COUNTRYSIDE
Places People Love

7 April 2022

Countryside Partnerships PLC

Update on site operations review, trading and the Government's Fire Safety Pledge

In January, Countryside Partnerships plc ("Countryside", "Group" or "Company") announced that it would conduct a review of all of its site operations and the key conclusions of that review are presented in this update today, alongside the flash trading performance for the first half and an update on the Government's Fire Safety Pledge.

John Martin, Chair and interim CEO of Countryside, said: "After conducting a review of all operational sites, management has identified a number of areas where we can raise our game and our team is moving quickly to improve performance. There remains significant market demand for our homes and we did not identify any competitive issues during our review. Large parts of the Group continue to perform strongly, building high-quality, affordable homes and developing places people love as a trusted partner of local authorities, registered providers and PRS investors."

Conclusions of the site-by-site reviews

Over the last ten weeks management has performed a detailed review of the 128 operational sites across all regions, as well as the pipeline of new opportunities. Key conclusions from the site-by-site reviews are set out below.

Overview

Across all parts of the business teams are highly focused on building quality homes and developing high quality communities and places people love. Countryside is held in very high regard by local authorities, registered providers, PRS investors and other partners and customers. The business is uniquely trusted by our partners and very well differentiated as the leader in Partnerships. Countryside has a dedicated and highly experienced work force and an excellent range of sites and pipeline of opportunities.

Large parts of the business are performing well today. However, the financial results in the current year do not reflect the range or quality of assets that the Group has at its disposal. In particular, the review identified the following specific issues which have adversely impacted performance:

- We have failed to realise the benefits of the Westleigh acquisition completed in 2018.
- The North has experienced significant operational challenges. New management are now focused on building a strong and sustainable business in the region.
- The expansion into new regions has been too ambitious. Action has now been taken to consolidate regional resources, reduce costs and create a strong platform for growth.
- Excess manufacturing capacity has been established and the Board is considering all options to minimise losses.

These issues are primarily execution-related, are within the Company's control, and are solvable.

Regional review

The Partnerships business in the South, which focuses on regeneration in London and the Thames Valley, continues to perform well, in line with the Board's expectations. The business is a clear partner of choice for local authorities and registered providers across the South East.

In the Home Counties the creation of the new Partnerships business is on track. The people, developments and land bank of the former Housebuilding Division are being effectively deployed and we expect the business to quickly become the leader in Partnerships across the region. The realisation of legacy assets is on track and is being executed effectively.

Our new team in the South West has invested in some promising sites and we expect the region to perform well.

In the Midlands and the North we have some excellent teams and many successful developments. However, the review identified a number of factors that have had an adverse impact on performance:

- The operations formed following the acquisition of Westleigh in 2018 have not performed in line with the acquisition case. Project margins are very low and, in a number of cases, declined towards the end of projects. Some projects that were previously meant to have been finished were not completed to Countryside's high standards. Construction on all former Westleigh sites is expected to be complete this year and the current teams are making good progress in rebuilding our capability in these regions.

- In the North, a number of large-scale developments were completed last year and start-on-site dates for a number of new sites were delayed. On a number of sites, progress was disrupted by the failure of some groundworkers, timber-frame and roofing contractors to deliver to the required quality and in the required timeframe. In addition, profitability was impacted by an escalation in costs to complete in certain sites. We have strengthened the management team which is continuing to build a robust supply chain across the North.

- The South Midlands region is currently unprofitable and will be merged with the West Midlands region in order to consolidate our teams and focus our financial resources.

- In other regions the Group had planned to expand rapidly. It is now apparent that the Group could not manage expansion at this rate, particularly due to the constraints of the supply chain. Management announced a review of the Chilterns region in the autumn and we will now merge this team with the adjacent regional teams to allow us to focus our resources most effectively.

Manufacturing

The Group has three timber frame manufacturing facilities, including a new 350,000 square foot facility in Bardon which has not yet been brought into production. There is now significantly more capacity than the Group is able to utilise and management is reviewing the facilities in order to align capacity with the expected future needs of the business. Net costs incurred in manufacturing of £6.1m in the first half include £2.8m in relation to the new facility. Operating losses across manufacturing in the year as a whole are expected to be £10.0m. The Board is considering all options and will act quickly to minimise losses arising from manufacturing.

Group aspects of the review

In addition to the site-by-site reviews, we are also reviewing in detail the support that the divisions require from central services and ensuring that local teams are entirely focused on building quality homes and places people love. Management is now lowering the cost base at both regional and group level and reducing the office footprint. Consultation with those colleagues affected by proposed cost-reduction initiatives will take place throughout April and May. Reductions in regional and group costs are expected to generate savings of £15m per annum.

There is significant variability in profitability of the business from one month to the next which arises from the 'lumpy' nature of land transactions and the sale of private homes, many of which are completed in March and September. This also gives rise to large movements in working capital. The business will work on ways to make its performance more consistent over time to reduce the volatility of earnings and working capital and smooth the completion timetable.

Pipeline of new opportunities

Countryside has a strong pipeline of opportunities which should support significant growth in the years to come. The review identified no concerns with the pipeline of new opportunities. The Group has continued to win several large projects such as the regeneration of Clapham Park Estate alongside our joint venture partner Metropolitan & Thames Valley Housing Association as well as our joint venture with Optivo to deliver the regeneration of the former Hendon Metropolitan Police Training Centre.

Current trading

Flash unaudited trading results for the six months ended 31 March 2022 compared with the two prior periods are summarised as follows:

Six months ended 31 March £m	**2020**	**2021**	**2022**
Adjusted revenue[1]	530.9	755.0	658.6
Adjusted operating profit[1]			
- Partnerships and Housebuilding	56.3	79.9	51.7
- Manufacturing	(1.0)	(1.3)	(6.1)
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Adjusted operating profit[1]	55.3	78.6	45.6
Net cash / (debt)	(127.7)	105.9	9.0

[1]Adjusted measures are as defined in our latest statutory accounts.

The results for the six months ended 31 March 2021 include operating profit of approximately £30m relating to the sale of around 1,000 homes which had been delayed from the second half of the previous year due to Covid. The results in the six months ended 31 March 2022 are therefore measured against an unusually strong comparative period. The performance of the Group has improved since the first quarter with the performance in March being broadly in line with last year.

The results for the six months ended 31 March 2022 are also stated net of £10.1m of one-off charges including £7.7m of aborted bid costs, end-of-development and other costs relating to prior periods plus a £2.4m charge to recognise the net realisable value of finished homes at one site. The adjusted operating profit before one-off charges and manufacturing losses would be £61.8m.

Non-recurring charges

A number of non-recurring charges are expected to arise in the current year which have not been included in the flash adjusted operating profit referred to above.

Reductions in regional and group costs are expected to generate cost savings in the region of £15m per annum. Implementation of these cost reductions will give rise to non-recurring cash restructuring charges of approximately £8m.

Costs of approximately £5m are expected be incurred in closing out former Westleigh sites. The goodwill and intangible assets associated with the Westleigh acquisition amounting to approximately £72m will be reviewed during the year and non-cash impairment charges may arise.

Our review identified one site, acquired in 2019, where significant further investment would be required in order to bring together the necessary land parcels, remediate the site and build the necessary civil infrastructure. We expect to exit this site which may give rise to a non-cash loss in the range £20m to £25m.

Financial position

As at 31 March 2022 net cash is approximately £9m. As in previous years the cash position at 31 March has benefitted from significant land and property transactions that arose towards the end of the month. The average daily net debt position over the last 10 weeks has been £115m.

Realisation of legacy assets and share buy-back programme

Since the programme to realise £450m from legacy assets began in July 2021 we have realised approximately £150m including a number of significant transactions in March. This is slightly ahead of our expectations.

During the site-by-site reviews two significant sites were identified, representing £49m of capital employed, where realisation of the assets cannot be accelerated because we are contractually restricted from selling them. These assets will be retained and realised over the planned development cycle.

To date the Company has bought back 17.9m shares for £79.0m. As announced on Thursday 31 March 2022 the Company has entered into an irrevocable undertaking to acquire up to £20m of shares up to 19 May 2022.

Commitment to Fire Safety Pledge

As previously disclosed, the group provided £41m in 2021 for remedial works on multi-occupancy buildings which we believed to be appropriate at that time. This will enable an EWS1 certificate to be issued on 69 buildings constructed between 2008 and 2017.

On 10 January 2022 the Secretary of State at the Department for Levelling Up, Housing and Communities (DLUHC) wrote to residential property developers describing its approach to the safety of multi-occupancy residential buildings of 11 metres or more. Since that time the group has engaged with DLUHC, along with many others in the industry, through the Home Builders Federation.

The Board fully support the Housebuilding industry playing its part in resolving the issue of legacy fire safety in high rise multi-occupancy buildings and that the financial burden should not be borne by leaseholders. Consequently, the Board agreed on 6 April 2022 to the following commitments through signature of the Government's proposed voluntary Fire Safety Pledge ("the Pledge"):

(i) The Company will take responsibility for performing or funding self-remediation works relating to life-critical fire safety issues on all buildings of 11 metres or more, built in the last 30 years, which Countryside developed.

(ii) The Company will meet the cost of remediating buildings currently proposed to be remediated via the Building Safety Fund or ACM funds. These currently amount to approximately £24m.

It is estimated that the Group has developed around 290 buildings of 11m or more over the last 30 years, including the 69 buildings developed between 2008 and 2017. Many of these buildings will not require remediation. Any further liabilities arising cannot currently be accurately quantified and we will provide a further update on this at the interim results in May. The commitments are expected to be fulfilled over a period of up to 10 years. The Board has made the commitment subject to shareholder approval, if required.

A signed copy of the Pledge will be made available at www.countrysidepartnerships.com later today.

Leadership

We are delighted to welcome Tim Lawlor, our new CFO, who joined the business last week and is engaged on his induction. The search for the new CEO is progressing and we will update shareholders when we make an appointment.

Outlook

Management has prepared a forecast for the current year on a site-by-site basis and expect to generate adjusted operating profit of approximately £150m in the current year (2021: £167m) including profit from bare land sales of approximately £15m (2021: £37m). This is based on increasing profit from the sale of private homes and the invoicing of work-in-progress on PRS and affordable homes ahead of last year, and significantly ahead in the second half.

The £150m guidance for the current year is stated net of £10.1m of one-off costs and £10.0m of operating losses from manufacturing and does not reflect the £15m annual benefit of the cost saving initiatives planned.

As we are continuing to exit the legacy Housebuilding assets in the Home Counties, the capital employed in the business will be reduced accordingly.

Shareholders and analysts call

The Company will host a call for shareholders and analysts at 8.30am on Thursday 7 April.

Conference call details:

Dial in (Int'l):	+44 2071 928501
Dial in UK FreeCall:	0808 238 9622
Dial in UK LocalCall:	0844 822 8902
Conference ID / passcode:	**2196219**

- ENDS -

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Note to editors:

Countryside is the market leader in the delivery of high quality mixed-tenure communities in partnership with housing associations, public bodies and institutional private rental operators, with a strong focus on placemaking and regeneration.

Countryside's differentiated Partnerships business model:

- Mixed tenure developments, including affordable homes, homes for institutional private rental and homes for private sale.
- Over 40 years track record of collaborative working with partners in public and private sectors.
- Over 60% of developments on regeneration or brownfield sites.
- Increasing use of Modern Methods of Construction, with a target of 50% of all homes to be built using our in-house manufacturing facilities by 2025.
- Place-making at the heart of everything we do - designing places people love, helping to build successful communities. Committed to high quality design, construction and management, creating a positive legacy for future generations.

For more information visit www.countrysidepartnerships.com or follow @CountrysidePPLC on Twitter