covers 100% (2015: 100%) of the Group companies, with each entity audited to a statutory materiality appropriate for the individual entity.</p>

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FOXTONS GROUP PLC (continued)

### Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 1 to the financial statements and the directors' statement on the longer-term viability of the Group contained within the strategic report on page 25.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the directors' confirmation on page 38 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 22-25 that describe those risks and explain how they are being managed or mitigated;
- the directors' statement in note 3 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the directors' explanation on page 25 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

**We confirm that we have nothing material to add or draw attention to in respect of these matters.**

**We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.**

### Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

**We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.**

### Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These risks are consistent with the prior year.

Impairment of goodwill and other intangible assets	
<b>Risk description</b>	<p>The Group's value of goodwill and other intangible assets as at 31 December 2016 totalled £119.3 million (2015: £118.7 million), of which £99 million (2015: £99 million) relates to the Foxtons brand. In combination, these assets represent 87% (2015: 78%) of the Group's balance sheet net asset value.</p> <p>Assessment of impairment of goodwill and other intangible assets is a judgemental process, which requires consideration of the value in use of the cash generating units. Calculating the value in use requires estimates of future cash flows and associated discount rates and growth rates.</p> <p>Further information in this area is discussed in the Audit Committee report on page 43, the significant accounting policies in note 3, critical accounting judgements and key sources of estimation uncertainty in note 4 and the disclosures in note 13.</p>
<b>How the scope of our audit responded to the risk</b>	<p>We have challenged management's key assumptions relating to the estimated future cash flows, growth rates and the discount rate applied through benchmarking against comparator businesses, our understanding of the future prospects of the business, assessment of forecasts against historical forecast accuracy and consideration of available third party market forecast data. We used our own valuation specialists to produce an independent calculation of the discount rate against which we assessed the appropriateness of management's assumptions.</p> <p>We have considered the appropriateness of the sensitivities applied by management, recalculated the headroom available under the sensitised positions and assessed the associated disclosures provided by the Group in relation to its impairment review.</p>
<b>Key observations</b>	<p>Based upon the work performed, we concur with the Directors' conclusion that the carrying value of the goodwill and other intangible assets is not impaired.</p> <p>Additionally, we concluded that the key assumptions management used to calculate the value in use were within an acceptable range and that the value in use supports the carrying value of the goodwill and other intangible assets. We have assessed the sensitivities applied by management and consider these, and the associated disclosure within the financial statements, to be appropriate.</p>
Revenue recognition in respect of lettings commission	
<b>Risk description</b>	<p>A significant volume of lettings contracts include break clauses. The Group recognises revenue from lettings commission based on its estimate of the period of the tenant's occupation of the lease. This requires management judgement in respect of estimating the likelihood of a break clause being exercised. Management considers the Group lettings portfolio to be homogenous and therefore calculates the estimate using historical data for all lettings contracts.</p> <p>A lettings refund liability of £4.1 million has been recognised at 31 December 2016.</p> <p>Further information in this area is discussed in the Audit Committee report on page 43, the significant accounting policies in note 3 and critical accounting judgements and key sources of estimation uncertainty in note 4.</p>
<b>How the scope of our audit responded to the risk</b>	<p>We have tested the controls in relation to the lettings business cycle and reporting systems used. We have challenged management's judgement of the likelihood of a break clause being exercised by reference to historic average lease lengths, including testing the completeness and validity of the underlying data by comparing a sample of contracts to source data and reviewing a sample of lettings contracts, to assess whether the overall level of revenue recognised at the year-end was within a tolerable threshold.</p>
<b>Key observations</b>	<p>We did not identify any control failures in our testing of the lettings business cycle and reporting systems and are satisfied that management's assumptions and estimates applied in calculating the letting commission were appropriate and applied consistently.</p>

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FOXTONS GROUP PLC (continued)

### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Group materiality</b>	£1.7 million (2015: £2.05 million).
<b>Basis for determining materiality</b>	We have determined materiality with reference to the Group's average profit before tax over a five year period (2012 – 2016).
<b>Rationale for the benchmark applied</b>	<p>Professional judgement was applied in determining an appropriate level of materiality and we considered a number of measures with reference to the Group's performance.</p> <p>We have revised our approach for determining materiality. Given the cyclical nature of the industry, we concluded that it would be appropriate to determine materiality with reference to a five year average of profit before tax, profit before tax being the key metric used both externally and internally to provide an understanding of the trading performance of the business. In our professional judgement this new approach provides a more stable basis in an industry that is inherently exposed to market volatility.</p> <p>Materiality represents 9.0% of the 2016 profit before tax and equates to 1.2% of net assets.</p>

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £83,000 (2015: £41,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### An overview of the scope of our audit

Our Group audit scope covers 100% (2015: 100%) of the Group companies, all of which are UK legal entities with the full scope audit procedures performed entirely by the central audit team using a statutory materiality appropriate for each entity which was lower than Group materiality and ranged from £0.1 million to £1.6 million. At the parent entity level, we also tested the consolidation process.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

## Matters on which we are required to report by exception

### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

**We have nothing to report in respect of these matters.**

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

**We have nothing to report arising from these matters.**

### Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

**We have nothing to report arising from our review.**

### Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

**We confirm that we have not identified any such inconsistencies or misleading statements.**

## Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF FOXTONS GROUP PLC (continued)

### Scope of the audit of the financial statements

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

**Claire Faulkner (Senior statutory auditor)**  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditor  
London, United Kingdom  
7 March 2017

## FINANCIAL CALENDAR

### 2016 Financial Year

2016 financial year end	31 December 2016
Year end trading update	11 January 2017
Preliminary announcement	8 March 2017
Publish Annual Report and Accounts	April 2017
Ex-final dividend date	27 April 2017
Final record date	28 April 2017
AGM	17 May 2017
Final dividend payment date	25 May 2017

### 2017 Financial Year

1st quarter trading update	April 2017
Interim period end	30 June 2017
Announcement of interim results	July 2017
Interim ex-dividend date	31 August 2017
Interim record date	1 September 2017
Interim dividend payment date	27 September 2017
3rd quarter trading update	October 2017
2017 financial year end	31 December 2017
Year end trading update	January 2018
Preliminary announcement	March 2018
Publish Annual Report and Accounts	April 2018
Ex-final dividend date	April 2018
Final record date	April 2018
AGM	May 2018
Final dividend payment date	May 2018

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