LSL Property Services plc

LSL Property Services plc
Annual Report & Accounts 2010

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LSL Property Services plc is a leading provider of residential property services to its two key customer groups. Services to consumers include: estate agency, lettings, surveying, and advice on mortgages and non-investment insurance products. Services to mortgage lenders include: valuations and panel management services, asset management and property management services.

Contents

LSL at a Glance

2010

Group

+31% Group revenue

2010	£206.6m
2009	£157.7m

+16% Like-for-like[1] Group revenue

2010	£182.4m
2009	£157.7m

+24% Like-for-like[1] Underlying Group Operating Profit

2010	£35.1m
2009	£28.3m

+19.3% Like-for-like[1] Underlying Group Operating Margin

2010	19.3%
2009	18.0%

+16% Adjusted Basic Earnings Per Share

2010	21.0p
2009	18.1p

+56% Total dividend for the full year

2010	8.4p
2009	5.4p

Surveying and Valuation Services

+16% Underlying Operating Profit

2010	£27.3m
2009	£23.5m

Estate Agency and Related Services

+7% Underlying Operating Profit

2010	£7.2m
2009	£6.7m

+55% Like-for-like[1] Underlying Operating Profit

2010	£10.4m
2009	£6.7m

1 Like-for-like is total Group revenue excluding the impact of the HEAL Business which was acquired in January 2010.

Highlights

	2010	2009
Financial		
Underlying Group Operating Profit	**£31.9m**	£28.3m
Underlying Operating Margin	**15.5%**	17.9%
Net exceptional profit/(cost) arising from an exceptional profit of £16.0m on acquisition of HEAL business[1] and other exceptional costs of £5.8m	**£10.2m**	(£0.4m)
Profit before tax before exceptional items	**£25.8m**	£17.0m
Basic earnings per share	**33.6p**	11.4p
Final dividend proposed per share	**5.9p**	–
Balance Sheet		
Significant cash generation with net cash from operations, before payment of exceptional costs	**£35.7m**	£30.8m
Strong balance sheet with net debt reduced (at 31st December). £75m banking facility extended to 2014	**£4.9m**	£25.7m
Estate Agency and Related Services		
Like-for-like revenue growth supported by:		
- improved contribution from lettings	**£23.3m**	£21.6m
- financial services income (excluding Home of Choice and Pink Home Loans)	**£11.8m**	£11.0m

1 Like-for-like is total Group revenue excluding the impact of the HEAL Business which was acquired in January 2010.

Surveying and Valuation Services Performance

Further growth in revenue, profit and market share despite total mortgage approvals falling by 7%.

Estate Agency and Related Services Performance

HEAL Business successfully integrated and delivered close to expectations in a challenging market. Returned a profit of £0.4m during the second half of 2010 after first half loss of £3.6m.

Key Developments

First full year of the expanded Santander surveying contract performing well. Strengthened market position in Estate Agency following the successful acquisition and integration of 206 HEAL branches and St Trinity Asset Management.

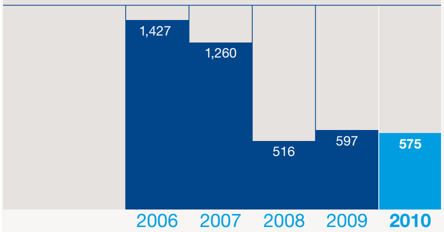
LSL now transformed into one of the largest UK mortgage intermediaries following the acquisitions of Home of Choice and Pink Home Loans. Significant investment in new organic growth initiatives focused on growing market share and longer term profitability in Estate Agency and extending Surveying services to the private survey market.

Our Markets

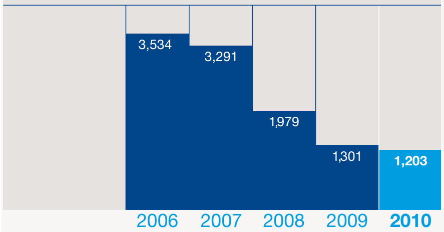
LSL delivers regular commentary on the UK residential property market making it a recognised expert in this field

Market Transaction Data

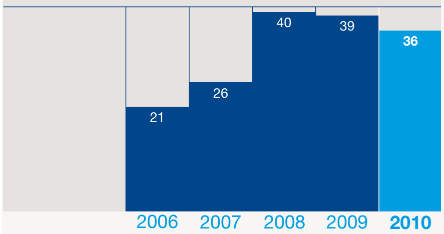
House Purchase Approvals[1] ’000



Total Mortgage Approvals[2] ’000



Repossessions[3] ’000



1 & 2 Source: Bank of England for “House Purchase Approvals” and “Total Mortgage Approvals”

3 Source: Council of Mortgage Lenders data for “Repossessions 2010”

Surveying:

e.surv Chartered Surveyors Mortgage Monitor – tomorrow’s mortgage data today

Each month e.surv Chartered Surveyors produces a forecast on mortgage lending volumes and loan to value trends. It does this by analysing tens of thousands of valuations and uses these trends to extrapolate from the Bank of England’s mortgage data to publish mortgage approval numbers, weeks before the British Bankers Association, Council of Mortgage Lenders and Bank of England. The typical margin of error on a monthly basis is 1% compared to the Bank of England final approvals data.

For further information or to view the latest copy of the report visit: www.lslps.co.uk/media.html

Estate Agency and Related Services:

LSL Property Services/Acadametrics House Price Index

The monthly House Price Index reports on transactions numbers and the movement of average house prices in England and Wales, including regional data. It is the only house price index to use the actual prices at which every property in England and Wales was transacted, including prices for properties bought with cash, using the factual Land Registry house price data – seasonally and mix adjusted by property type – as opposed to valuation estimates or asking prices (Crown copyright material reproduced with the permission of the Land Registry). It also uses the price of every single relevant transaction, as opposed to prices based upon samples.

For further information or to view the latest copy of the report visit: www.lslps.co.uk/media.html

LSL Buy to Let Index

Monthly analysis of approximately 18,000 rental properties and tenancies from around the UK to determine rents, arrears, yields and voids. Figures for the whole country are inferred by scaling up from LSL’s market share.

For further information or to view the latest copy of the report visit: www.lslps.co.uk/media.html

LSL Consumer Sentiment Survey

Quarterly survey to determine consumer views on the UK property market.

To view the latest press release based on the Survey visit: www.your-move.co.uk/news.aspx

LSL Landlord Sentiment Survey

A quarterly survey which determines the views of landlords on the UK lettings market.

For further information or to view the latest copy of the report visit: www.your-move.co.uk/news.aspx

LSL Property Press Awards

These Awards celebrate the outstanding achievements of property journalists from across the UK culminating in a prestigious awards event where winners of the thirteen categories are announced. The Awards, launched in 2011, were announced on 21st March 2011 at the Mandarin Oriental Hotel, Knightsbridge.

For further information visit: www.awards.lslps.co.uk

LSL operates across the residential property services value chain

Our market can be categorised into two principal segments:
- Surveying and Valuation Services; and
- Estate Agency and Related Services.

Surveying and Valuation Services
39% of Group revenue in 2010
- Valuation services for lenders for residential mortgage purposes.
- Surveying services for private house purchasers.

In 2010 the market was at a low point in the cycle with 1.2m total mortgage approvals which was 7% lower than in 2009 (2009: 1.3m) and compares to a historic normalised level of 2.5m per annum.

Estate Agency and Related Services
The Estate Agency and Related Services segment includes Core Estate Agency and Lettings and the related markets of Asset Management (including repossessions asset management and property management for multi property landlords) and Financial Services – predominantly mortgage and protection brokerage – which includes the operation of intermediary networks.

Core Estate Agency and Lettings
45% of Group revenue 2010
- Estate Agency services for residential property sales.
- Comprehensive lettings service for residential landlords and tenants.

In 2010 transaction volumes were 575,000 mortgage approvals for house purchase which was 4% lower than 2009 (2009: 597,000). Historic normalised transaction levels are in excess of 1.2m per annum.

Asset Management
7% of Group revenue 2010
- Repossessions asset management services for lenders.
- Property management services for multi property landlords.

In 2010 there were 36,300 repossessions compared to 39,300 in 2009 and 60,000 in 2008.[1]

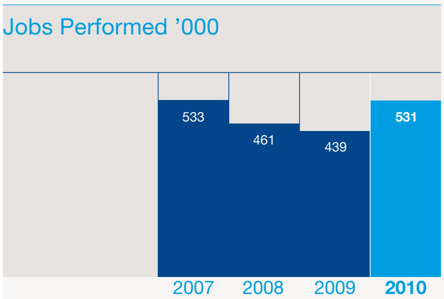
Mortgage and Protection
9% of Group revenue 2010
- Broking services for mortgages.
- Broking services for mortgage protection products.

2010 Total Mortgage Approvals 1.2m (2009: 1.3m) including House Purchase Approvals of 575,000 (2009: 597,000). These volumes are less than half historic normalised levels

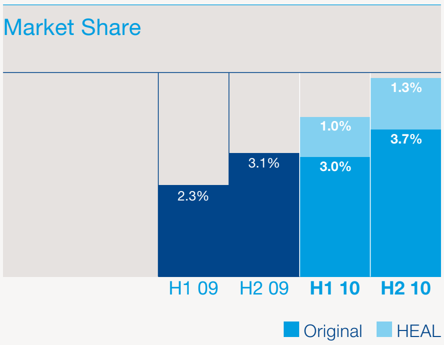
1 Source: Council of Mortgage Lenders data on repossessions 2010.

Market Share Growth

Surveying Market Share Growth



Estate Agency Market Share Growth



Our Strategy

LSL is committed to delivering long term shareholder value by building a market leading position in the residential property services market through both organic growth and selective acquisitions

LSL Surveying and Valuation

412 surveyors

LSL Estate Agency branch network

584 branches

The Group's strategy is to grow long term profitability from the provision of residential property services by building long term shareholder value across our two market segments:

- Surveying and Valuation Services; and
- Estate Agency and Related Services.

The current depressed market creates significant opportunities for the Group to achieve market share growth in both of its market segments.

Surveying and Valuation Servies

Drive market share through continued development of strong relationships with lenders in order to become their partner of choice.

Be renowned for quality and excellence in service delivery and provide ongoing strategic and operational added value to lenders and corporate clients.

Deliver organic growth by developing the market for the provision of private surveying services such as the RICS Condition Report, RICS HomeBuyer Report and Building Survey, delivered direct to private house purchasers.

Estate Agency and Related Services

Core Estate Agency and Lettings

Provide a service proposition that recognises customers needs and maximises income across the value chain.

Further improve market share by driving organic growth through increased overall transaction volumes and specifically through increased share of higher value transactions.

Asset Management

Grow market share by providing innovative solutions and strong service delivery.

Mortgage and Protection services

Build strong broker networks for the provision of mortgage and protection products and realise synergies and costs savings to make the networks profitable even at very low transaction volumes.

Use the networks to strengthen relationships with key lender clients.

In addition the Group will look to deliver further growth through selective acquisitions within the residential property services value chain in order to enhance market positions and to grow scale.

LSL has made good progress and established market leading positions in its market segments

LSL is one of the leading residential property services groups in the UK which operates throughout the residential property services value chain – Surveying, Estate Agency, Corporate Services (including Asset Management), and Financial Services (including Mortgage and Protection Brokerage).

It provides a broad range of services to a range of customers including lenders, buyers and sellers of residential properties and landlords.

Surveying and Valuation Services

Surveying and valuation

- Market leader.
- 531,000 valuation jobs completed in 2010.
- 412 employed surveyors.

– **e.surv Chartered Surveyors**
One of the leading firms of Chartered Surveyors in the UK, providing services to a broad range of lenders and private house purchasers.
www.esurv.co.uk

– **Barnwoods**
Founded in 2007 and operating throughout the UK principally to provide services on an exclusive basis to C&G, part of the Lloyds Banking Group.
www.barnwoods.co.uk

Estate Agency and Related Services

Core Estate Agency

- Second largest estate agency network in the UK and the largest lettings network (made up of wholly owned, franchised and virtual branches).
- Strong established high street brands within 584 branches (2009: 369) (made up of wholly owned, franchised and virtual branches).
- Residential Sales, Lettings and Financial Services provided across all branches.
- Technically advanced proprietary browser based IT systems common across all brands.
- Successful franchise model operating in 158 branches across Your Move, Reeds Rains, and Intercounty.
- Members of The Property Ombudsman, with a sales code of practice which is approved by the OFT.

– **Your Move**
The largest single brand UK estate agency with 327 branches operating throughout the UK (made up of wholly owned, virtual and franchised branches). Your Move is the most visited UK estate agency website.[1]
www.your-move.co.uk
1 Source: Hitwise February 2011

– **Reeds Rains**
A predominantly northern based network of 211 branches (made up of wholly owned and franchised branches).
www.reedsrains.co.uk

– **LSLi**
Launched in 2008 LSLi is the holding company for 6 estate agency brands based largely in the Home Counties with a combined network of 46 branches (made up of wholly owned and franchised branches).
www.lsli.co.uk

Estate Agency and Related Services Continued

Asset Management

- Market leader.
- 10,500 repossessions in 2010.
- Utilises network of up to 3,500 estate agency branches.

– **LSL Corporate Client Department**
Was started in 2008 and operates a repossessions asset management business and a property management business for multi-property landlords.
www.lsl-ccd.co.uk

– **St Trinity Asset Management**
The Group's second asset management business created in 2010 following the acquisition of HEAL Corporate Services (as part of the HEAL Business acquisition).
www.sttrinityassetmanagement.co.uk

– **Templeton LPA**
Law of Property Act fixed charge receiver acquired in 2010.
www.templetonlpa.co.uk

Financial Services

- Specialising in brokerage of mortgage and protection products – LSL has the fourth largest Appointed Representative network.[1]
- Multi brand including Your Move, Reeds Rains, Linear, First Complete (rebranded from Home of Choice which was acquired in 2010) and Pink Home Loans (also acquired in 2010).
- Total value of mortgage applications arranged, £2.6bn.

– **First Complete**
Operates a mortgage brokerage business and mortgage intermediary network, acquiring the business of Home of Choice in 2010. The First Complete employed financial consultants offer financial services across LSL's entire estate agency branch network.
www.firstcomplete.co.uk

– **Pink Home Loans**
Mortgage distribution businesses providing products and services to financial intermediaries since 1990, joining the Group in 2010.
www.pinkhomeloans.co.uk

– **Linear Financial Services**
Provides financial services including mortgages, re-mortgages and life assurance through a network of financial consultants based remotely and in the offices of estate agents.
www.linearfs.co.uk

1 Source: Mortgage Strategy Network Report – January 2011.

For further information on all LSL brands please visit www.lslps.co.uk

Chairman's Statement

Roger Matthews

Underlying Group Operating Profit

+13%

Market leader
Against a challenging backdrop the LSL business model has performed exceptionally well

Introduction

We are delighted to report excellent progress in 2010 with Underlying Operating Profit increasing strongly by 13% to £31.9m despite further market contraction during the year. Both the Estate Agency and Surveying Divisions have contributed significant profit growth and Halifax Estate Agencies Limited ("HEAL") has been successfully integrated into the Estate Agency Division. On a like-for-like basis, excluding the HEAL Business acquired in January 2010, Underlying Group Operating Profit increased by 24% to £35.1m (2009: £28.3m).

Transaction volumes worsened again during 2010 and remain subdued at a low point in the cycle. Mortgage approvals for house purchases deteriorated in the second half of the year compared to the first and at 575,000 for the full year were 4% lower than 2009 (2009: 597,000) and less than half the historic norm of 1.2m per annum.

Remortgage activity was extremely weak and at 328,000 for the full year was also 4% lower than 2009 (2009: 343,000). As a consequence total mortgage approvals fell by 7% in 2010 to 1.2m (2009: 1.3m).

Against this challenging backdrop the LSL business model has performed extremely well. The Estate Agency and Surveying Divisions have both grown market share and Estate Agency in particular has been driven by another strong contribution from its counter cyclical income streams. Furthermore, the Group has strengthened the positions of all of its core businesses in 2010. The expansion of the Santander contract in Surveying has consolidated our market leadership. In Estate Agency the acquisition of the HEAL Business has given LSL the UK's second largest Estate Agency branch network, the largest lettings network and market leadership in the repossessions market. The Estate Agency business also acquired Home of Choice and Pink Home Loans and as a result the Group is now one of the largest financial services intermediary networks in the UK, focusing on mortgage and protection advice.

During 2010 the Group started to implement a strategy to drive further organic growth in both Estate Agency and Surveying. In Estate Agency, the plans focused on improving market share and profitability by branch through investment in the branches, people and a new call centre to increase branch instruction levels. In Surveying, we remain committed to providing excellent quality and service levels to all lender clients and, in addition, have launched new products to extend our surveying services to private buyers.

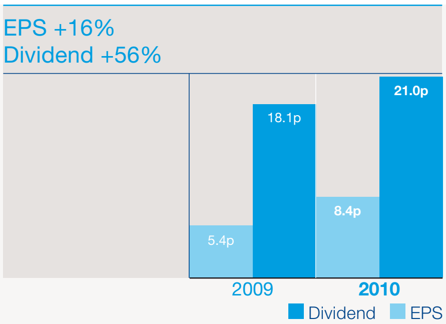
Financial Results

Group revenue increased by 31% to £206.6m (2009: £157.7m) and Underlying Group Operating Profit increased 13% to £31.9m (2009: £28.3m). However, the result included an Operating Loss of £3.2m for the HEAL Business without which like-for-like Group revenue increased by 16% to £182.4m (2009: £157.7m) and like-for-like Underlying Group Operating Profit increased by 24% to £35.1m (2009: £28.3). Like-for-like Underlying Group Operating Margin increased from 17.9% to 19.3%, a level which is more than 2% higher than that achieved during the 2006/2007 period of peak transaction volumes.

The HEAL Business operating result was very close to our expectations at the time of the acquisition, despite the deterioration in the market, and it is pleasing to see that the HEAL Business contributed a profit of £0.4m in the second half. Overall the Estate Agency Division increased Underlying Operating Profit from £6.7m to £7.2m even with the HEAL Business loss included. If the HEAL Business loss is excluded, Underlying Operating Profit increased to £10.4m and Underlying Operating Margin was 10% (2009: 8%). This was an exceptional performance given the continued decline in housing transaction volumes and was underpinned by strong profitability in asset management and lettings.

The Surveying Division has again significantly outperformed the market. Whilst total mortgage approvals fell by 7%, Surveying revenue increased by 16% and Underlying Operating Profit increased by 16% to £27.4m (2009: £23.5m) with Underlying Operating Margin of 34% (2009: 34%).

The Group produced £30.7m (2009: £29.9m) of operating cashflow



The Surveying Division has again significantly outperformed the market.

even after capital expenditure of £5.0m (2009: £0.7m) which was mostly on branch refurbishment. Cashflow was driven by the high levels of profit from both Divisions. Net debt reduced from £25.7m in December 2009 to £4.9m in December 2010.

The acquisition of the HEAL Business contributed to an overall net exceptional profit of £10.2m (2009: exceptional loss £0.4m), resulting in an overall profit before tax and amortisation of £44m (2009: £25.2m). The net exceptional profit of £10.2m (2009: loss of £0.4m) comprised an exceptional profit of £29.8m as a result of the acquisition of the HEAL Business for £1 offset by exceptional costs of £19.6m, of which £13.8m related to the HEAL Business, £2.8m to increasing the PI provision and £2.0m to finance costs. Amortisation during the year was £8.1m (2009: £8.6m) giving a profit before tax of £36.0m (2009: £16.6m). The profit after tax was £34.5m (2009: £11.7m). Adjusted EPS increased by 16% to 21.0p (2009: 18.1p).

Dividend

As a result of the strong operating performance, continued reduction in net debt and the Board's view of the future prospects of the business a final dividend of 5.9p per share will be proposed to shareholders at the forthcoming AGM, bringing the total dividend for 2010 to 8.4p per share. This represents a 40% payout ratio (based on adjusted EPS of 21.0p per share) and a 56% increase on the 2009 dividend of 5.4p per share. The proposed dividend payment is in line with our previously stated policy of applying a dividend pay out ratio of between 30% to 40% of Underlying Group Operating Profit after interest and tax. The ex-dividend date for the final dividend is 30th March 2011, with a record date of 1st April 2011, and a payment date of 27th April 2011. Shareholders have the opportunity to elect to reinvest their cash dividend and purchase existing shares in LSL through a Dividend Reinvestment Plan.

Developments

The surveying market remains at a low point in the cycle with total mortgage approvals of 1.2m, down 7% on 2009 (2009: 1.3m). However, our Surveying Division has improved its market position as a result of a number of recent contract extensions which were achieved through continued focus on service levels for existing clients. In particular there has been an initiative to support and

Milestones

2004
- MBO of Your Move and e.surv
- Acquisition of Reeds Rains
- Acquisition of Linear Mortage Network

2006
- IPO on main market, valuing the business at £208m
- Estate Agency acquisition of Intercountry, Frost and JNP
- Cheltenham & Gloucester valuations panel management contract acquired

2008
- Launch of Asset Management and Corporate Lettings business

2009
- Santander contract expansion

2010
- Acquisition of the HEAL Business – 206 estate agency branches rebranded Your Move, Reed Rains and Intercounty and asset management business now trading as St Trinity Asset Management.
- Acquisition of Templeton LPA Receiver, Home of Choice, Goodfellows and Pink Home Loans

2004 2005 2006 2007 2008 2009 2010

Chairman's Statement Continued

Overall market share in Core Estate Agency increased from 2.7% in 2009 to 4.5% in 2010.

Acquisition of the HEAL Business was awarded the "Deal of the year" at the Quoted Company Awards.

HEAL Business delivered a profit of £0.4m in the second half of 2010.

contribute to revised risk management strategies for a number of clients. The expanded Santander contract which came on stream in December 2009, has made a significant contribution to the 2010 result not only in terms of revenue but also through driving operational efficiency across the division. Late in the fourth quarter e.surv Chartered Surveyors commenced the marketing of private survey services to home buyers (as opposed to lenders). Despite low transaction volumes and the seasonal slowdown in the quarter, early feedback and penetration rates of these services are promising.

PI claims in the market have continued at high levels as a result of higher repossession rates relating to valuations undertaken in the 2004 to 2007 period. PI claims are monitored extremely carefully and the provision (net of payouts) has been increased by £3.4m in the period with a total provision at the year end of £10.9m (2009: £7.5m).

Our Estate Agency Division has continued to advance strongly especially through the acquisition of the HEAL Business for which LSL was awarded the 'Deal of the Year' at the Quoted Company Awards. The HEAL Business was fully integrated during the year with 206 branches re-branded to Your Move, Reeds Rains and Intercounty. The cost base of the ex HEAL branches has been right-sized to just under £28m and significant progress has been made in growing in lettings and financial services income streams. Between the first quarter and the last quarter, lettings income has increased nearly two-fold and financial services income has gone up by a factor of four. This compares to growth in the original Your Move and Reeds Rains branches over the same period of 12% for lettings and 35% for financial services. The HEAL Business showed dramatically improved performance over the year as had been planned. After a loss of £3.6m in the first half the HEAL Business delivered a profit of £0.4m in the second half of 2010 and is expected to make a significant contribution once lettings and financial service income streams are more fully developed and housing transaction volumes return to more normal levels.

Overall market share in Estate Agency increased from 2.7% in 2009 to 4.5% and on a like-for-like basis excluding the HEAL Business, market share increased from 2.7% to 3.3%. These gains were partly driven by a refurbishment programme which covered all branches and there has also been targeted investment in additional headcount and marketing. With exchange income constrained by the challenging market conditions, the division has continued to drive counter cyclical income including lettings which grew by 14% in the year (like-for-like 8%). The asset management business benefitted from the creation of St Trinity Asset Management (following the acquisition of the asset management business as part of the HEAL Business) and total income was £13.9m (2009: £9.3m).

The Group intends to continue investment in the Estate Agency Division in order to further build market share in advance of improvement in transaction volumes. During the final quarter of 2010 a new call centre ("The Bridge") was built to support the Estate Agency branches and the quality of branch management was improved through both training and recruitment. We continue to plan further investment in branch headcount and marketing in 2011. The Bridge is already producing good results although P&L benefits in 2011 will be held back by cost of investment. The continued development of lettings, financial services and other income streams in the ex HEAL branches together with the combined market share growth initiatives should generate a material uplift in Estate Agency profits in the longer term.

During 2010 we made a step change in our financial services offer within the Estate Agency Division through two major acquisitions. In May the business and assets of Home of Choice, now rebranded to First Complete, was acquired for total consideration of £0.4m. Pink Home Loans was acquired in November 2010 for a cash consideration of £1.6m. LSL's expanded financial services business is now one of the largest intermediary networks in the UK focused on mortgage and protection advice. Profitability of the new business will be constrained until such time as the mortgage market improves but

Acquisitions during the year

importantly these acquisitions significantly strengthen LSL's relationship with its key lender clients.

There have also been a number of smaller acquisitions within the Estate Agency Division which have increased our exposure in the South East region and expanded our counter-cyclical business. Templeton LPA, a Law of Property Act fixed charge receiver, and Goodfellows, a seven branch agency chain in South London were acquired for £0.4m and £1.0m respectively.

Board

As previously announced there were a number of significant changes to the Board during the year. Paul Latham, retired from his role as Group Deputy CEO, to become a Non Executive Director and in June 2010 Alison Traversoni and David Newnes joined the Board as Executive Director for Surveying and Executive Director for Estate Agency respectively. Steve Cooke joined the Board as Group Finance Director in July 2010 and Dean Fielding has retired from the Board. The Board has currently three Non Executive Directors, excluding the Chairman, two of whom are independent.

Following the changes made during the year, the Board is well qualified to lead the business through the next stages of its ambitious growth plans.

People

During 2010, the Group expanded significantly through both investing in our existing businesses and acquisitions. As a result, we have a large number of new colleagues either recruited to support our organic growth plans or who have joined the Group through an acquisition made during the year, and I would like to extend a warm welcome to them all. Overall, the number of Group employees increased by 1,205 to 4,490 (2009: 3,285).

Our success in providing the best possible service to our customers is dependent on the skills and enthusiasm of all our employees. Great commitment has been shown this year in the face of extremely challenging market conditions and I would like to thank all of them for their efforts.

I am also very pleased to report that, e.surv Chartered Surveyors, our largest surveying business, was awarded "The Sunday Times Best Companies – One to Watch Award".

Current Trading and Outlook

The Group made excellent progress in a market where housing transaction levels are circa 50% of historic normal levels. LSL still has a cautious view of the market for 2011 in view of the ongoing shortage of available mortgage finance and broader well documented economic challenges. However, we are confident that the Group can build on the market share gains made in 2010 and grow the business even in these market conditions. Further marketing of private surveys in our Surveying Division and the success of our market share plans for the Estate Agency businesses will be central to delivering this growth. In addition, the ex-HEAL branches will continue to develop their lettings and financial services income streams and we can expect our asset management business to continue to make a significant contribution in an environment of low transaction volumes.

Activity levels to the end of February 2011 are in line with our expectations with no sign of a recovery in market volumes. Early results from our organic growth initiatives are on target with strong positive feedback from clients and from within the business.

The Group has a very strong balance sheet with net debt of only £4.9m and an available debt facility of £75m. We are well placed to grow both organically and through further acquisitions in the current market and to deliver further substantial growth when transaction volumes recover.

Roger Matthews
2nd March 2011

Business Review

In this section

Surveying and Valuation Services

Financial	2010 £m	2009 £m	% change
Turnover	**80.9**	70.0	16%
Expenditure	**(53.5)**	(46.5)	15%
Underlying Operating Profit	**27.3**	23.5	16%

KPIs			
Profit margin %	**34%**	34%	–
Jobs Performed 000s	**531**	439	21%
Income per job £	**153**	159	(4)%
Professional Indemnity insurance provision £m	**10.9**	7.5	45%

In 2010 e.surv Chartered Surveyors developed and launched services for the private survey market.

Surveying Division Performance

The Surveying Division increased turnover by 16% to £80.9m (2009: £70.0m) against a market decline of 7% in total mortgage approvals to 1.2m (2009: 1.3m). The increase in revenue drove a 16% increase in Underlying Operating Profit to £27.3m (2009: £23.5m) with the Underlying Operating Profit margin holding steady at 34% (2009: 34%).

Total job numbers increased by 21% to 531,000 (2009: 439,000) with much of the increase being driven by the expanded Santander contract coming on stream in December 2009. Average fees across all contracts were lower by 4% reflecting the market conditions and job mix.

Expenditure increased by 15% compared to 2009, which was in line with the increase in turnover (2009: £46.5m). The cost movement reflected the variable costs across our key contracts. In addition there was an increase in PI Insurance costs as provisioning relating to the 2004 to 2007 trading period was increased.

Surveying Developments

2010 saw a full year of benefit from the expanded Santander contract. Looking forward, the contract offers an excellent opportunity to leverage Surveying assets across the Group in what continues to be very uncertain market conditions.

The C&G contract contributed £13.6m of turnover in 2010 compared to £15.5m in 2009 due to a combination of the market decline in total mortgage approvals and the impact of Lloyds Banking Group's mortgage strategy.

The Division has a number of key relationships which are managed both on an exclusive basis and through panel management arrangements. We remain committed to providing excellent quality and service levels to all lender clients. Feedback from our clients is consistently positive and we particularly differentiate our service on measures including turnaround time for valuations reflecting our use of innovative technology and the flexibility of our panel management arrangements. One of the key factors that lenders use in assessing service is the support provided in relation to the management of risk faced by lenders. Here, the Surveying Division's risk management arrangements have been widely acknowledged by its customer base as being market leading and unique. Further, during 2010, e.surv Chartered Surveyors was a finalist for the MPF European Practice Management Awards for Risk Management. It achieved this award because it was able to demonstrate that it has an integrated and embedded approach to risk management.

For further details of how we manage customer relationships, see page 21 of this Report.

In December 2010, e.surv Chartered Surveyors trialled exclusively with RICS, the RICS Condition Report, which is aimed at the private survey market. This product is being sold alongside existing private survey services, such as the RICS HomeBuyer Report and Building Survey.

In the medium term we expect to be able to capitalise on what is a significant opportunity to claim our share of the current private survey market and also to expand the market. The Group is in an excellent position to do this by leveraging its unrivalled distribution network covering our major lender clients, the Group's Estate Agency network including the new "Bridge" call centre and the principal Surveying brands of e.surv Chartered Surveyors and Barnwoods.

The cost of PI claims relating to valuations carried out between 2004 to 2007 remains a key risk for the business. While the six year statutory limit on claims means that we are now clear from receiving new claims for 2004, there has been a steady flow of new claims during 2010 for the 2004 to 2007 period. As a result the Group has increased its PI provision from £7.5m to £10.9m.

During the year the Group disposed of its 14.19% stake in Hometrack Data Systems Limited for consideration of £3.9m which was the carrying value of the investment in the accounts at 31st December 2009.

e.surv Chartered Surveyors Achievements/Awards 2010 & 2011

e.surv Chartered Surveyors, LSL's largest surveying business, has achieved a number of awards:

Sunday Times – Best Companies 2011 – one to watch

IIP Accreditation

The Investors In People accreditation was achieved at e.surv Chartered Surveyors' Head Office location in Kettering.

Mortgage Strategy Awards 2010

e.surv Chartered Surveyors was awarded the Best Surveyor/Valuer award at the Mortgage Strategy Awards.

Mortgage Strategy Awards 2011 – Finalist for Best Surveyor/Valuer

e.surv Chartered Surveyors was a finalist in the Best Surveyor/Value category at the Mortgage Stratgy Awards 2011.

MPF European Practice Management Awards for Risk Management

e.surv Chartered Surveyors was listed as a finalist at the MPF European Practice Management Awards for Risk Management. It achieved this award because it has an integrated and embedded approach to risk management promoted by the e.surv Chartered Surveyors Board and with active involvement from it. In granting the award, MPF commented on the internal audit team and IT resources, concluding that they are dedicated to driving continuous improvement.

The MPF noted that board support is maintained by having risk management as a standard item on meeting agendas and senior executives taking individual responsibility for the management and control of key risks. The reporting process is simple, clear and effective. In delivering the award, MPF commented:

"To ensure that e.surv Chartered Surveyors benefits from good risk management, they have embedded it in a number of their business management processes. This is an excellent example of moving beyond basic compliance to adding value to their business."

BSi ISO 9001 Accreditation Extended

During 2010, e.surv Chartered Surveyors secured an extension to its ISO 9001:2008, which it originally secured in 1996. e.surv Chartered Surveyors again conformed 100% to the requirements of the internationally recognised standard, when independently reviewed by the leading global provider of standards and certification body, British Standards Institution (BSi).

ISO 9001:2008 is the internationally recognised standard for quality management systems, maintained by the International Organisation for Standardisation. The standard requires companies to adhere to procedures covering all key processes in their business: monitoring processes to ensure they are effective; keeping adequate records; checking output for defects, with appropriate and corrective action where necessary; regularly reviewing individual processes and the quality system itself for effectiveness; and facilitating continual improvement. One of the goals of this standard is to improve effectiveness via process performance metrics — numerical measurement of the effectiveness of tasks and activities. ISO 9001 also requires companies to track customer satisfaction.

Estate Agency and Related Services

	Actual – including HEAL Business			Like-for-like – excluding HEAL Business		
	2010 £m	2009 £m	% change	2010 £m	2009 £m	% change
Exchange fees	**52.4**	33.0	59%	**40.3**	33.0	22%
Financial Services income[1]	**18.6**	12.5	49%	**16.1**	12.5	29%
Lettings income	**24.6**	21.6	14%	**23.3**	21.6	8%
Asset management income	**13.9**	9.3	49%	**9.0**	9.3	(4)%
Other income[2]	**16.2**	11.3	43%	**12.9**	11.3	14%
Total income	**125.7**	87.7	43%	**101.6**	87.7	16%
Expenditure	**(118.5)**	(81.0)	46%	**(91.2)**	(81.0)	13%
Underlying Operating Profit	**7.2**	6.7	7%	**10.4**	6.7	55%
KPIs						
Exchange units	**25,766**	16,327	58%	**19,232**	16,327	18%
Market Share	**4.5%**	2.7%	67%	**3.3%**	2.7%	22%
Underlying Operating Margin	**5.7%**	7.6%	(25)%	**10.3%**	7.6%	36%

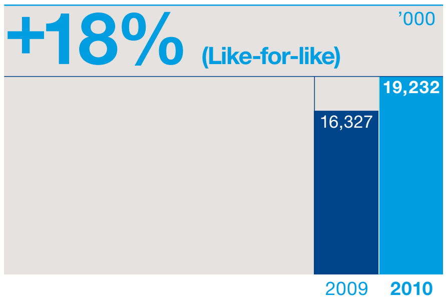
1 Financial services income on a like-for-like basis as given in the table above includes revenue from Home of Choice and Pink Home Loans, which were acquired during the year. Excluding these, the financial services income increased by 6% to £13.3m from £12.5m.

2 'Other income' includes franchising income, conveyancing services, EPCs, Home Reports, utilities and other products and services to clients of the branch network.

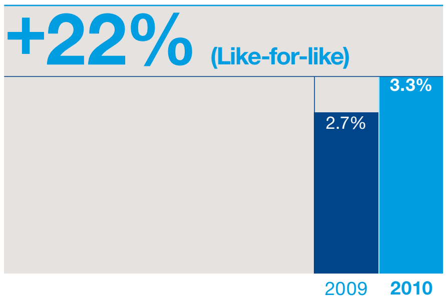
Your Move, Reeds Rains and LSLi brands all out performed the market during 2010 (Like-for-like).

Key Performance Indicators (Like-for-like)

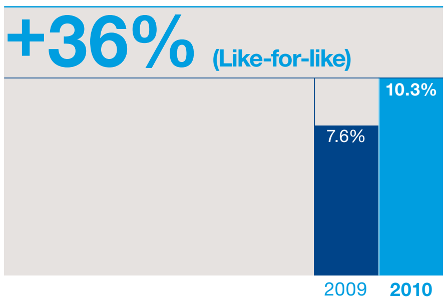
Exchange units



Market share

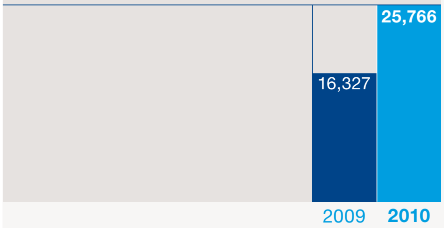


Underlying operating margin



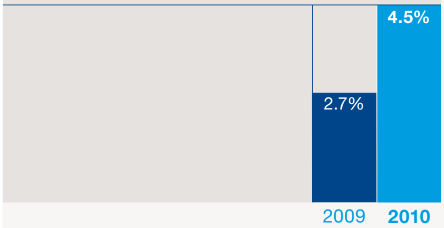
Total exchange units

+58% (Actual)



Total market share

+67% (Actual)



Estate Agency Performance

The Estate Agency Division acquired the HEAL Business in January 2010 and the HEAL Business trading has had, as expected, a significant impact on overall performance. Therefore the results are presented on both an actual and like-for-like basis (excluding the HEAL Business).

Estate Agency delivered an excellent performance in 2010 even though the market declined still further from what were already extremely low transaction levels. The number of mortgage approvals for house purchases fell by 4% to 575,000 (2009: 597,000) which compares to historic normalised levels of 1.2m. Transactions fell steadily during the year such that volumes in the second half of 2010 were 6% lower than in the first half of 2010 and were 16% lower than the second half of 2009.

Total Estate Agency income increased by 43% to £125.7m (2009: £87.7m) and on a like-for-like basis by 16% to £101.6m (2009: £87.7m). Underlying Operating Profit increased by 7% to £7.2m (2009: £6.7m). However, this included trading losses for the newly acquired HEAL Business without which, on a like-for-like basis, Underlying Operating Profit was 55% higher at £10.4m (2009: £6.7m). As a result Underlying Operating Margin increased from 7.6% to 10.3% which was a very robust performance in such tough market conditions.

The plan for the HEAL Business, which was acquired in January 2010 has been delivered despite the deterioration in the market. The HEAL Business made a £3.6m loss in the first half of 2010 and this has been followed by a profit of £0.4m for the second half. The improvement has been driven partly by further cost reductions but mostly by increasing lettings and financial services revenue. At the time of the acquisition, the HEAL Business exchange fee income was already at a comparable level to the other LSL businesses but lettings and financial services were lagging significantly. These offers were rolled out to all ex HEAL branches during the year and as a result revenue from lettings, financial services and other income has increased by 50% from £2.9m to £4.3m between the first and second half of 2010.

The improvement is even more dramatic on a quarterly comparison. Between the first and last quarter of 2010, lettings income has nearly increased two-fold and financial services income has gone up by a factor of four. This compares to growth in the original Your Move and Reeds Rains branches over the same period of 12% for lettings and 30% for financial services.

However, the level of lettings, financial services and other income per branch is still behind the other LSL estate agency branches and this gap represents a significant opportunity for 2011.

Estate Agency Branches

Your Move, Reeds Rains and the LSLi brands all outperformed the market during 2010. Excluding the ex HEAL branches, exchange units were 18% higher than 2009 and exchange fee income increased by 22% to £40.3m (2009: £33.0m). Every branch was refurbished during 2010 and there was additional investment in headcount and marketing all of which contributed to a market share increase on a like-for-like basis from 2.7% to 3.3%. If the HEAL Business is included, Group market share now stands at 4.5%.

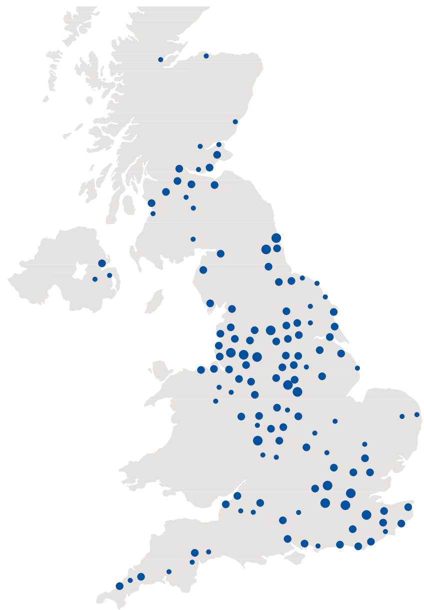
Counter Cyclical Income

The counter cyclical income streams of lettings and asset management have been particularly important to the Group in depressed market conditions. During 2010 like-for-like lettings income

HEAL Business	2010 Total £m	2010 H2 £m	2010 H1 £m
Exchange fees	**12.0**	**6.3**	**5.7**
Total income	**24.2**	**13.5**	**10.7**
Expenditure	**(27.4)**	**(13.1)**	**(14.3)**
Underlying Operating Profit	**(3.2)**	**0.4**	**(3.6)**

KPI			
Exchange units	**6,534**	**3,500**	**3,034**

Estate Agency and Related Services Continued



Breakdown of Estate Agency branches

	Owned	Franchised	Totals
YM	236	91	327*
RR	160	51	211
LSLi	30	16	46
Totals	426	158	584

* Includes 9 virtual branches and 4 lettings only branches

grew by an impressive 8% and now accounts for 23% of income in the non ex-HEAL branches.

The asset management business is dependent on the repossessions market which fell by 8% to 36,300 repossessions in 2010 (2009: 39,300). On a like-for-like basis asset management income fell by 4% so market share did increase slightly. The Group only started up its asset management business in 2008 but it has grown rapidly and now, including the newly created St Trinity Asset Management business, total asset management income contributes 11% of total Estate Agency revenue.

Financial Services

The Group's financial services offer has been transformed by the acquisition of Home of Choice and Pink Home Loans during the year. These businesses have not contributed materially to the 2010 operating profit and yet like-for-like financial services income increased by 6% to £13.3m (2009: £12.5m). Once the mortgage market improves, financial services will become a very significant income line for the Group. A key objective for 2011 is to complete the integration of the new financial services businesses and roll out a new simplified operating model across the Group.

Developments

2010 was a year of repositioning the Estate Agency business ready to take advantage of organic growth opportunities and for market recovery in due course. The HEAL Business acquisition is proving to be a significant source of added shareholder value. The deal brought in net cash as well as a business that returned to profit in the second half of the year and the Group now has the second largest agency branch network in the UK (by reference to the number of branches). The St Trinity Asset Management business was also acquired as part of the HEAL Business and as a result LSL is a market leader in residential asset management in the UK. The third part of the Estate Agency business offer is financial services and the addition of Home of Choice and Pink Home Loans makes the Group one of the largest intermediary broking networks for mortgage and protection products in the country (by reference to the number of appointed representatives).[1]

The other main development during 2010 was that the Estate Agency business began to execute a plan to drive organic growth improving market share both in total and especially in the higher value market segments. Firstly, all branches were refurbished during the year and the full lettings and financial services offer was rolled out to the ex HEAL branches. In addition a major programme of training and recruitment has been undertaken to ensure that each branch has management and staff with the right skills to grow the business. There has also been investment in marketing and headcount to deliver higher levels of instructions and a new call centre, The Bridge, has been built to help generate instructions for the branches.

The size of the opportunity over the next three to five years is significant. Benchmarking has shown that Your Move and Reeds Rains currently list around 50 instructions fewer per annum than the best of the competition. Furthermore, Your Move and Reeds Rains branches typically sell properties at around the national average house price of circa £160,000.[2] The impact on profitability of moving into higher price segments by using for example the Your Move "Premier" or Reeds Rains "Cream" marketing packages is substantial. Overall the size of the opportunity to be targeted is significant at around £30,000 to £50,000 profit per branch.

Early signs of progress have been very encouraging. The key performance measure is market share growth measured on a local basis both in total and for specific higher property price segments. During the second half of 2010, LSL market share increased to 5% compared to 4% in the first half of the year. Since it began operating in early January 2011, the Bridge has made good progress delivering instructions into branches.

2011 promises to be an exciting year for the Estate Agency Division as we expect to make good progress in building an enhanced market position.

1 Source: Mortgage Strategy Network Report January 2011.
2 Source: RightMove January 2011.

Awards 2010 & 2011:
The Estate Agency businesses, achieved the following industry awards demonstrating LSL's continued commitment to customer services:

Your Move:
Property Professional Awards 2010: Best National Estate Agency

Sunday Times Estate Agency of the Year Awards 2010:
Bronze – Best Financial Services provider joint winner – Reeds Rains
Bronze – Best Estate Agency Franchise

Sunday Times Lettings Estate Agency of the Year Awards 2010:
Silver – Best Lettings Franchise
Silver – Best Lettings Customer Service
Silver – Best Lettings Training & Development
Bronze – Best Large Lettings Agency
Bronze – Best Lettings Technology Online

Estate Agent and Letting Agent of the Year Awards (ESTAs) 2010, sponsored by RICS, Home Let and Estate Agency Today:
Bronze – Best Large Estate Agency Chain
Bronze – Best Large Lettings Agency

Reeds Rains:
Sunday Times Estate Agency of the Year Awards 2010: Bronze – Best Financial Services Provider – joint winner with Your Move

Phillip Green & Partners (a trading name of Intercounty)
Sunday Times Estate Agency of the Year Awards 2010:
Gold – Best Small Estate Agency South East
Silver – Best Small Estate Agency UK

Pink Home Loans
Mortgage Strategy Awards 2011:
Finalist in the Best Mortgage Network Category

Linear Financial Services
Mortgage Strategy Awards 2011:
Best Broker for Protection

First Complete
Mortgage Strategy Awards 2011:
Finalist in the Best Mortgage Network Category

Regulation
First Complete, AMF and BDS are all directly authorised by the FSA in relation to the sale of mortgage, pure protection and general insurance products. During 2010, Your Move cancelled its permission and became an appointed representative of First Complete, along with Reeds Rains who ceased to be an appointed representative of Openwork. This restructuring was undertaken to simplify LSL's financial services operating model. Linear has become an appointed representative of AMF for mortgage and insurance business and continues to also be an appointed representative of Openwork (for investment business). Reeds Rains has also remained an appointed representative of Letsure for the sale of rent indemnity insurance.

As a result of Linear's appointment by Openwork, LSL has a small indirect shareholding of Openwork.

Financial Review

The key drivers of the financial performance of LSL are summarised below

Income statement

Revenue
Revenue increased by 31% to £206.6m in the year ended 31st December 2010 (2009: £157.7m) due to the impact of the HEAL Business acquisition and also market share gains in both Estate Agency Division and Surveying Division as mentioned in the segment review.

Operating Expenses excluding exceptional costs, amortisation and share based payment
Operating Expenses increased by 36% to £176.3m (2009: £129.9m). This was mainly due to an increase in employee related costs due to recruitment of additional colleagues to support our organic growth and also colleagues who have joined the Group through an acquisition made during the year. Average full time equivalent employees during the year was 3,649 (2009: 2,534).

Underlying Operating Profit
Underlying Operating Profit was £31.9m (2009: £28.3m) with the Underlying Operating Profit margin of 15.5% (2009: 17.9%). Like-for-like Underlying Operating Margin increased from 17.9% to 19.3%.

Exceptional Items
Exceptional profit in the year ended 31st December 2010 amounted to £10.2m (2009: costs of £0.4m). Exceptional profit was mainly due to negative goodwill arising on the HEAL Business acquisition as net assets of £29.8m were acquired for £1. This exceptional profit was offset by exceptional costs of £19.6m, of which £13.8m related to the HEAL Business reorganisation undertaken to right size the cost base, £2.8m to increasing the PI provision and £2.0m to finance costs.

Net Financial Costs
Net financial costs (excluding exceptional finance costs) amounted to £2.2m (2009: £2.2m). The finance costs did not decrease in line with the decrease in net debt due to the existence of the interest rate swap (entered into in April and May 2009) which fixed the interest at an average of 2.93% on £25m of debt. In view of the low level of net debt of the Group at 31st December 2010, LSL are currently reviewing the exit options available to cancel the interest rate swap. However, no decision has been made in this regard as at the date of approval of the Financial Statements.

The exceptional finance cost is £2.0m. Of this £1.1m relates to discontinuance of hedge accounting on interest rate swap and £0.9m relates to arrangement fees and costs relating to the extension of the banking facility to March 2014.

Taxation
The effective rate of corporation tax for the year was 4% (2009: 29.3%). The effective rate of tax for 2010 was very low due to the impact of non-taxable negative goodwill arising on the HEAL Business acquisition. After excluding the effect of negative goodwill the effective tax rate is 23.2% (2009: 29.3%). The effective tax rate is still low due to the impact of non-taxable income on profit made on disposal of the investment in Hometrack Data Systems Limited.

Adjusted Basic Earnings Per Share
The Adjusted Basic Earnings Per Share (as calculated in note 10) is 21.0p (2009: 18.1p). The Directors consider this provides a better and more consistent indicator of the Group's underlying performance.

Balance Sheet

Capital Expenditure
Total capital expenditure in the year amounted to £5.0m (2009: £0.7m). The capital expenditure predominantly comprised expenditure on refurbishment of the Estate Agency branches.

Financial Structure
As at 31st December 2010 net debt was £4.9m (2009: £25.7m). LSL has a £75.0m revolving credit facility in place until March 2014 (2009: £75.0m).

Cash Flow
The business is cash generative and has low capital expenditure requirements. The Group generated net cash from operations before exceptional cost payment of £35.7m (2009: £30.8m). The improved cash generation is due principally to increased profitability and a positive movement in working capital.

Net Assets
The net assets as at 31st December 2010 were £68.1m (2009: £45.9m).

Treasury & Risk Management
LSL has an active debt management policy and due to the cash generative nature of the business and the cash acquired on the HEAL Business acquisition the Group's net debt position at 31st December 2010 is £4.9m (2009: £25.7m). As mentioned under Net Financial Costs on page 20 the Group is currently reviewing the exit options available with respect to the interest rate swaps. LSL does not hold or issue derivatives or other financial instruments for trading purposes.

International Financial Reporting Standards (IFRS)
The Financial Statements have been prepared under IFRS as adopted by the European Union. LSL commenced reporting under IFRS from 1st January 2005.

Principal Risks & Uncertainties

The Board continually identify, evaluate and manage material risks and uncertainties which could adversely affect the business, operating results and financial condition of LSL. These risks are recorded and managed through a risk register, and the principal risks and uncertainties identified are:

- The continued volatility and uncertainty of the UK housing market. In particular, transaction volumes (both house purchase and remortgage), house prices and the availability of credit which will adversely affect the profitability and cash flow of all our key brands and businesses.
- Loss of key surveying or corporate services clients or contracts at their renewal date or significant reduction in volumes, either as a result of adverse market conditions, market consolidation, competition or inadequate service delivery.
- Liability for inaccurate professional services advice to clients (e.g. inaccurate valuations) together with the risk that LSL fails to maintain appropriate risk management arrangements.
- Failure to effectively deliver and manage the integration and expansion of newly acquired or created businesses and initiatives into the Group.
- Being subjected to investigations or enforcement action (including any fines) by a regulator resulting in the loss of any licences or permissions necessary for the performance of the Group business. The reputation and profitability of LSL could be adversely affected by the actions of one or a limited number of employees or franchisees.
- Failure or interruptions of information technology services on which the Group is reliant for operational performance and financial information.
- The development of alternative products and services in competition with traditional estate agency and surveying services – for example web based estate agency or Automated Valuation Models in relation to surveying.
- Changes in legislation or regulation (e.g. Mortgage Market Review) or Government policy may impact on business results or the UK housing market in general.

Further information relating to the management of these risks and uncertainties is set out in the Corporate Governance Review (Internal Controls) of this Report on page 33.

Relationships

The Corporate Social Responsibility (CSR) statement at pages 39 to 42 details the arrangements for all Group companies in relation to: Employment (including Equal Opportunities); Health, Safety & Welfare; Environmental; and Social and Community Interests (including social and ethical issues).

Other than our shareholders, the Group's performance and value are influenced by other stakeholders, principally our customers, suppliers, employees, Government and our strategic partners. The Group's approach with all these parties is founded on the principles of open and honest dialogue based on a mutual understanding of needs and objectives.

For example:

- Lenders' relationships are managed via dedicated account managers.
- Employees are managed and consulted both on an individual basis and via representative groups with LSL recognising Unite as an employee representative body.
- Group companies participate in relevant trade associations and industry groups, such as RICS, the Association of Mortgage Intermediaries, the National Association of Estate Agents, the Association of Residential Lettings Agents, National Federation of Property Professionals and The Property Ombudsman, because these give us genuine access to customer views and decision makers in government and other regulatory bodies.
- Further, the Group aims to build partnerships with the communities in which it operates and to offer support in addition to providing employment and training, using local services and suppliers where possible and paying taxes.

Environmental Matters

LSL recognises that the environment has an intrinsic value, central to the quality of life and underpins economic development. LSL understands that its stakeholders are interested in how LSL manages its impact on the environment and how it is performing. Further, stakeholders may also provide LSL with views and opinions which can strengthen LSL's approach to environmental management. Accordingly, LSL is committed to communicating on environmental matters with all interested parties and to report on progress at regular intervals via the website (www.lslps.co.uk). Appropriate guidance and training is also provided to all employees to ensure they have an awareness of their impact on the environment and the role that they play in managing the impact.

For further information on other environmental issues and to read LSL's CSR statement please see pages 39 to 42 of this Report.

Approved by and signed on behalf of the Board of Directors on 2nd March 2011.

Steve Cooke
Group Finance Director

Simon Embley
Group Chief Executive Officer

Director Profiles

Steve Cooke, Group Finance Director

Steve was appointed Group Finance Director in July 2010 and is responsible for all aspects of the financial management of the Group. Previously Steve was chief operating officer of Bestinvest, the 3i backed wealth management business and before that was chief financial officer of Mapeley, the FTSE 250 property company. He was also CFO of Energis as part of the new management team which delivered a successful turnaround before selling the business to Cable and Wireless. Steve trained with Coopers and Lybrand and on qualifying as a chartered accountant worked as a strategy consultant for OC&C followed by senior finance and operational roles in the Sainsbury's and Kingfisher Groups.

Simon Embley, Group Chief Executive Officer

Simon became the Group Chief Executive Officer of LSL at the time of the management buy-out of e.surv Chartered Surveyors and Your Move from Aviva (formerly Norwich Union Life) in 2004. Prior to the management buy-out, Simon was responsible for the strategic direction of these companies, and subsequent to the management buy-out Simon has overseen and been responsible for the turnaround of the initial Group from a heavily loss-making business to the successful business it is today. As the Group Chief Executive Officer, he has the primary responsibility for the performance, strategy and development of the Group and in this role he has been instrumental in taking the business forward in a down turn through both organic growth (including development of counter cyclical income) and selective strategic acquisitions.

Paul Latham, Non Executive Director

Prior to being appointed to the Board as a Non Executive Director in June 2010, Paul had been Deputy Chief Executive Officer of LSL since the management buy-out in 2004. As an Executive Director, Paul had overall responsibility for the performance and strategic direction of the Surveying Division. Under Paul's direction, the Surveying Division developed into one of the UK's largest distributors of residential valuations. Paul is a qualified chartered surveyor and is the current RICS chairman of the Residential Professional Group board and sits on a number of influential UK trade association boards.

Roger Matthews, Non Executive Chairman

Roger was appointed Chairman of the Company in October 2006 and is currently also non executive chairman of MITIE Group plc and a non executive director of Zetar plc (AIM Listed). He was formerly chairman of Sainsbury's Bank plc and Land of Leather Holdings plc, group finance director of J. Sainsbury plc, managing director and finance director of Compass Group plc and worked for Grand Metropolitan plc, Cadbury Schweppes plc and PricewaterhouseCoopers. Roger is a chartered accountant.

Mark Morris, Senior Independent Non Executive Director

Mark was appointed as a Non Executive Director of the Company in October 2006. Mark has many years experience of business management with particular focus on growing businesses and mergers and acquisitions. Mark is a chartered accountant and worked for twelve years at PricewaterhouseCoopers. Mark is currently non executive director and audit committee chairman at HomeServe plc and is non executive director of a number of entrepreneurial private companies. Mark previously worked at Sytner Group as finance director and managing director from 1995 to 2005 including the period during which it was listed on the London Stock Exchange.

David Newnes, Executive Director, Estate Agency

David has been with the Group since 1980 and was part of the management buy-out team. David joined the Board in May 2010 with overall responsibility for the performance, strategy and development of the Estate Agency Division across the Group. Prior to this he was MD of Your Move from 2005, shortly after the management buy-out, where he managed its successful turnaround and development into the largest single brand estate agency business in the UK. David has extensive experience within the estate agency industry, holding memberships of both the Association of Residential Lettings Agents (ARLA) and the National Estate Agency Association (NAEA). David is also a trustee of the Estate Agency Foundation and a director of The Property Ombudsman scheme. During 2010 David was shortlisted for the Negotiator Awards – in the category of 'Agency Leader of the Year'.

Mark Pain, Non Executive Director

Mark Pain, was appointed as an Independent Non Executive Director and chair of the Remuneration Committee in July 2009. He brings with him a wealth of experience as a FTSE 100 main board director covering a range of sectors including property, media, housebuilding, retail and wholesale banking, consumer and business finance, and life assurance. Mark served as chief financial officer of Barratt Developments plc from 2006 to 2009. He was previously at Abbey National Group plc, where he held a number of senior management roles from 1989 to 2005, including group finance director from 1998 to 2001 and customer sales director from 2002 to 2005. Mark is a non executive director of Johnston Press plc, where he chairs the audit committee and is a non executive director of Punch Taverns Plc and Northern Rock PLC. Mark is also a trustee of Somerset House and is a Fellow of the Institute of Chartered Accountants.

Alison Traversoni, Executive Director, Surveying

Alison has been with the Group for over 20 years and was part of the management buy-out team. She is a director of the boards of e.surv Chartered Surveyors, Barnwoods and Chancellors Associates and at e.surv Chartered Surveyors, one of the UK's largest distributors of residential valuations, Alison held various senior positions before her appointment as chief operating officer in September 2008. She joined the Board as an Executive Director in May 2010 with overall responsibility for the performance and development of the Group's Surveying Division. Alison has significant experience within the surveying industry.

Directors' Report & Corporate Governance

In this section

Statement of Directors' Responsibilities in Relation to the Group Financial Statements

The Directors are responsible for preparing the Annual Report and the Group Financial Statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Under Company Law the Directors must not approve the Group Financial Statements unless they are satisfied that they present fairly the financial position of the Group and the financial performance and cash flows of the Group for that period. In preparing the Group Financial Statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Change in Accounting Estimates and Errors' and then apply them consistently;
- 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 is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the Financial Statements; and
- make judgements and accounting estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Financial Statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the Directors

Principal Activities
LSL Property Services plc is the holding company for a number of residential property services related businesses. The Group's principal activities are:

- Surveying and Valuation Services; and
- Estate Agency and Related Services, which includes estate agency, lettings, asset management and financial services (predominantly mortgage and protection brokerage).

Business Review & Development
The Chairman's Statement and the Business Review set out a review of the business including details of LSL's performance and development.

Annual General Meeting
The AGM will be held at the London offices of LSL, 1 Sun Street, London EC2A 2EP on 20th April 2010 starting at 2.30pm.

The notice convening the AGM (Notice of Meeting) is in a separate circular to be sent to shareholders with this Report. The Notice of Meeting also includes a commentary on the business of the AGM and notes to help shareholders to attend, speak and/or vote at the AGM.

Financial Results
The Business Review and Financial Statements set out the results of LSL.

Dividend
As a result of the strong operating performance, continued reduction in net debt and the Board's view of the future prospects of the business a final dividend payment of 5.9p per share will be proposed to shareholders at the forthcoming AGM, bringing the total dividend for 2010 to 8.4p per share. This represents a 40% payout ratio (based on adjusted EPS of 21.0p per share) and a 55% increase on the 2009 dividend of 5.4p per share. The proposed dividend payment is in line with our previously stated policy of applying a dividend pay out ratio of between 30% to 40% of Underlying Group Profit after tax.

The ex-dividend date for the final dividend is 30th March 2011, with a record date of 1st April 2011, and a payment date of 27th April 2011. Shareholders have the opportunity to elect to reinvest their cash dividend and purchase existing shares in LSL through a Dividend Reinvestment Plan.

Employees
LSL recognise that our people are a valuable asset and we are committed to providing a working environment in which our employees can develop to achieve their full potential with opportunities for both professional and personal development. By creating such an environment, LSL believe that this will enable the retention and recruitment of the right people to work at every level throughout the Group. An essential part of this strategy is to encourage and promote effective communication with all employees, which also ensure that LSL, in its decision-making, takes into account its employees views.

The Group has an equal opportunities policy so that all job applicants are treated fairly and without favour or prejudice throughout selection, recruitment, training, development and promotion.

Further details of how LSL engages with its employees is detailed in the CSR statement at pages 41 to 44 of this Report. The CSR statement also summaries the Group's policy on disabled employees.

Financial Instruments
The Business Review sets out LSL's strategies and objectives relating to treasury and risk management. Details of the financial instruments are set out in note 28 of the Financial Statements.

Directors
The current Directors are listed with their biographies in Directors' Profiles at pages 22 and 23 of this Report.

During 2010 Paul Latham and Dean Fielding retired as Executive Directors on 31st May and 1st July 2010 respectively. Paul Latham agreed to remain on the Board as a Non Executive Director to ensure that LSL continues to benefit from his expertise and industry knowledge.

With effect from 1st June 2010 Alison Traversoni (Executive Director, Surveying) and David Newnes (Executive Director, Estate Agency) joined the Board and on 1st July 2010 Steve Cooke joined the Board as Group Finance Director, replacing Dean Fielding.

Full details of Director appointments and resignations are also detailed at page 36 in the Directors' Remuneration Report.

Re-election and election
In accordance with the Articles of Association, Alison Traversoni, David Newnes and Steve Cooke will each retire at the AGM and, being eligible, intend to stand for election.

LSL's articles provide that the Board may appoint an individual to act as a Director, but anyone so appointed will retire from office at the next AGM and seek election, accordingly the three Directors appointed since the last AGM are standing for election. LSL may by ordinary resolution elect or re-elect any individual as a Director. The biographical details for all Directors including Alison Traversoni, David Newnes and Steve Cooke are set out on pages 22 and 23 of this Report.

During the 2010 Board effectiveness review, the performance of all those Directors standing for election was specifically evaluated and the Board confirmed that it values the experience and commitment to the business demonstrated by each of these individuals.

Directors' Interests
The interests of the current Directors in LSL are contained within the Directors' Remuneration Report at pages 34 to 38 of this Report. In the period between 31st December 2010 and the date of this Report, there were no changes in the Directors' interests.

The Board has during the year observed and maintained arrangements for the management and recording of conflicts in line with its policy. This includes the observance of a hospitality policy to ensure compliance with section 176 of the Companies Act 2006.

Further, during the year, no Director was materially interested in any contract that is or was significant to the business of the Group or any subsidiary undertaking.

Report of the Directors Continued

Directors Service Contracts
Details of the Executive Directors' service agreements and the Non Executive Directors' letters of appointment are set out in the Director's Remuneration Report at page 35 and 36 of this Report.

Auditors
Ernst & Young LLP, the external auditors of the Group have advised of its willingness to continue in office and a resolution to re-appoint them to this role and the authority for their remuneration to be determined by the Directors will be proposed at the AGM.

Details of LSL's policy designed to safeguard the independence and objectivity of the external auditors is included in the Corporate Governance section of this Report.

Share Capital
LSL 0.2p Ordinary Shares are listed on the London Stock Exchange and are the only class of shares in issue.

Rights and obligations attached to shares
Each issued share has the same rights attached to it as every other issued share: the rights of each shareholder include the right to vote at general meetings, to appoint a proxy or proxies, to receive dividends and to receive circulars from LSL.

Details of share capital are set out in note 23 of the Financial Statements. There have been no changes to the share capital during 2010. A renewal of the authority for the Directors to allot unissued Ordinary Shares and a renewal of their power to dis-apply statutory pre-emption rights will be proposed at the AGM. Full details of the deadline for exercising voting rights in respect of the resolutions to be considered at the AGM are set out in the Notice of Meeting.

Employee Share Schemes
LSL has appointed Capita Trustees Limited (**Trustees**) to operate the LSL Property Services plc Employee Share Scheme (**Trust**) which was established prior to LSL's flotation in 2006.

The Trustees operate both the LSL Property Services plc Employee Share Incentive Plan (Buy As You Earn) and Save As You Earn Plans.

The Trust is able to acquire and to hold shares to satisfy options or awards granted under any discretionary share option scheme or long term incentive arrangement operated by LSL. Details of the shares acquired by the Trust are set out in note 24 of the Financial Statements.

The Trustees have waived the right to any dividend payment in respect of each share held by them.

Charitable & Political Donations
LSL Group companies in total made a number of charitable donations throughout the year totalling £7,886 (2009: £730). Further information about the Group's charitable initiatives is contained within the CSR at page 42 of this Report.

Creditors & Supplier Payment Policy
LSL's normal terms are to make payment in accordance with suppliers' terms of trade or within 45 days (2009: 45 days) from the receipt of services or invoices subject to satisfactory performance by the supplier. At 31st December 2010, LSL had no trade creditors outstanding. The payment terms of individual operating subsidiaries are disclosed in their accounts. For further details on LSL's policy statement regarding the management of suppliers, please see the CSR statement on pages 39 to 42 of this Report.

Going Concern
The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review on pages 12 to 23 of this Report. The financial position of the Group, its cash flows, liquidity position and the Group's policy for treasury and risk management are described in the Financial Review on page 20. Details of the Group's borrowing facilities are set out in note 20 to the Financial Statements. Note 28 to the Financial Statements describes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. A description of the Group's principal risks and uncertainties and arrangements to manage these risks are detailed at page 21 of this Report.

As explained in note 28 to the Financial Statements, the Group meets its day-to-day working capital requirements through a revolving credit facility, which was renewed in June 2010 and the Group currently has a £75m facility which is committed for a period up to March 2014. As stated in note 18 of the Financial Statement as at 31st December 2010 the Group had available £73.5m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the terms of its current facility.

Substantial Shareholding
As at 28th February 2011, the shareholders set out below have notified LSL of their interest in 3% or more of the issued Ordinary Shares:

Institution	Nature of holding	Number of 0.2 pence Ordinary Shares	% of issued shares
Harris L.P	Beneficial	17,971,460	17.25%
International Value Advisers LLC	Beneficial	12,417,376	11.92%
Sheffield Asset Management LLC	Beneficial	5,898,331	5.66%
Individual (excluding Executive Directors)			
Dean Fielding	Registered Holder	5,230,000	5.02%

The Directors have reviewed the Group's forecasts and budgets, which have been stress tested with various changes to the assumptions underlying the forecasts and budgets. The Directors also examined the Group's financial adaptability as part of that review and concluded that, should it be necessary, the Group would be able to respond to a reasonably foreseeable deterioration in market conditions by making further reductions to the cost base, as it was able to achieve in 2010.

The trading performance of the Group has improved significantly in 2010. Underlying Group Operating Profits have improved by 13%, net debt has reduced from £25.7m to £4.9m, and counter cyclical income streams such as asset management and lettings have continued to grow and represent a greater proportion of the Group's profitability. After making enquiries, the Directors consider that LSL and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosure of Information to Auditors

Having made enquiries of fellow Directors and of the external auditors, each of the current Directors confirms that:

- to the best of his/her knowledge and belief, there is no information (as defined in the Companies Act 2006) relevant to the preparation of this Report of which the external auditors are unaware; and
- he/she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the external auditors are aware of that information.

Directors' Qualifying Third Party Indemnity Provisions

LSL had qualifying third party indemnity provisions for the benefit of the Directors in force from the start of the financial period to the date of this Report, subject to the conditions set out in the Companies Act 2006. LSL has put in place 'Directors & Officers Liability' insurance to cover for this liability.

Additional information for shareholders

The following provides the additional information required for shareholders as a result of the implementation of the Takeovers Directive into UK Law.

Share Capital

At 31st December 2010, LSL's issued share capital comprised 104,158,950 0.2p Ordinary Shares. The authorised share capital is 500,000,000 Ordinary Shares of 0.2p each.

Ordinary Shares

On a show of hands at a general meeting of LSL every holder of Ordinary Shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every Ordinary Share held. The notice of the AGM which accompanies this Report specifies deadlines for appointing a proxy in relation to resolutions to be passed at a general meeting. Where the Chairman of the AGM is appointed as proxy, such proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on LSL's website after the meeting (www.lslps.co.uk).

There are no restrictions on the transfer of Ordinary Shares in LSL other than:

- certain restrictions which may from time to time apply under applicable laws and regulations (for example, insider trading laws and market requirements relating to close periods) and;
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of LSL require the approval of LSL to deal in LSL's securities.

LSL's Articles of Association may only be amended by way of a special resolution at a general meeting of the shareholders.

Company share schemes

The Trust holds 1.33% (2009: 1.1%) of the issued share capital of LSL in trust for the benefit of employees of the Group and their dependents. The voting rights in relation to these shares are exercised by the Trustees.

Substantial Shareholdings

These details are set out at page 28 of this Report.

Significant Agreements – change of control

Subsidiaries of LSL are party to agreements which take effect, alter or terminate upon a change of control of the company following a takeover bid.

The Group is party to a number of banking agreements which upon a change of control of the Group are terminable by the bank and all outstanding amounts become immediately due and payable.

Compensation for loss of office – change of control

There are no agreements between LSL and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Directors' responsibility statement

Each of the Directors listed on page 22 to 23 confirms that to the best of their knowledge:

- the Financial Statements, prepared in accordance with IFRS as adopted by the European Union, give a true and fair review of the assets, liabilities, financial position and results of LSL and its subsidiaries included in the consolidation taken as a whole; and
- the Directors' Report and the Business Review include a fair review of the development and performance of the business and the position of LSL and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary
2nd March 2011

Corporate Governance Report

UK Corporate Governance Code ("Code")

The Directors recognise the value and importance of meeting the principles of good corporate governance as set out in the Code. This part of the Report describes the corporate governance arrangements that are in place.

During 2010, LSL complied with the provisions of the FRC Combined Code on Corporate Governance (June 2008) in all respects. The Directors have also undertaken a review of its compliance with the Code which was published in May 2010 and which applies to the financial year commencing on 1st January 2011. The Terms of Reference for each of the committees of the Board have also been updated to take into account the requirements of the new Code.

The Board

The Board has eight members and it comprises of the Chairman, four Executive Directors and three Non Executive Directors.

Due to Paul Latham's previous role within LSL as the Deputy CEO, he is not considered to be independent. Paul took on the Non Executive Director role with effect from 1st June 2010 and agreed to stay on the Board to ensure that LSL continued to benefit from his expertise and industry knowledge.

Therefore, the Board has currently three Non Executive Directors, excluding the Chairman, two of which are independent.

The Directors are listed with their biographies in Directors' Profiles at pages 22 and 23 of this Report.

There is a clear division of responsibilities between the Chairman whose key responsibility is the effective running of the Board, and the Chief Executive, whose key responsibility is the running of the business.

The Chief Executive's delegated powers have been set by the Board and the Directors are satisfied that the balance of Executive and Non Executive Directors is appropriate and that no individual or group may dominate the Board's decisions.

Save for Paul Latham, the Non Executive Directors are independent of management and have a range of experience covering strategy, business operations, customer and employee matters/issues, corporate governance and finance.

When Roger Matthews was appointed Chairman he was deemed to be independent under the provisions of the Code. Since then he has also become a non executive chairman of MITIE Group plc and a non executive director of Zetar plc.

During the year the Directors undertook an evaluation of the performance of the Board. This included an evaluation of the Board, the Board committees and of individual Directors to ensure that the Directors remain individually and collectively effective. The evaluation process involved discussions between each Director and the Chairman and meetings of the Board and the Non Executive Directors (including discussions without the Chairman present and chaired by the Senior Independent Non Executive Director, to appraise his performance). The Non Executive Directors evaluate the Chairman's performance, after taking into account the views of the Executive Directors.

Whilst no significant issues requiring action arose from these evaluations, the outcomes of the exercise were reported to the Board and showed that the Board and its committees were discharging their responsibilities effectively. The appraisal produced a number of recommendations to further improve effectiveness of the Board which will be implemented during 2011.

Copies of the Executive Directors' service agreements and of the Non Executive Directors' letters of appointment are available for inspection at the Registered Office during normal business hours and at each AGM.

All Directors may receive independent professional advice at LSL's expense, if necessary, for the performance of their duties. This is in addition to the access every Director has to the Company Secretary and her team. The Company Secretary is responsible for advising the Board on all matters of corporate governance, ensuring that all Board procedures are followed and facilitating training.

Each newly appointed Director received an induction on the responsibilities of a listed public company director and on LSL's business. Thereafter, LSL provides the necessary resources for developing this understanding and knowledge.

During 2010 the Board held 10 scheduled meetings and an Annual Strategy Meeting. The attendance of each of the Directors at these meetings as a Director or a committee member is set out below. During 2011 the Board is scheduled to meet ten times, including the annual strategy meeting and additional meetings will be held as required.

During 2010 the Non Executive Directors and the Chairman collectively met twice without the Executive Directors being present and it is the intention that this will be repeated in 2011.

Board and Committee Attendance 2010

Director	Board (including annual strategy meeting)	Audit Committee	Remuneration Committee	Nominations Committee
Roger Matthews	10	4	3	2
Simon Embley	11	–	–	–
Paul Latham[1]	10	–	–	–
Dean Fielding[2]	6	–	–	–
Mark Morris	11	4	4	2
Steve Cooke[3]	5	–	–	–
Mark Pain	11	4	4	2
Alison Traversoni[4]	5	–	–	–
David Newnes[5]	6	–	–	–

1 Paul Latham became a Non Executive Director on 1st June 2010.
2 Dean Fielding resigned on 1st July 2010.
3 Steve Cooke joined the Board on 1st July 2010.
4 Alison Traversoni joined the Board on 1st June 2010.
5 David Newnes joined the Board on 1st June 2010.

Whilst both Alison Traversoni and David Newnes were invited to attend Board meetings prior to their appointments as Executive Directors, their attendance prior to their appointments are not recorded in the above table. This attendance facilitated their succession to becoming Executive Directors on to the Board.

In accordance with the Articles of Association, Alison Traversoni, David Newnes and Steve Cooke will retire at the AGM, and, being eligible, are intending to stand for election at the meeting. At each subsequent AGM, all Directors appointed since the previous AGM and circa one-third of the remaining Directors, including any Director who has not been elected or re-elected at either of the two preceding AGMs, will retire by rotation and may seek re-election. The Board can appoint a Director outside of a general meeting but anyone so appointed must be elected by an ordinary resolution at the next general meeting.

The Board is primarily responsible for decisions on Group strategy, including approval of strategic plans, annual budgets, interim and full year financial statements and reports, dividend proposals, accounting policies, material capital projects, investments and disposals, succession plans and the monitoring of financial performance against budget and forecast. There is also a schedule of Matters Reserved for the Board which is annually reviewed by the Board.

There is a programme of regular reviews of performance and developing best practice in matters such as employment, health and safety, environmental and social and community interest. LSL believes that corporate social responsibility is necessary to support responsibly-grounded business decision-making that considers the broad impact of corporate actions on people, communities, and the environment accordingly, the Board takes account of the significance of environmental, social and governance matters when making decisions. Further details of LSL corporate social responsibility objectives can be found in the CSR statement at pages 39 to 42 of this Report.

The Board has adopted principles of good boardroom practice which set out procedures on how Directors are given accurate, timely and clear information and how they can seek and obtain information or advice necessary for them to discharge their duties and these arrangements are reviewed annually as part of the Boards evaluation process referred to above.

Board Committees

The Board has delegated specific responsibilities to three standing committees of the Board: Audit, Nominations and Remuneration. The membership of these committees and a summary of their main duties under their Terms of Reference are set out below. The full Terms of Reference may be viewed on LSL's website (www.lslps.co.uk). During 2010, the Board reviewed the Terms of Reference for each of the Committees and agreed amendments to take into account the requirements of the new Code. It is the intention that the Chairman of each of the Committees will attend the AGM to answer any questions.

Audit Committee

The Audit Committee is chaired by Mark Morris and its other members are Roger Matthews and Mark Pain. The Board is satisfied that Mark Morris has recent and relevant financial experience as is required by the Code.

The Committee met on four occasions in 2010. LSL's internal and external auditors, Executive Directors (including the Group Chief Executive Officer and the Group Finance Director) are invited, but are not entitled, to attend and speak at meetings. The Audit Committee met with the auditors without the Executive Directors being present four times during 2010.

The duties of the Audit Committee are governed by its Terms of Reference and its role includes:

- to ensure that the Group's accounting and financial policies and controls are proper, effective and adequate;
- to ensure that internal and external auditing processes are properly co-ordinated and work effectively and to oversee the relationship with the external auditor, including reviewing the scope and results of audits;
- to monitor the integrity of LSL's financial statements and any formal announcements relating to its performance, reviewing significant financial reporting issues and judgements contained in them;
- to review the effectiveness of the internal control and risk management systems;
- to review procedures for handling any internal allegations;
- to oversee and assess the effectiveness of the internal audit function; and
- to keep under review the nature and extent of non audit services provided by the external auditors.

The Committee has an established programme of work to ensure that each of its responsibilities are covered adequately during the year. Two of its meetings are focused primarily on external reporting and external audit, and two on risk, internal control and internal audit.

Areas of particular focus during the year have been: reviewing integration of newly acquired businesses, including the measures for improvement of the financial control environment; further focus on controls to prevent inaccurate valuation opinions; and ensuring appropriate regulatory control environments are in place as LSL's financial services business has expanded.

To guard against the objectivity and independence of the external auditors being compromised, the Audit Committee has adopted a policy under which any non audit related services provided by the external auditors must be approved by the Committee or be within a pre-approved category and a pre-approved fee limit ("Policy"). The Audit Committee is kept informed of the fees paid to the auditor in all capacities.

The Policy stipulates restrictions and procedures in relation to the potential allocation of non audit work to the auditor. These include categories of work which cannot be allocated to the auditor, and categories of work which may be undertaken by the auditor, subject to certain provisions as to materiality, nature of and competency to perform work.

The split between audit and non audit fees for 2010 appears at note 9 to the Financial Statements. The non audit fees relate to tax compliance services, tax due diligence and structure advice, and reporting on banking covenants. The Committee considered that Ernst & Young LLP were best placed to carry out this exercise.

The amount and nature of non audit fees are considered by the Committee not to affect the independence or objectivity of the external auditor.

Corporate Governance Report Continued

Nominations Committee

Roger Matthews is the Chairman of the Nominations Committee and the other members of the Committee are Mark Morris and Mark Pain. The Committee met on two occasions in 2010.

The duties of the Nominations Committee are governed by its Terms of Reference and its role includes:

- to regularly review the structure, size and composition (including skills, knowledge and experience) of the Board;
- prior to recommending any appointments, evaluate the balance of skills, experience, independence and knowledge on the Board and prepare a description of the role and capabilities required for each appointment;
- to review succession plans for the Directors and senior managers, taking into account the challenges and opportunities facing LSL, and what skills and expertise are therefore needed on the Board in the future. The plans are also reviewed to ensure that LSL maintains an appropriate balance of skills and experience within the Group and on the Board to ensure progressive refreshing of the Board;
- to recommend to the Board the selection and appointment of new executive and non executive directors in accordance with the Code, ensuring that any search is conducted, and appointments made, on merit, against objective criteria, with due regard for the benefits of diversity on the Board, including gender; and
- to review the leadership needs of the Group at varying levels with a view to ensuring the continued ability to compete effectively in LSL's marketplaces.

During the year, the Committee nominated Paul Latham for appointment as a Non Executive Director and Alison Traversoni and David Newnes as Executive Directors for Surveying and Estate Agency respectively, and Steve Cooke as the Group Finance Director.

All recommendations for appointments made in 2010 took into account the individuals experience in both the sector, and in the case of Paul Latham, Alison Traversoni and David Newnes, their previous roles within the Group. While the Committee did not utilise the services of any external search consultancy or open advertising in recommending the appointments of Paul Latham, Alison Traversoni and David Newnes all of the appointments were discussed with advisers prior to being made. In respect of the appointment of Steve Cooke as Group Finance Director, the Committee engaged the services of an external search consultant as well as considering internal candidates.

Alison Traversoni is the first female Executive Director to be appointed to the Board, and LSL remains committed to the promotion of equality and diversity across the Group.

Remuneration Committee

During 2010 the Remuneration Committee was chaired by Mark Pain and its other members were Roger Matthews and Mark Morris. The Committee met four times in the year and the Group Chief Executive Officer, Group HR Director and Company Secretary also attended meetings (not when their own remuneration was being discussed) and assisted the Remuneration Committee in its deliberations during this period.

The Remuneration Committee has responsibility for determining, within agreed Terms of Reference, LSL's policy on the remuneration of senior executives and specific remuneration packages for Executive Directors, including pension rights and compensation payments. It is also responsible for making recommendations for grants of shares under the employee share schemes. The Directors' Remuneration Report provides details of how the Committee has discharged these duties which can be found on page 34 of this Report.

The Remuneration Committee's overall purpose is to ensure that the levels of remuneration are sufficient to attract, retain and motivate Directors of the quality required to run LSL successfully.

The Remuneration Committee also ensures that a significant proportion of the Executive Directors' remuneration is structured so as to link rewards to corporate and individual performance and that it is sensitive to pay and employment conditions elsewhere in the Group, especially when determining annual salary increases.

None of the Remuneration Committee members has any personal financial interest (other than as shareholders), conflicts of interest arising from cross directorships or day to day involvement in running the business. The Remuneration Committee makes recommendations to the Board. No Director plays a part in any discussion about their remuneration. The terms of reference of the Remuneration Committee are available from the Company Secretary or LSL's website at www.lslps.co.uk.

The Remuneration Committee may, in exercising its discretion in relation to the remuneration of Executive Directors, take into account LSL's performance on governance and CSR related issues and it ensures that the incentive schemes put in place for members of the senior management team do not raise any environmental, social or governance issues by inadvertently motivating irresponsible behaviour.

Shareholder Relations

LSL places a great deal of importance on communication with its stakeholders and is committed to establishing constructive relationships with investors in order to assist it in developing an understanding of the views of its shareholders.

LSL maintains a dialogue with institutional shareholders through regular meetings with such shareholders to discuss its strategy and performance and to obtain investor feedback. The views of the shareholders expressed during these meetings are reported to the Board. In addition presentations will be arranged from time to time for shareholders and analysts, including after the interim and preliminary results.

Steps are taken to ensure that all members of the Board understand the views of major shareholders. This is achieved in a number of ways including feedback from the corporate advisors, Executive Directors and the distribution of analysts reports to the Board.

Whilst the Board notes that the Code encourages meetings between Non Executive Directors and institutional investors, to date no such meetings have taken place. However, all of the Non Executive Directors, including the Chairman and the Senior Independent Director are available to meet with all shareholders to discuss any issues or concerns and they can be contacted through the Company Secretary's office.

With regard to individual shareholders, the Board considers that the main forum for communication is at the AGM and all of the Directors will be available at the AGM to meet with investors. All of LSL's announcements are published on the LSL website (www.lslps.co.uk), together with copies of presentation material and financial reports.

Model Code

LSL complies with a code on securities dealings in relation to its Ordinary Shares which is consistent with the Model Code published in the Listing Rules. This code applies to the Directors and relevant employees of LSL.

Internal Controls

The Board has overall responsibility for LSL's system of internal controls and for reviewing its effectiveness. In order to discharge that responsibility, the Board has established the procedures necessary to apply the Code, including clear operating procedures, lines of responsibility and delegated authority. These procedures have been in place since LSL was listed and are regularly reviewed by the Board and the Audit Committee.

The Group has in place internal control and risk management systems in relation to LSL's financial reporting process and the process for preparation of consolidated accounts. These systems include policies and procedures to facilitate the maintenance of records that accurately and fairly reflect transactions, provide reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS or UK Generally Accepted Accounting Principles, as appropriate, and that require reported data to be reviewed and reconciled.

The system of internal control is an ongoing process designed in accordance with the guidance of the Turnbull Committee on 'Internal Control' to identify, evaluate and manage significant risks faced by LSL. Its aim is to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material mis-statement or loss. The internal controls are also in place to safeguard shareholder investment and LSL's assets.

During 2010 the Executive Directors have continually identified, evaluated and managed material risks and uncertainties faced by LSL which could adversely affect LSL's business, operating results and financial condition. The effectiveness of the internal control system and risk management process is kept under review by the Audit Committee and has been reviewed by the Board. The principal risks and uncertainties facing LSL are set out in the Report of the Directors at page 21.

LSL operates a management structure with delegated authority levels and functional reporting lines and accountability. It also operates a budgeting and financial reporting system which compares actual performance to budget and to the previous year on a monthly basis. In addition, the Executive Directors receive daily information on sales activity and weekly information on key result areas. All capital expenditure and other purchases are subject to appropriate authorisation procedures.

LSL has an internal audit team which regularly submits reports to the Audit Committee and this, together with the internal controls system and risk management process in place within LSL, allows the Board to monitor financial and operational performance and compliance with controls on a continuing basis and to identify and respond to business risks as they arise.

Takeover Directive

The Group has addressed the matters required to be addressed by the Takeover Directive which was implemented in the UK in accordance with statutory provisions in Part 28 of the Companies Act 2006 in the Directors' Report. Please refer to page 29 of the Directors' Report.

Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary
2nd March 2010

Directors' Remuneration Report

The Directors' Remuneration Report has been prepared in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. The Report also meets the relevant requirements of the Listing Rules of the Financial Services Authority and describes how the Board has applied the principles relating to Directors' remuneration in the Code. A resolution to approve this Report will be proposed at the AGM at which the Financial Statements will also be approved. This part of the Report, has been divided into separate sections for audited and unaudited information.

Details of the Remuneration Committee's composition and responsibilities are set out in the Corporate Governance Report at page 32 of this Report.

Unaudited Information

The Remuneration Committee has considered in the financial period matters relating to the remuneration of the Chairman and the Executive Directors.

None of the Committee members has any personal financial interest (other than as shareholders), conflicts of interests arising from cross-directorships or day to day involvement in running the business. The Committee makes recommendations to the Board. No Director plays a part in any discussion about their remuneration. The terms of reference of the Committee are available from the Company Secretary or LSL's website at: www.lslps.co.uk.

The Remuneration Committee was advised during the year by Hewitt New Bridge Street ("HNBS"), the Committee's independent adviser, and Deloitte LLP on matters relating to senior executive remuneration. HNBS provided no other advice to LSL during the year.

Remuneration policy for the Executive Directors

General policy

LSL's strategy has been designed to create shareholder value and the aim of LSL's remuneration policy is to attract, retain and motivate Executive Directors with the experience and skills necessary to deliver that strategy and run LSL successfully. The Committee reviews the policy annually in light of market conditions, performance, and developments in corporate governance best practice. The Committee also considers the level of risk (e.g. environmental, social and governance) associated with the remuneration policy to ensure that there are sufficient safeguards in this regard.

There are five main elements of the remuneration package for Executive Directors and senior management:

- Base salary
- Benefits
- Pension arrangements
- Annual bonus
- Long-term incentives

LSL's policy is that a substantial proportion of the remuneration of the Executive Directors and senior management should be performance related.

Further, consultation is undertaken with major shareholders and major shareholders representative bodies in relation to remuneration matters before any changes were implemented.

Pension

The Executive Directors and Paul Latham are members of a money purchase pension scheme. LSL matches contributions of up to 5% of base salary. Details of actual LSL contributions for 2010 are presented in the table of Director's Emoluments on page 36.

Base salary and benefits

Executive Directors' base salaries are reviewed annually by the Committee taking into account the responsibilities, skills and experience of each individual, pay and employment conditions within LSL and salary levels within listed companies of a similar size. Base salary levels as at 1st January 2011, 2010 and 2009 were as follows:

Director	Role	Salary at 1st January 2011	Salary at 1st January 2010	Salary at 1st January 2009
Steve Cooke	Group Finance Director	£220,000	£220,000*	–
Simon Embley	Group Chief Executive Officer	£250,000	£250,000	£180,000
David Newnes	Executive Director, Estate Agency	£140,000	£140,000*	–
Alison Traversoni	Executive Director, Surveying	£140,000	£140,000*	–

* Base salary as at appointment to the Board during 2010.

The base salary increase awarded to the Group Chief Executive Officer with effect from 1st January 2010 was arrived at after careful consideration by the Committee of internal relativities (a key issue given the changes to the Board over the past year) and salary levels within similarly sized listed companies. This was the first such increase for three years and salary levels remain below mid-market levels for similarly sized listed companies.

Following a review of base salary levels at the end of 2010, the Committee has decided not to recommend an increase in base salary levels for 2011.

Benefits are comprised of a car allowance/company car and private healthcare.

Annual bonus

Executive Directors participate in a performance-related bonus scheme. The maximum bonus continues to be capped at 100% of base salary for Executive Directors.

For 2010, the sliding scale performance targets were based on the budgeted Underlying Group Operating Profit (after the payment of bonuses). Details of annual bonus amounts payable to Executive Directors for the year ended 31st December 2010 are presented in the table of Directors' Emoluments on page 36.

For 2011, the structure of the annual bonus will remain broadly similar to 2010 although the underlying profit targets will be operated for 80% of the bonus potential, with the remaining 20% of potential based on challenging strategic targets.

Long Term Joint Share Ownership Plan

The JSOP received shareholder approval at the 2010 AGM. Awards under the JSOP participate in increases in the value of shares in LSL above the share price at the date of grant. Awards comprise of an interest in jointly owned shares (i.e. Ordinary Shares held in co-ownership with the Trust) and a stock appreciation right. A key feature of the JSOP is that individuals are required to purchase their interest in the jointly owned shares and have thereby put their personal capital at risk.

The vesting of JSOP awards granted in 2010 is conditional upon LSL's adjusted EPS performance meeting the following absolute performance targets over a period of 3 financial years starting with the financial year in which the JSOP award is granted:

	Value of shares under the JSOP award at date of grant (as a percentage of salary)	
EPS growth p.a.*	Chief Executive Officer	Senior Executives (includes Executive Directors and members of the senior management team)
10%	100%	100%
13%	150%	–
17%	200%	–

* With straight line vesting between points for the Chief Executive Officer's award.

These awards are made to motivate the Executive Directors and members of the senior management team to participate in the growth of LSL as a business.

It is not the Committee's current intention to recommend the grant of awards under both the JSOP and LTIP to Executive Directors in the same period. In any event, the maximum market value of shares granted under a JSOP award and a LTIP award in any financial year cannot together exceed 200% of base salary in normal circumstances.

For JSOP awards granted in 2011, it is currently intended that similar award levels and EPS performance targets will apply to those awards granted in 2010. However, following a review of the EPS performance targets attached to the 2010 awards, the Committee has concluded that while the EPS targets remain appropriate, a second performance target based on relative shareholder return ("TSR") should also be applied. For JSOP awards granted in 2011 therefore, in addition to the EPS targets set out above, LSL's TSR must exceed that of the FTSE 250 index (excluding investment trusts) over the three year performance period for any awards to vest.

Long Term Incentive Plan (excluding Company Share Ownership Plan)

The LTIP was introduced upon flotation in 2006 although has not, as yet, been operated for Executive Directors. Under the LTIP, the Committee may recommend the grant of awards of free shares to any employee (including Executive Directors) with a value not normally exceeding 100% of base salary (although grants in excess of 100% of base salary may be made in exceptional circumstances) which normally vest over a period of three years subject to continued employment and the achievement of specified performance conditions.

The CSOP, which is operated by way of an addendum to the rules of the LTIP is described below.

Deferred Bonus Plan

The DBP was introduced upon flotation in 2006 although has not, as yet, been operated.

Shareholding guidelines

Following a review of best and market practice during 2010, the Committee has introduced a set of share ownership guidelines. As a result, Executive Directors will be required to build and maintain a shareholding equivalent to one year's base salary over a period of three years from the date the guidelines were adopted (or date of appointment to the Board if later) through the retention of vested share awards or through open market purchase(s).

All employee share plans

LSL operates a SAYE, a SIP and a CSOP (with the latter operated by way of an addendum to the rules of the LTIP), all of which are approved by HM Revenue & Customs. Details of awards granted to Executive Directors are presented in the table of Directors' Emoluments at page 36.

Executive Directors' service contracts

Executive Director service contracts, which do not contain expiry dates, provide that compensation provisions for termination without notice will only extend to 9 months of salary, fixed benefits and pension. By excluding any entitlement to compensation for loss of the opportunity to earn variable pay, the Committee believes the contracts to be consistent with best practice. Contracts do not contain change of control provisions.

Director	Date of Contract	Notice period from Company (months)
Steve Cooke	4th June 2010	9
Simon Embley	15th July 2004	9
Paul Latham[1]	15th July 2004	9
Dean Fielding[2]	15th July 2004	6
David Newnes	1st June 2010	9
Alison Traversoni	1st June 2010	9

1 Ceased to be an Executive Director on 31st May 2010.
2 Ceased to be an Executive Director on 1st July 2010.

Directors' Remuneration Report Continued

Subject to Board approval, Executive Directors are permitted to accept outside appointments on external boards or committees as long as these are not deemed to interfere with the business of LSL. Save for Simon Embley's appointment to a small estate management company for which no remuneration is paid, none of the Executive Directors hold Non Executive directorships of any other companies other than to represent the minority interests of the Group or to participate in representative trade bodies.

Non Executive Directors' Contracts

The Non Executive Directors, including the Chairman, have letters of appointment which set out their duties and responsibilities. Appointment is for a fixed term of three years, terminable with three months' notice on either side. The independent Non Executive Directors and Chairman are not eligible to participate in incentive arrangements or receive pension provision.

Director	Date of Original Term Commenced	Date of Current Term Commenced	Expected Expiry Date of Current Term
Paul Latham	1st June 2010		31st May 2013
Roger Matthews	11th October 2006	21st November 2009	20th November 2012
Mark Morris	11th October 2006	21st November 2009	20th November 2012
Mark Pain	1st July 2009		30th June 2012

The remuneration of the Non Executive Directors is a matter for the Chairman and Executive members of the Board and the remuneration of the Chairman is a matter for the Committee. Fees for both Non Executive Directors and the Non Executive Chairman are reviewed from time to time with regard to time commitment required and the level of fees paid by comparable companies.

Current annual fee levels are set at £100,000 for the Chairman and £37,000 for the role of Non Executive Director. An additional annual fee of £2,000 is payable for the role of Senor Independent Director and an additional £5,000 is payable for chairing either the Audit or Remuneration Committees. In addition, Paul Latham receives an additional £5,000 per annum in respect of consultancy services provided to e.surv Chartered Surveyors.

Audited Information

Directors' Emoluments

The emoluments of the Directors for 2010 were as follows:

Director	Directors salaries/ Fees £	Car Allowance £	Benefits in kind[6] £	Annual Bonus[7] £	**Total 2010 £**	Total 2009 £
Chairman						
Roger Matthews	100,000	–	–	–	**100,000**	83,343
Executive Directors						
Steve Cooke[1]	110,000	5,000	808	128,250	**244,058**	–
Simon Embley	250,000	10,000	1,466	243,750	**505,216**	371,504
David Newnes[2]	81,667	4,958	363	79,625	**166,613**	–
Alison Traversoni[2]	81,667	–	4,004	79,625	**165,296**	–
Paul Latham[3]	68,750	–	5,917	0	**74,667**	294,893
Dean Fielding[4]	82,500	4,250	1,034	0	**87,784**	260,536
Non Executive Directors						
Paul Latham[3]	20,417	–	–	–	**20,417**	–
Mark Morris	40,000	–	–	–	**40,000**	40,000
Mark Pain	35,000	–	–	–	**35,000**	17,500
Mark Warburton[5]	0	–	–	–	**0**	17,500
TOTAL	870,001	24,208	13,592	531,250	**1,439,051**	1,085,276

1 Appointed to the Board on 1st July 2010. £21,000 bonus paid on appointment.
2 Appointed to the Board on 1st June 2010.
3 Retired from the Board as an Executive Director 31st May 2010 and became a Non Executive Director with effect from 1st June 2010.
4 Stepped down from the Board on 1st July 2010.
5 Stepped down from the Board on 30th June 2009.
6 Benefits in kind, which *excludes* pension provision, is comprised of private medical cover and company car.
7 As a result of Underlying Operating Profit performance for 2010, the bonus award for 2010 was calculated as being 97.5% of base salary.

No termination payments or payments in lieu of notice were paid to those Directors who stepped down from the Board during 2010 or 2009.

Pension Contributions

Details of LSL's contributions to a money purchase scheme for each Executive Director who served on the Board during the year and Paul Latham are as follows:

Name	**2010 £**	2009 £
Steve Cooke	**5,500**	–
Simon Embley	**12,500**	2,250
Dean Fielding[1]	**4,125**	1,563
Paul Latham	**3,438**	7,250
David Newnes	**4,083**	–
Alison Traversoni	**4,813**	–

1 To 1st July 2010.

Incentive Awards

As at 31st December 2010, Executive Directors' interests under the JSOP awards were as follows:

	Date of grant	Share price on grant (pence)	As at 1st January 2010	Awards granted*	Awards vested	As at 31st December 2010	Exercise/Release Period
Steve Cooke	24th August 2010	248.75	–	70,764	–	70,764	24th August 2013 to 24th August 2020
Simon Embley	1st June 2010	271	–	167,857	–	167,857	1st June 2013 to 1st June 2020
David Newnes	1st June 2010	271	–	39,286	–	39,286	1st June 2013 to 1st June 2020
Alison Traversoni	1st June 2010	271	–	39,286	–	39,286	1st June 2013 to 1st June 2020

* In respect of the above JSOP awards granted in 2010, Executive Directors have entered into a co-ownership agreement with the Trustees of the Trust. Under the terms of the agreement, the participant has the right to receive a proportion of the sale proceeds so far as the value exceeds £3.20 per share (an "Interest") and a share appreciation ("SAR") right entitles individuals to any growth in the value of LSL's share price from £2.80 (£2.68 for Steve Cooke whose awards were granted at a later date) to £3.20 to the extent that performance targets and a continued service requirement are both met.

Performance targets attached to the JSOP awards granted in 2010 are set out in the policy section of this Directors' Remuneration Report at page 34.

The Ordinary Share mid-market price ranged from 212.50p to 307.00p and averaged 256.23p during 2010. The price on 31st December 2010 was 264.75p compared to 258.00p on 1st January 2010.

Options granted to Executive Directors to acquire Ordinary Shares in LSL are as follows:

	Award Type	Date of grant	Share price on grant	Exercise price	**As at 1st January 2010**	Awards granted	Awards lapsed	Awards exercised	Awards vested	**As at 31st December 2010**	Exercise Period
Steve Cooke	CSOP	24th August 2010	248.75p	252p	**–**	11,870	–	–	–	**11,870**	24th August 2010 to 24th August 2020
Simon Embley	SAYE	1st May 2008	110p	115p	**8,311**	–	–	–	–	**8,311**	1st May 2008 to 1st May 2011
	CSOP	11th June 2010	237.5p	240p	**–**	12,500	–	–	–	**12,500**	11th June 2010 to 1st June 2020
David Newnes	CSOP	11th June 2010	237.5p	240p	**–**	12,500	–	–	–	**12,500**	11th June 2010 to 11th June 2020
Alison Traversoni	SAYE	1st May 2008	110p	115p	**8,311**	–	–	–	–	**8,311**	1st May 2008 to 1st May 2011
	CSOP	11th June 2010	237.5p	240p	**–**	12,500	–	–	–	**12,500**	11th June 2010 to 11th June 2020

The Ordinary Share mid-market price ranged from 212.50p to 307.00p and averaged 256.23p during 2010. The price on 31st December 2010 was 264.75p compared to 258.00p on 1st January 2010.

Directors' Remuneration Report Continued

Interests in shares

The interests of the Directors in the shares of LSL at the beginning of the financial period, or their date of appointment if later, and at the end of the financial period are set out below:

Name	Shares at 1st January 2010	% of Issued share capital	Shares at 31st December 2010	% of Issued share capital
Steve Cooke	–	–	–	–
Simon Embley	**9,930,500**	9.53%	**9,930,500**	9.53%
Paul Latham[1]	**6,893,750**	6.63%	**3,893,750**	3.74%
Roger Matthews[2]	**86,882**	0.08%	**86,882**	0.08%
Mark Morris	**53,972**	0.05%	**53,972**	0.05%
David Newnes	**5,569,250**	5.35%	**5,569,250**	5.35%
Mark Pain	–	–	–	–
Alison Traversoni[3]	**607,155**	0.58%	**607,827**	0.58%

1 Paul Latham's holding includes shares acquired by his children.
2 Roger Matthews holding includes shares held by his wife.
3 Alison Traversoni's holding Includes shares held in LSL' BAYE/SIP (at 31st December 2009, this amounted to 3,008 and as at 31st December 2010 it was 3,680). The shares were purchased by the Trust at the prevailing market value and are held for up to 5 years.

In addition to the above, Simon Embley, Alison Traversoni and Paul Latham each acquired an option in April 2008 to acquire 8,311 Ordinary Shares each in 2011 at a price of £1.15 per share as part of LSL's 2008 SAYE, which matures in May 2011.

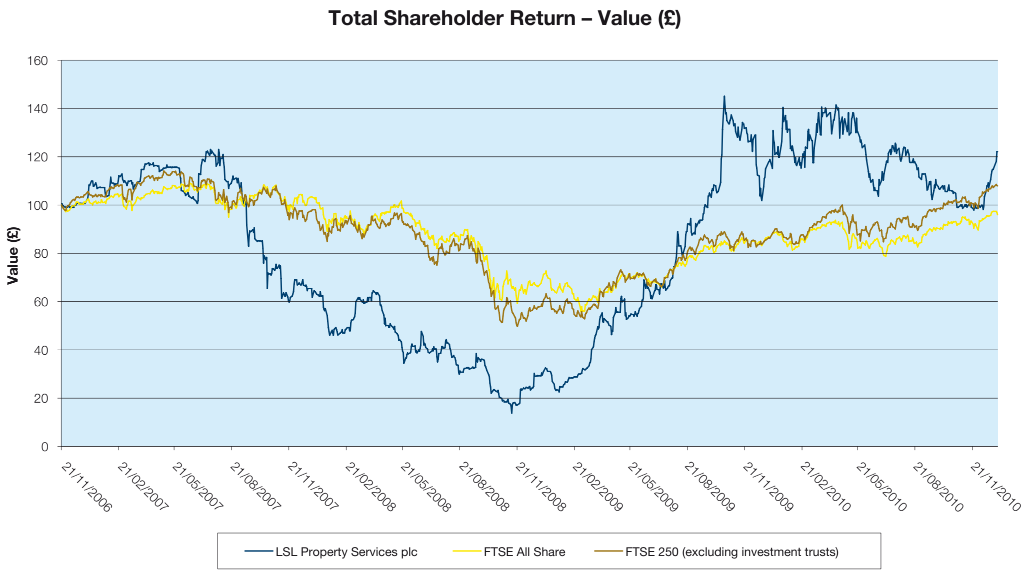
All the interests detailed above are beneficial. Apart from the interests disclosed above no Directors were interested at any time in the year in the share capital of any other Group company. There have been no other changes in the interests set out above between 31st December 2010 and the date of this Report.

Performance graph

This graph shows the value, by the end of December 2010, of £100 invested in LSL compared with the value of £100 vested in the both the FTSE All Share Index and the FTSE 250 (excluding investment trusts). These indices have been chosen because the FTSE 250 supports the JSOP TSR (referred to above) and the All Share Index is a sufficiently broad market index which is most comparable to LSL.

The mid market price of LSL shares in the year ranged from 212.50p to 307.00p and averaged 256.23p during 2010.

The price on 31st December 2010 was 264.75p compared to 258.00p on 1st January 2010.



Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary
2nd March 2011

Corporate Social Responsibility

The Board has overall responsibility for establishing the Group's Corporate Social Responsibility (CSR) statement and associated policies with Alison Traversoni, Executive Director – Surveying, taking individual responsibility for the creation, operation and implementation of the Group's CSR statement and strategy.

LSL believes that it is necessary to support responsibly-grounded business decision-making, to considers the broad impact of corporate actions on people, communities, and the environment. The growing awareness of and attention to social responsibility issues has many benefits for corporations such as LSL and by way of this statement, LSL recognises that its employees are central to the Group meeting its CSR and Environmental objectives. Guidelines are communicated to employees at regular intervals through bulletins, intranet sites and notice boards as appropriate.

LSL's focus is on actions that the Group can take over and above its legal requirements to address its competitive interests of the wider society and underpins all other internal policies that the Group adheres to. LSL actively ensures that its businesses are compliant and proactive in respect of legislation, in accordance with its employees, customers, suppliers and other stakeholders interests.

LSL believes that the objective of providing goods and services needed or desired by members of society while returning a profit to shareholders can be – and should be – fully compatible with addressing social responsibility concerns and vice versa. For example, LSL's environmental policy and performance demonstrates its commitment to the reduction of energy consumption and the positive impact that this has had both on the environment and in terms of cost reduction to the Groups' businesses.

The Board recognises that it is important that Group Companies operate in a responsible way. LSL's stakeholders expect LSL to take issues into account and LSL in turn has a duty to demonstrate to them how it is living up to this expectation. This can often mean balancing competing demands, which are placed on LSL as a public company and as a property services group.

This section of the Report details how LSL seeks to manage these interests.

LSL's objectives extend to its relationships with customers and suppliers, and all Group Companies will seek to be honest and fair in these relationships. Further, ethics, hospitality and conflicts policies are in place to govern these relationships.

The LSL Board takes account of the significance of environmental, social and governance ("ESG") matters in its decision making. The Board has identified the significant ESG risks to LSL's short and long term value, as well as the opportunities to enhance value that may arise from an appropriate response. The Board has ensured that LSL has in place effective systems for managing and mitigating significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives.

1. Our People

LSL recognise that our people are a valuable asset and we are committed to providing a working environment in which our employees can develop to achieve their full potential with opportunities for both professional and personal development. By creating such an environment, LSL believe that this will enable the retention and recruitment of the right people to work at every level throughout the Group. An essential part of this strategy is to encourage and promote effective communication with all employees, which also ensure that LSL, in its decision-making, takes into account its employees views.

2. Our Approach

LSL's aim is to be recognised by existing and potential future employees as a responsible employer that values its people and the contribution they make both in the business and in the wider community. LSL recognises that its market leading positions in Surveying and Estate Agency are achieved by the quality and service provided by our employees. Our employees are our key differentiator and it is this principle that guides our decision making on how we approach the management of our people.

Despite the continuing economic challenges, the Group has maintained its commitment to bring in, develop and invest, where necessary, new skills. Our approach is to prioritise learning and development to strengthen the business further and to ensure its continued success. For example, during 2010, e.surv Chartered Surveyors partnered with the Mitre Group, one of the UK's leading skills development organisations. As a result, 128 members of staff were trained to NVQ1, 2 and 3 levels across a range of programmes including customer service, sales, leadership and management. The programme continues into 2011 with 87 on-going NVQs and apprenticeships underway.

Further, during 2010, e.surv Chartered Surveyors achieved reaccreditation of the Investors In People award for its Head Office location in Kettering.

3. Communication

LSL ensures that employees are kept informed of Group affairs via information distributed by post, e-mail, handbooks or the various intranet sites. Group employees are encouraged to discuss strategic, operational and business issues within their teams and with their management.

Feedback is regularly encouraged from employees, with some parts of the business operating annual Employee Opinion Surveys. The Board values the employee feedback and it supports the promotion of such arrangements across all Group companies. In addition, on strategic matters, LSL recognises and consults Unite.

In 2010, e.surv Chartered Surveyors entered The Sunday Times, "Top 100 Companies to Work For" competition for the first time and have successfully achieved the Best Companies "One to Watch" status for 2011.

In relation to its customers, all businesses regularly seek feedback from customers. This feedback is obtained in a range of ways, including relationship management meetings, formal questionnaires and mystery shopping exercises. This feedback is taken into account in our decision making process and in particular in the development of our services to customers.

4. Equal Opportunities

LSL promotes equal opportunities in employment, recognising that equality and diversity is a vital part in its success and growth. Our recruitment, training and selection processes seek to appoint the best candidates based on suitability for the job and to treat all

Corporate Social Responsibility Continued

employees and applicants fairly regardless of race, sex, marital status, nationality, ethnic origin, age, disability, religious belief or sexual orientation, and to ensure that no individuals suffers harassment or intimidation.

LSL's objective is that where appropriate, upon employment reasonable adjustments are made to accommodate disabled persons wherever the requirements of the organisation will allow and if applications for employment are received from suitable individuals. If existing employees become disabled every reasonable effort is also made to ensure that their employment with LSL can continue on a worthwhile basis with career opportunities available to them.

Specific employment policies exist which employees are required to observe and over which the Group Chief Executive Officer has overall responsibility. Compliance with legislation and Group policies is audited by the Group's Internal Audit team with regular reporting to the Board, which includes indicators such as staff turnover.

Employee Key Performance Indicators

The Group uses a number of key performance indicators to measure its progress during the year, including employee turnover and the makeup of its workforce by gender.

	2010	2009	2008
Total Employees at (31/12)	**4490**	3287	2806
Total Employee turnover percentage (%)*	**28.5**	19.3	24.2

* Data excludes forced leavers.

Breakdown by Gender	2010	2009	2008
Male	**1838**	1389	1145
Female	**2652**	1898	1661

Employee Training:

LSL's businesses place strong emphasis on the quality of service they provide to customers with employees (and where appropriate consultants) undergoing appropriate training, for example:

Surveying:

In addition to the training initiative undertaken with Mitre, and described at paragraph 2 above, all surveyors receive continuing professional development through a variety of methods ranging from distance learning, regional workshops and an annual conference.

Estate Agency and Related Services:

Within the Estate Agency branches, employees adhere to the Code of Practice for Residential Estate Agents, which has been approved by the Office of Fair Trading and exceeds the legal requirements of the Consumers, Estate Agents and Redress Act 2007 (CEARA). All branch based employees of the Estate Agency business complete a specially designed training programme and the quality of service is monitored on a monthly basis.

The financial services business also places strong emphasis on the quality of service it provides to customers and all advisers complete a specially designed comprehensive training programme which is supplemented by effective supervision, regular monitoring and regular refresher training sessions.

During 2010, the Group training expenditure was:

Division	Expenditure:
Surveying and Valuation Services	£109,980
Estate Agency and Related Services	£963,531
Total Expenditure	£1,183,491

This includes in house training costs of £336,665.

5. Health, Safety & Welfare

LSL places great importance on the health, safety and welfare of its employees. Policies, Group standards and procedures are in place, which aim to identify and remove any hazardous areas, reduce material risks of fire and accidents or injuries to employees and visitors and, in conjunction with its HR policies, manage workplace stress levels.

To this end, LSL makes every reasonable effort to provide safe and healthy working conditions in all offices and branches. Similarly, it is the duty of all employees to exercise responsibility and to do everything to prevent injury to themselves and to others.

Separate Health & Safety policies exist which employees are required to observe and over which Steve Cooke, the Group Finance Director has overall responsibility. Compliance with legislation and Group policies is audited by the Group's Internal Audit team with regular reporting to the Board, which includes indicators such as accident numbers.

6. Environmental issues

LSL recognise that the environment has an intrinsic value, is central to the quality of life and underpins economic development.

LSL's 'green' priorities are to:

- Improve energy efficiency and to reduce energy usage
- Reduce waste and increase recycling
- Reduce CO_2 transport generated emissions

LSL understands that its stakeholders are interested in how it manages its impact on the environment and how it is performing. Further, stakeholders may also provide LSL with views and opinions which can strengthen LSL's approach to environmental management.

Group companies will assess and manage the environmental impact of their operations to ensure that LSL is an active participant in the sustainable society and the LSL Board will receive regular reports to enable it to monitor progress.

Environmental initiatives include:

- Recycling
- Power saving
- Avoid printing
- Remote meetings

During 2010 and going forward into 2011, an environmental awareness campaign is in place. Further, environmentally sensitive disposal arrangements have been put in place for the destruction of office waste, such as paper and toners. In 2010, e.surv Chartered Surveyor participated in the 'Shred-it' shredding and recycling program and saved 63.9 trees in doing so.

We have also continued to build on the work stated in 2009 with The Carbon Trust to help create a sustainable future by reducing the businesses impact on the environment in line with our green priorities.

Across the Group recycling schemes have been put in place with Iron Mountain, which delivered the following benefits in 2010:

- 79 cubic metre landfill reduction
- 654 trees saved
- 37,000 kilos of recycled paper produced

While LSL recognises that there are other environmental impacts, in adopting targets consideration is given to their application to our business. For example, in relation to water, LSL is not a major consumer of water and our direct water consumption is small. However, whilst we do not report on consumption, we do recognise that it is a natural resource and we are working on minimising its use.

Set out in the table below is a list of opportunities to support our green priorities together with progress achieved during the year:

2010 Initiatives (Introduced and Maintained)	Status	Progress
Monitoring of Group energy consumption and the appointment of energy champions across the Group.	✔	Benchmark data reported against which targets can be set.
Lighting initiatives, which include the replacement of lighting with low energy efficient alternatives and the implementation of a "switch it off" campaign.	✔	As part of the Estate Agency refurbishment programme, the branch refurbishments have incorporated low energy lighting installations (as at 31st December 2010 work completed at 165 branches). Energy consumption at the Surveying Divisions Head Office has dropped by 15% saving £8,500. This reduction was achieved by switching printers and PC's off overnight; installing timers on drinks machines; air conditioning turned off in favour of natural ventilation and turned off overnight and at weekends. PIR lighting sensors installed.
Installation of timer plugs on drinks machines.	✔	In place at Surveying Division Head Office and processing sites. Plans in place to introduce to other Head Office sites.
Introduction of LSL environmental logo.	✔	The "Be Green" logo has been designed and communicated to all Group companies for use on all marketing material.
Reduction in the use of paper by reducing the printing of emails and promoting double sided photocopying.	✔	"Think before you print" appended to all Group email footers. Continued investment in electronic record keeping avoiding the need to maintain paper files. Where facilities exist, double sided copying is promoted and used.
Emailing customers.	✔	Estate Agency branches email property particulars and other communications to customer instead of posting. By communicating with customers via email, our lettings branches estimate saving 360 reams of paper in 2010.
Work flow management system introduced.	✔	The introduction of the system into the Surveying Division is estimated to have saved 1500 reams per annum.
Improved choice of low emission cars on company car fleet.	✔	For 2011 there are more low emission cars available to company car drivers. For 2010 the car list had an average CO_2 g/km of 152.3. In 2011 there has been a 11.2% improvement with the car list averaging 135.3 CO_2 g/km. The car fleet in 2009 produced emissions of 155.4 CO_2 g/km; in 2010 this reduced to 148.7 CO_2 g/km.
Encourage recycling of paper.	✔	Across the Group, desk based bins are being discouraged with centrally placed bins placed for the disposal of waste. Further, employees are encouraged to use non-sensitive scrap paper as note paper.

Corporate Social Responsibility Continued

The Group's Environmental Policy is contained within the CSR Policy, which Alison Traversoni, Executive Director – Surveying, has overall responsibility for. Compliance with the CSR is audited by the Group's Internal Audit team with regular reporting to the Board.

7. Social and Community interests (including Social and Ethical Issues)

Each Group Company aims to be sensitive to the local community's cultural, social and economic needs. This includes from time to time, making donations and supporting local and national charities and fundraising events.

Charitable Donations:

a. Workplace Giving:

LSL has implemented the 'Workplace Giving' initiative and all Group employees have been invited to participate. The initiative was launched in October 2010 and since its launch over £3,400 a year has been donated to a range of charities from over 100 employees.

Working with professional fundraising organisations, Workplace Giving UK makes it possible for employees to make regular donations via the payroll system to a charity or charities of their choice on a tax free basis. The tax free element means that the charity benefits on receiving a higher amount.

Further information can be found at:
www.workplacegiving.co.uk/giving

b. The Estate Agency Foundation (www.eafcharity.org):

LSL's Estate Agency Division continues to support the Estate Agency Foundation (EAF) as its employee nominated charity. The EAF supports several registered charities whose collective aim is to eliminate the causes of homelessness. These include:

- Help For Heroes (www.helpforheroes.org.uk)
- Emmaus (www.emmaus.org.uk)
- YMCA (www.ymca.org.uk)
- Crisis (www.crisis.org.uk)
- Cyrenians (www.cyrenians.org.uk)
- Barnardos (www.barnardos.org.uk)
- Shelter (www.shelter.org.uk)
- Centre Point (www.centrepoint.org.uk)
- St Mungos (www.mungos.org.uk)
- The Salvation Army (www.salvationarmy.org.uk)
- Broadway (www.broadwaylondon.org.uk)

The EAF was chosen due to its direct connection with property and estate agency. It brings together estate agents from all over the country with the hope that by using their collective fundraising skills, the EAF will make a significant contribution to communities.

c. Surveying

Within the Surveying Division, the nominated charity of e.surv Chartered Surveyors is Cransley Hospice, a hospice for terminally ill patients in Kettering. Annual national fundraising events also support initiatives such as Children in Need and Jeans for Genes.

Financial Statements

In this section

Independent Auditor's Report to the Members of LSL Property Services plc

We have audited the Group financial statements of LSL Property Services plc for the year ended 31st December 2010 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Cash Flows, the Group Statement of Changes in Equity and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 26, the Directors are responsible for the preparation of the Group 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 Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 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.

Opinion on financial statements

In our opinion the Group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31st December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Report set out on pages 30 to 33 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a Corporate Governance Statement has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the June 2008 Combined Code specified for our review; and
- certain elements of the report to shareholders by the Board on Directors' remuneration.

Other matter

We have reported separately on the Parent Company financial statements of LSL Property Services plc for the year ended 31st December 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Stuart Watson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
2nd March 2011

Group Income Statement

for the year ended 31st December 2010

	Note	2010 £'000	2009 £'000
Revenue	3	**206,607**	157,703
Operating expenses:			
Employee and subcontractor costs	12	**(115,763)**	(80,100)
Establishment costs		**(14,891)**	(10,991)
Depreciation on property, plant and equipment	15	**(1,748)**	(1,407)
Other		**(43,960)**	(37,374)
		(176,362)	(129,872)
Rental income		**1,690**	488
Group operating profit before exceptional costs, amortisation and share-based payments		**31,935**	28,319
Share-based payments	12	**(298)**	(532)
Amortisation of intangible assets	14	**(8,077)**	(8,635)
Exceptional profit/(loss)	7	**12,189**	(400)
Gain on sale of available-for-sale financial assets		**3,923**	–
Group operating profit	4	**39,672**	18,752
Dividend income		**516**	24
Finance income	5	**5**	54
Finance costs	6	**(2,228)**	(2,221)
Exceptional finance costs	7	**(2,007)**	–
Net financial costs		**(3,714)**	(2,143)
Profit before tax	8	**35,958**	16,609
Taxation	13		
– related to exceptional costs		**4,911**	112
– others		**(6,334)**	(4,974)
		(1,423)	(4,862)
Profit for the year		**34,535**	11,747
Attributable to			
– Owners of the parent		**34,500**	11,747
– Non-controlling interest		**35**	–
Earnings per share expressed in pence per share:			
Basic	10	**33.6**	11.4
Diluted	10	**33.4**	11.4

Group Statement of Comprehensive Income

for the year ended 31st December 2010

	Note	2010 £'000	2009 £'000
Profit for the year		**34,535**	11,747
Recycling of unrealised gains reserve		**(3,900)**	–
Net deficit on cash flow hedge		**–**	(87)
Recycling of cash flow hedge		**87**	–
Income tax effect	13	**(24)**	24
		63	(63)
Other comprehensive loss for the year, net of tax		**(3,837)**	(63)
Total comprehensive income for the year, net of tax		**30,698**	11,684
Attributable to			
– Owners of the parent		**30,663**	11,684
– Non-controlling interest		**35**	–

Group Balance Sheet

as at 31st December 2010

	Note	2010 £'000	2009 £'000
Non-current assets			
Goodwill	14	**74,742**	66,472
Other intangible assets	14	**17,613**	22,895
Property, plant and equipment	15	**13,850**	2,077
Financial assets	16	**1,097**	4,052
Deferred tax asset	13	**–**	621
Total non-current assets		**107,302**	96,117
Current assets			
Trade and other receivables	17	**25,136**	20,052
Cash and cash equivalents	18	**338**	858
Total current assets		**25,474**	20,910
Total assets		**132,776**	117,027
Current liabilities			
Financial liabilities	20	**(92)**	(993)
Trade and other payables	19	**(45,085)**	(33,209)
Current tax liabilities		**(258)**	(2,183)
Provisions for liabilities and charges	21	**(584)**	(748)
Total current liabilities		**(46,019)**	(37,133)
Non-current liabilities			
Financial liabilities	20	**(5,155)**	(25,573)
Trade and other payables	19	**–**	(27)
Deferred tax liability	13	**(2,183)**	–
Provisions for liabilities and charges	21	**(11,309)**	(8,437)
Total non-current liabilities		**(18,647)**	(34,037)
Net assets		**68,110**	45,857
Equity			
Share capital	23	**208**	208
Share premium account	24	**5,629**	5,629
Share-based payment reserve	24	**1,014**	2,259
Treasury shares	24	**(3,139)**	(2,805)
Unrealised gain reserve	24	**–**	3,900
Hedging reserve	24	**–**	(63)
Retained earnings		**64,363**	36,729
Equity attributable to owners of parent		**68,075**	45,857
Non-controlling interests		**35**	–
Total equity		**68,110**	45,857

The Financial Statements were approved by the Board on 2nd March 2011 and were signed on its behalf by:

Steve Cooke
Group Finance Director

Simon Embley
Group Chief Executive Officer

Group Statement of Cash Flows

for the year ended 31st December 2010

	Note	31st December 2010 £'000	31st December 2010 £'000	31st December 2009 £'000	31st December 2009 £'000
Cash generated from operating activities					
Profit before tax			**35,958**		16,609
Adjustments to reconcile profit before tax to net cash inflows from operating activities					
Negative goodwill	7	**(29,825)**		–	
Exceptional operating costs (excluding negative goodwill and share-based payments)		**17,636**		358	
Gain on sale of available-for-sale financial asset		**(3,923)**		–	
Amortisation of intangible assets	14	**8,077**		8,635	
Dividend income		**(516)**		(24)	
Finance income	5	**(5)**		(54)	
Finance costs	6	**2,228**		2,221	
Exceptional finance costs	7	**2,007**		–	
Share-based payments	12	**298**		574	
			(4,023)		11,710
Group operating profit before amortisation and share-based payments			**31,935**		28,319
Depreciation	15	**1,748**		1,407	
Gain on sale of property, plant and equipment	8	**(17)**		6	
			1,731		1,413
Decrease/(increase) in trade and other receivables		**4,679**		(6,128)	
(Decrease)/increase in trade and other payables and provisions		**(2,675)**		7,233	
			2,004		1,105
Cash generated from operations pre exceptional costs			**35,670**		30,837
Exceptional operating costs paid		**(17,636)**		(232)	
Exceptional finance costs paid		**(924)**	**(18,560)**	–	(232)
Cash generated from operations			**17,110**		30,605
Interest paid		**(1,957)**		(2,397)	
Tax paid		**(3,485)**		(3,578)	
			(5,442)		(5,975)
Net cash generated from operating activities			**11,668**		24,630
Cash flows from investing activities					
Cash acquired on purchase of subsidiary undertaking	26	**25,946**		–	
Purchase of subsidiary undertakings		**(3,742)**		(150)	
Dividends received		**516**		54	
Interest received	5	**5**		24	
Purchase of property, plant and equipment	15	**(4,982)**		(662)	
Proceeds from sale of property, plant and equipment		**738**		13	
Purchase of available-for-sale financial assets		**(195)**		–	
Proceeds from sale of available-for-sale financial asset		**1,961**		–	
Net cash generated from/(expended on) investing activities			**20,247**		(721)
Cash flows from financing activities					
Repayment of loans		**(23,692)**		(23,698)	
Purchase of treasury shares (net of consideration received on reissue of treasury shares)		**(597)**		–	
Dividends paid		**(8,146)**		–	
Net cash used in financing activities			**(32,435)**		(23,698)
Net (decrease)/increase in cash and cash equivalents			**(520)**		211
Cash and cash equivalents at the beginning of the year			**858**		647
Cash and cash equivalents at the end of the year	18		**338**		858

Group Statement of Changes in Equity

for the year ended 31st December 2010

Year ended 31st December 2010

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Treasury shares £'000	Unrealised gains reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000	Minority interest £'000	Total £'000
At 1st January 2010	**208**	**5,629**	**2,259**	**(2,805)**	**3,900**	**(63)**	**36,729**	**45,857**	**–**	**45,857**
Profit for the year	–	–	–	–	–	–	34,500	34,500	35	34,535
Other comprehensive income	–	–	–	–	(3,900)	63	–	(3,837)	–	(3,837)
Total comprehensive income	**208**	**5,629**	**2,259**	**(2,805)**	**–**	**–**	**71,229**	**76,520**	**35**	**76,555**
Purchase of treasury shares	–	–	–	(1,007)	–	–	–	(1,007)	–	(1,007)
Reissuance of treasury shares	–	–	(1,543)	673	–	–	1,280	410	–	410
Share-based payments	–	–	298	–	–	–	–	298	–	298
Dividend payment	–	–	–	–	–	–	(8,146)	(8,146)	–	(8,146)
At 31st December 2010	**208**	**5,629**	**1,014**	**(3,139)**	**–**	**–**	**64,363**	**68,075**	**35**	**68,110**

Year ended 31st December 2009

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Treasury shares £'000	Unrealised gains reserve £'000	Hedging reserve £'000	Retained earnings £'000	Total equity £'000	Minority interest £'000	Total £'000
At 1st January 2009	208	5,629	531	(2,934)	3,900	–	26,395	33,729	–	33,729
Change in accounting policy (note 2)	–	–	1,413	–	–	–	(1,413)	–	–	–
Restated balance	208	5,629	1,944	(2,934)	3,900	–	24,982	33,729	–	33,729
Profit for the year	–	–	–	–	–	–	11,747	11,747	–	11,747
Other comprehensive loss	–	–	–	–	–	(63)	–	(63)	–	(63)
Total comprehensive income	208	5,629	1,944	(2,934)	3,900	(63)	36,729	45,413	–	45,413
Reissuance of treasury shares	–	–	(109)	129	–	–	–	20	–	20
Share-based payments	–	–	424	–	–	–	–	424	–	424
At 31st December 2009	208	5,629	2,259	(2,805)	3,900	(63)	36,729	45,857	–	45,857

Notes to the Group Financial Statements

for the year ended 31st December 2010

1. Authorisation of Financial Statements and statement of compliance with IFRSs

The Group Financial Statements of LSL and its subsidiaries for the year ended 31st December 2010 were authorised for issue by the Board of the Directors on 2nd March 2011 and the balance sheet was signed on the Board's behalf by Simon Embley and Steve Cooke. LSL is a listed company incorporated and domiciled in England & Wales and the Group operates a network of estate agencies, surveying and valuation businesses and other related businesses.

The Group's Financial Statements have been prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

2. Accounting policies

Basis of preparation of financial information

The Group Financial Statements have been prepared on a historical cost basis, except for, derivative financial instruments and available-for-sale investments that have been measured at fair value.

The accounting policies which follow set out those significant policies which apply in preparing the Financial Statements for the year ended 31st December 2010. The Group's Financial Statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of new Standards and Interpretations as of 1st January 2010 which are applicable to the Group, as noted below:

The Group treated the employees' withdrawal from the SAYE schemes as cancellation, which resulted in acceleration of the charge because the withdrawal is under the control of the employees. In 2009 the adoption of this amendment had the effect of increasing the loss by £1,413,000 for the year ended 31st December 2008, with the corresponding impact on equity. There is no impact on the Financial Statements as of 1st January 2008.

IFRS 3 (revised) Business Combinations

The amendment to IFRS 3 changes the treatment of acquisition-related costs and contingent consideration relating to acquisitions after 1st January 2010. The standard also changes the treatment of non-controlling interests (formerly minority interests) with an option to recognise these at full fair value as at the acquisition date and a requirement for previously held non-controlling interests to be fair valued as at the date control is obtained, with gains and losses recognised in the income statement.

Some of the key features of the revised IFRS 3 include:

- acquisition-related costs to be expensed and not included in the purchase price;
- contingent consideration to be recognised at fair value on the acquisition date (with subsequent changes recognised in the income statement and not as a change to goodwill); and
- changes to the accounting treatment of step acquisitions.

Revised IFRS 3 applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July 2009.

The Group treated the acquisition-related costs in respect of acquisitions made in the year ended 31st December 2010 as exceptional costs and these were expensed to the income statement.

IAS 27R Consolidated and Separate Financial Statements

The revision to this Standard requires the Group to attribute losses to non-controlling interests even if this results in the non-controlling interest having a deficit balance. This change is applicable prospectively and the controlling shareholder will not be able to recover any past losses absorbed under the old rules.

The revision of the Standard had no material effect on the results for the year ended 31st December 2010.

The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged items.
- IFRIC 12 Service Concession Arrangements.
- IFRIC 15 Agreements for the Construction of Real Estate.
- IFRIC 17 Distribution of Non-cash Assets to Owners.
- IFRIC 18 Transfers of Assets from Customers.
- Improvements to IFRSs (issued 2009).

2. Accounting policies continued

Judgements and estimates

The preparation of financial information in conformity with IFRS as adopted by European Union requires management to make judgements, estimates and assumptions that affect the application of policies and reporting amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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 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 year are discussed below.

Impairment of intangible assets

The measurement of intangible assets other than goodwill on a business combination involves estimation of future cash flows and the selection of a suitable discount rate. The Group determines whether indefinite life intangible assets (including goodwill) are impaired on an annual basis and this requires an estimation of the value-in-use of the cash generating units to which the intangible assets are allocated. This involves estimation of future cash flows and choosing a suitable discount rate (see note 14).

Professional indemnity claim

Other areas of significant judgement include provisioning for professional indemnity claims. Details of key assumptions in these areas are disclosed in notes 20 and 21 to these Financial Statements.

Basis of consolidation

From 1st January 2010

Subsidiaries:

Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases. Control comprises the power to govern the financial and operating policies of the investee so as to obtain benefit from its activities and is achieved through direct or indirect ownership of its voting rights; currently exercisable or convertible potential voting rights; or by way of contractual agreement. The Financial Statements of subsidiaries used in the preparation of the consolidated Financial Statements are prepared on the same reporting year as the Parent Company and are based on consistent accounting policies. All intra-Group balances and transactions, including unrealised profits arising from them, are eliminated in full.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary: (i) it derecognises the assets (including goodwill) and the liabilities of the subsidiary; (ii) derecognises the carrying amount of any non-controlling interest; (iii) derecognises the cumulative translation differences, recorded in equity; (iv) recognises the fair value of the consideration received; (v) recognises the fair value of any investment retained; (vi) recognises any surplus or deficit in profit or loss; (vii) reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

Non-controlling interest:

Non-controlling interest represent the equity in a subsidiary not attributable directly and indirectly, to the Parent Company and is presented separately within equity in the consolidated balance sheet, separately from equity attributable to owners of the parent. Losses within a subsidiary are attributed to the non-controlling interest even if it results in a deficit balance.

Basis of consolidation prior to 1st January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

Non-controlling interest represent the portion of profit or loss and net assets in subsidiaries that is not held by the Group and is presented separately within equity in the consolidated balance sheet, separately from parent shareholder's equity.

Acquisitions of non-controlling interests, prior to 1st January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non controlling interest had a binding obligation to cover these. Losses prior to 1st January 2010 were not reallocated between non-controlling interest and the parent shareholders.

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

2. Accounting policies continued

Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1st January 2010 has not been restated.

The purchase method of accounting is used for all acquisitions of subsidiaries. All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

Intangible assets

Business combinations and goodwill

Business combinations from 1st January 2010

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets, meeting either the contractual-legal or separability criterion are recognised separately from goodwill.

If the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) is lower than the fair value of the assets, liabilities and contingent liabilities and the fair value of any pre-existing interest held in the business acquired, the difference is recognised in profit and loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (or Groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or Group of units to which goodwill is allocated shall represent the lowest level within the entity at which the goodwill is monitored for internal management purposes and not be larger than an operating segment before aggregation.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Business combinations prior to 1st January 2010

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The minority interest is accounted for using the parent entity extension method, whereby the difference between the consideration paid and the book value of the share in net assets acquired is recognised in goodwill. Goodwill is initially measured at cost being the excess of the cost of business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. If the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, the difference is recognised in profit and loss. Goodwill recognised as an asset as at 31st December 2003 is recorded at its carrying amount under UKGAAP and is not amortised. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying amount being reviewed for impairment at least annually and whenever events of changes in circumstances indicate that the carrying value maybe impaired.

The carrying amount of goodwill allocated to cash generating units is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

2. Accounting policies continued

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

Business combinations on or after 1st July 2004 are accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement. Goodwill recognised as an asset as at 1st July 2004 is recorded at its carrying amount under UK GAAP and is not amortised.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. A previously recognised impairment loss with respect to goodwill is not reversed in later years.

For the purpose of impairment testing, goodwill is allocated to the related cash generating units monitored by management, usually at business segment level or statutory company level as the case may be. Where the recoverable amount of the cash generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it.

Other intangible assets

Intangible assets other than goodwill that are acquired separately are measured at cost on initial recognition. Following the initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level and are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Amortisation

Amortisation is charged to the income statement on a straight line basis over the estimated useful lives of intangible assets unless such lives are indefinite as follows:

Customer contracts:	
Estate agency customer contracts	– three to ten years
Surveying customer contracts	– between three and five years
General insurance renewal:	
Commission contracts	– between six and seven and a half years
Lettings contracts	– 15 months
Order book:	
Estate agency pipeline	– six months
Surveying pipeline	– one week
Estate agency register	– twelve months
Others:	
Franchise agreements	– ten years
In-house software	– three years

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

2. Accounting policies continued

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Brand names are not amortised as the Directors are of the opinion that they have an indefinite useful life. This is based on the expectation of the Directors that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the businesses and the Directors are confident that trademark registration renewals will be filed at the appropriate time and sufficient investment will be made in terms of marketing and communication to maintain the value inherent in the brand.

The carrying value of intangible assets with indefinite useful life is reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

Impairment

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the assets' or cash generating unit's recoverable amount.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided to write off cost less the estimated residual value of property, plant and equipment by equal annual instalments over their estimated useful economic lives as follows:

Office equipment, fixtures and fittings	– over three to seven years
Computer equipment	– over three to four years
Motor vehicles	– over three to four years
Leasehold improvements	– over the shorter of the lease term or ten years
Freehold & long leasehold property	– over 50 years or the lease term whichever is shorter

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

These assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Dividends

Equity dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, this is when declared by the Directors and paid. In the case of final dividends, this is when approved by the shareholders at the Annual General Meeting.

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Management periodically evaluates positions taken in the tax returns with respect to the situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

2. Accounting policies continued

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting period and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment.

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Share-based payment transactions

Equity-settled transactions

The equity share option programmes allow Group employees to acquire shares of the Company. The fair value of the options granted is recognised as an employee expense with a corresponding increase in equity in case of equity-settled schemes. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes model, taking into account the terms and conditions upon which the options were granted. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-market vested condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details given in note 10).

Cash-settled transactions

The Group has issued shares in a subsidiary company to the management of that company with restrictions on transferability. The Group has a call option on these shares and these shares are considered as a cash-settled share scheme. The liability under the call option is measured at its fair value. Fair value is established initially at the grant date and at each balance sheet date thereafter until the awards are settled. During the vesting period a liability is recognised representing the product of the fair value of the award and the portion of the vesting period expired as at the balance sheet date. From the end of the vesting period until settlement, the liability represents the full fair value of the award as at the balance sheet date. Changes in the carrying amount of the liability are recognised in profit or loss for the year.

Treasury shares

The Group has an employee share trust (ESOT) and an employee benefit trust (EBT) for the granting of Group shares to executives and senior employees. Shares in the Group held by the Trusts are treated as treasury shares and presented in the balance sheet as a deduction from equity. No gain or loss is recognised in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. The finance costs and administration costs relating to the trusts are charged to the income statement. Dividends earned on shares held in the trusts have been waived. The shares are ignored for the purposes of calculating the Group's EPS.

Leases

Group as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged in the income statement on a straight line basis over the lease term.

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

2. Accounting policies continued

Group as a lessor

Assets leased out under operating leases are included in property, plant and equipment and depreciated over their estimated useful lives. Rental income, including the effect of lease incentives, is recognised on a straight line basis over the lease term.

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
(c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or
(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios a), c) or d) and at the date of renewal or extension period for scenario b).

Pensions

The Group operates a defined contribution pension scheme for employees in certain Group companies, although contributions to this scheme by the Group were suspended during the year. The assets of the scheme are invested and managed independently of the finances of the Group. The pension cost charge represents contributions payable in the year.

Provisions

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

Financial instruments

Financial assets and financial liabilities are recognised in the Group's Balance Sheet when the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Financial assets are de-recognised when the Group no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Group commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification.

The Group's accounting policy for each category of financial instruments is as follows:

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified as held to maturity, loan and receivables or fair value through profit or loss. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is de-recognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. Where a reliable indicator of fair value cannot be obtained the assets are valued at cost.

Cash and short term deposits

Cash and short term deposits in the balance sheet comprise cash at bank and in hand and short term deposits with an original maturity period of three months or less.

For the purposes of the Group cash flow statement, cash and short term deposits consist of cash and short term deposits net of outstanding bank overdrafts.

Trade receivables

Trade receivables do not carry any interest and are stated at their original invoiced value as reduced by appropriate allowances for estimated irrecoverable amounts.

Trade receivables generally have four to seven day payment terms in the estate agency business and thirty days in the surveying business. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

2. Accounting policies continued

In July 2008, the Group entered into a third party finance arrangement for the payment of Home Information Packs ("HIPs"). Any trade receivables arising from HIPs were paid upfront by the third party finance company with no recourse. Fees charged by the third party finance company have been included as part of the finance costs within the Income Statement.

Trade payables

Trade payables do not carry any interest and are stated at their original invoice value.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance costs.

Finance costs comprise interest payable on borrowings calculated at the effective interest rate method and recognised on an accruals basis.

Borrowing costs are recognised as an expense when incurred.

Derivative financial instruments

The Group uses derivative financial instruments such as interest rate caps and interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement, except for the effective portion of any cash flow hedges, which are recognised in other comprehensive income.

The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Impairment of financial assets

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its fair value is transferred from equity to the income statement. Reversals of impairment losses in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Assets carried at amortised cost

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are de-recognised when they are assessed as uncollectable.

Hedge accounting

In 2009 the Group entered into interest rate swap agreements and the Group applied hedge accounting (using cash flow hedge) on these hedging instruments.

For those derivatives designated as hedges and for which hedge accounting is desired, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedge is classified as cash flow hedge when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction.

For cash flow hedges, the effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred to the profit and loss account when the hedged transaction affects profit or loss.

If a forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs and are transferred to the profit and loss account. If the related transaction is not expected to occur, the amount is taken to profit or loss.

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

2. Accounting policies continued

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, VAT and other sales taxes or duty. The following criteria must also be met before revenue is recognised:

Rendering of services

Revenue from the exchange fees in the estate agency business is recognised by reference to the legal exchange date of the housing transaction. Revenue from the supply of surveying services is recognised upon the completion of the professional survey by the surveyor.

Home Information Packs

Revenue from providing HIPs is recognised when they are completed and provided to the customers.

Financial services income

Revenue from mortgage procuration fees is recognised by reference to the completion date of the mortgage on the housing transaction. Revenue from policy sales is recognised by reference to the date that the policy is accepted by the insurer.

Interest income

Revenue is recognised as interest accrues (using the effective interest method – that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Rental income

Rental income including the effect of lease incentives from sub-let properties is recognised on a straight line basis over the lease term.

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

Exceptional items

The Group presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

New standards and interpretations not applied

The IASB and IFRIC have issued the following standards and interpretations which are not effective at the balance sheet date or have an effective date after the date of these Financial Statements:

International Accounting Standards (IAS/IFRSs)		Effective date*
IAS 39	Financial Instruments: Recognition and Measurement – Eligible hedged items (Amendment)	1st July 2009
IAS 32	Amendments to IAS 32 Classification of Rights Issue	1st February 2010
IAS 24	Related Party Disclosures (Revised)	1st January 2011
IFRS 9	Financial Instruments: Classification and Measurement	1st January 2013
	Annual Improvements to IFRS	May 2010

International Financial Reporting Interpretations Committee (IFRIC)		Effective date*
New interpretations		
IFRIC 14	Amendments to IFRIC 14 – Prepayments of a minimum funding requirement	1st January 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1st July 2010

* The Effective Dates stated here are those given in the original IASB/IFRIC standards and interpretations. As the Group has elected to prepare their Financial Statements in accordance with IFRS as adopted by the European Union, the application of new standards and interpretations will be subject to their having been endorsed for use in the EU via the EU Endorsement mechanism. In the majority of cases this will result in an effective date consistent with that given in the original standard or interpretation but the need for endorsement restricts the Group's discretion to adopt standards early.

The Directors do not anticipate that the adoption of the above standards and interpretations will have a material impact on the Group's Financial Statements, other than additional disclosures, in the period of initial application.

3. Revenue

Revenue represents the amounts derived from the provision of services which fall within the Group's ordinary activities, stated net of value added tax. The revenue and pre-tax income is attributable to the continuing activity of estate agency and related activities and the provision of surveying and valuation services on residential property. All the revenue arises in the United Kingdom.

3. Revenue continued

Revenue disclosed in the income statement is analysed as follows:

	2010 £'000	2009 £'000
Revenue from services	**206,607**	157,703
Revenue	**206,607**	157,703
Rental income	**1,690**	488
Dividend income	**516**	24
Finance income	**5**	54
Total revenue	**208,818**	158,269

4. Segment analysis of revenue and operating profit

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

- The estate agency and related services provides services related to the sale and letting of housing via a network of high street branches. In addition, it provides repossession asset management services to a range of lenders. It also sells mortgages for a number of lenders and sells life assurance and critical illness policies, etc, for a number of insurance companies via the estate agency branch and Linear network. It also operates as a mortgage and insurance distribution company providing products and services to financial intermediaries.
- The surveying and valuation segment provides a professional survey service of domestic properties to various lending corporations and individual customers.

No operating segments have been aggregated to form the above reported operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the Group Financial Statements. Head office costs, Group financing (including finance costs and finance incomes) and income taxes are managed on a Group basis and are not allocated to operating segments.

The geographic segment has not been reported separately as all the revenue and expense arises in the United Kingdom and all assets are situated in the United Kingdom.

Operating segments

The following table presents revenue and profit information regarding the Group's operating segments for the financial year ended 31st December 2010 and financial year ended 31st December 2009 respectively.

Year ended 31st December 2010

	Estate agency and related services £'000	Surveying and valuation services £'000	Unallocated £'000	Total £'000
Income statement information				
Segmental revenue	125,672	80,934	–	**206,606**
Segmental result:				
– before exceptional costs, amortisation and share-based payments	7,236	27,301	(2,602)	**31,935**
– after exceptional costs, amortisation and share-based payments	20,447	22,139	(2,914)	**39,672**
Dividend income				**516**
Finance income				**5**
Finance costs				**(2,228)**
Exceptional finance costs				**(2,007)**
Profit before tax				**35,958**
Taxation				**(1,423)**
Profit for the year				**34,535**

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

4. Segment analysis of revenue and operating profit continued

Year ended 31st December 2010

	Estate agency and related activities £'000	Surveying and valuation services £'000	Unallocated £'000	**Total £'000**
Balance sheet information				
Segment assets	101,570	29,666	1,540	**132,776**
Segment liabilities	(35,567)	(22,333)	(6,766)	**(64,666)**
Net assets/(liabilities)	66,003	7,333	(5,226)	**68,110**
Other segment items				
Capital expenditure	4,755	149	78	**4,982**
Depreciation	(1,474)	(247)	(27)	**(1,748)**
Amortisation of intangible assets	(2,054)	(6,023)	–	**(8,077)**
Professional indemnity claim provision	–	(6,094)	–	**(6,094)**
Onerous leases provision	835	–	–	**835**
Share based payment	(121)	(112)	(65)	**(298)**
Impairment of trade receivables	73	(19)	–	**54**

Unallocated net liabilities comprise certain property, plant and equipment (£105,000), financial assets (£1,097,000), cash and bank balances (£338,000), other taxes and liabilities (£91,000), other creditors (£491,000), accruals (£1,151,000) financial liabilities (£1,509,000), deferred and current tax liabilities (£2,441,000), interest rate swap (£1,083,000).

Year ended 31st December 2009

	Estate agency and related activities £'000	Surveying and valuation services £'000	Unallocated £'000	**Total £'000**
Income statement information				
Segmental revenue	87,655	70,048	–	**157,703**
Segmental result:				
– before exceptional costs, amortisation and share-based payments	6,705	23,554	(1,940)	**28,319**
– after exceptional costs, amortisation and share-based payments	4,910	15,782	(1,940)	**18,752**
Dividend income				**24**
Finance income				**54**
Finance costs				**(2,221)**
Profit before tax				**16,609**
Taxation				**(4,862)**
Profit for the year				**11,747**

4. Segment analysis of revenue and operating profit continued
Year ended 31st December 2009

	Estate agency and related activities £'000	Surveying and valuation services £'000	Unallocated £'000	**Total £'000**
Balance sheet information				
Segment assets	76,246	33,698	7,083	**117,027**
Segment liabilities	(25,466)	(17,410)	(28,294)	**(71,170)**
Net assets/(liabilities)	50,780	16,288	(21,211)	**45,857**
Other segment items				
Capital expenditure	555	107	–	**662**
Depreciation	(1,093)	(314)	–	**(1,407)**
Amortisation of intangible assets	(1,225)	(7,410)	–	**(8,635)**
Professional indemnity claim provision	–	(3,567)	–	**(3,567)**
Onerous leases provision	(685)	(7)	–	**(692)**
Share based payment	(172)	(402)	–	**(574)**
Impairment of trade receivables	(304)	15	–	**(289)**
Impairment of goodwill	(126)	–	–	**(126)**

Unallocated net liabilities comprise certain property, plant and equipment (£56,000), financial assets (£3,900,000), deferred tax assets (£621,000), trade and other receivables (£1,648,000), cash and bank balances (£858,000), financial liabilities (£25,171,000), trade and other payables (£940,000) and taxation (£2,183,000).

5. Finance income

	2010 £'000	2009 £'000
Interest receivable on funds invested	**5**	53
Other interest income	**–**	1
	5	54

6. Finance costs

	2010 £'000	2009 £'000
Bank interest:		
Other loans	**1,630**	1,636
Unwinding of discount on contingent consideration	**271**	38
HIPS financing fees	**327**	547
	2,228	2,221

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

7. Exceptional profit/(costs)

	2010 £'000	2009 £'000
Exceptional profit arising through acquisition of HEAL:		
Negative goodwill arising on acquisition	**29,825**	–
Employee costs		
Redundancy costs due to branch closures and business reorganisation of the acquisition	**(7,730)**	–
Other		
Acquisition and re-branding costs	**(6,125)**	–
Exceptional profit arising through acquisition of HEAL	**15,970**	–
Other exceptional costs:		
Employee costs		
Redundancy costs due to branch closures and business reorganisation	**(756)**	(232)
Accelerated share-based payments	**–**	(42)
Other		
Impairment of goodwill	**–**	(126)
Others	**(133)**	–
Acquisition related costs	**(96)**	–
Provision for professional indemnity claims	**(2,796)**	–
Total operating exceptional profit/(costs)	**12,189**	(400)
Finance costs		
Banking and legal fees incurred for extension of facility	**(924)**	–
Interest rate swap (see note below)	**(1,083)**	–
	(2,007)	–
Net exceptional profit/(cost)	**10,182**	(400)

During April and May 2009, the Group entered into three fixed interest rate swap arrangements with their banker for a total principal amount of £25m to hedge against potential increase in future LIBOR payable on the Revolving Credit Facility ("RCF"). In 2009 this hedge was treated as cash flow hedge and accounted for under hedge accounting.

The terms of the interest rate swap agreements are now not expected to match the terms of the commitments due to the reduction in the RCF utilisation during 2010. The cash flow hedge of the expected future interest payment was assessed to be ineffective and as at 31st December 2010 an unrealised loss of £1,083,000 relating to the hedging instrument that arose in the period is included in the income statement as exceptional finance costs.

During 2009, property-careers.com Limited ceased trading and an impairment review was conducted in accordance with the accounting policy. As a result of this impairment review, the entire value of goodwill in intangible assets of £126,000 was impaired. In addition, some employee costs were incurred due to the cessation of trading of this operation.

8. Profit before tax

Profit before tax is stated after charging/(crediting):

	2010 £'000	2009 £'000
Auditors' remuneration (note 9)	**297**	187
Operating lease rentals:		
Land and buildings	**9,518**	5,657
Plant and machinery	**1,417**	2,533
(Profit) on sale of property, plant and equipment	**(17)**	(6)

9. Auditors' remuneration

The remuneration of the auditors is further analysed as follows:

	2010 £'000	2009 £'000
Audit of the Financial Statements[1]	**49**	49
Other fees to auditors:		
– local statutory audits for subsidiaries	**125**	136
– taxation services	**121**	–
– other services[2]	**2**	2
	297	187

1 £35,000 (2009–£35,000) of this relates to the Company.

2 Other fees to auditors in 2009 above do not include fees payable for other services of £271,000, in relation to the acquisition of Halifax Estate Agents Limited, which completed on 15th January 2010.

10. Earnings per share

Basic EPS amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year.

Diluted EPS amounts are calculated by dividing the net profit attributable to ordinary equity holders of the parent by the weighted average number of Ordinary Shares outstanding during the year plus the weighted average number of Ordinary Shares that would be issued on the conversion of all the dilutive potential Ordinary Shares into Ordinary Shares.

	Profit after tax £'000	Weighted average number of shares	2010 Per share amount Pence	Profit after tax £'000	Weighted average number of shares	2009 Per share amount Pence
Basic EPS	**34,500**	**102,777,043**	**33.6**	11,747	102,818,875	11.4
Effect of dilutive share options	**–**	**418,857**	**–**	–	360,830	–
Diluted EPS	**34,500**	**103,195,900**	**33.4**	11,747	103,179,705	11.4

There have been no other transactions involving Ordinary Shares or potential Ordinary Shares between the reporting date and the date of completion of these Financial Statements.

The Directors consider that the adjusted earnings shown below give a better and more consistent indication of the Group's underlying performance:

	2010 £'000	2009 £'000
Group operating profit before exceptional costs, share-based payments and amortisation (excluding minority interest)	**31,900**	28,319
Net finance costs (excluding exceptional costs)	**(1,707)**	(2,143)
Normalised taxation	**(8,654)**	(7,541)
Adjusted Profit after tax[1] before exceptional costs, share-based payments and amortisation	**21,539**	18,635

Adjusted basic and diluted EPS

	Adjusted profit after tax[2] £'000	Weighted average number of shares	2010 Per share amount Pence	Adjusted profit after tax[1] £'000	Weighted average number of shares	2009 Per share amount Pence
Adjusted basic EPS	**21,539**	**102,777,043**	**21.0**	18,635	102,818,875	18.1
Effect of dilutive share options	**–**	**418,857**	**–**	–	360,830	–
Adjusted diluted EPS	**21,539**	**103,195,900**	**20.9**	18,635	103,179,705	18.1

1 This represents adjusted profit after tax attributable to equity holders of the parent. Tax has been adjusted to exclude the prior year tax adjustments, and the tax impact of exceptional items, amortisation and share-based payments.

2 This represents adjusted profit after tax attributable to equity holders of the parent.

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

11. Dividends paid and proposed

	2010 £'000	2009 £'000
Declared and paid during the year:		
Equity dividends on Ordinary Shares:		
2009 full year: 5.4p	**5,567**	–
2010 Interim: 2.5p	**2,579**	–
	8,146	–
Dividends on Ordinary Shares proposed (not recognised as a liability as at 31st December):		
Equity dividends on Ordinary Shares:		
Dividend: 5.9p per share (2009: 5.4p)	**6,064**	5,555

12. Directors and employees

Remuneration of directors

	2010 £'000	2009 £'000
Directors' emoluments (short-term benefits)*	**1,439**	1,085
Contributions to money purchase pensions schemes (post-employment benefits)	**34**	11
Share-based payments	**60**	(1)
	1,533	1,095

* Included within this amount is accrued bonuses of £510,000 (2009: £443,000).

The number of Directors who were members of Group money purchase pension schemes during the year totalled 4 (2009: 3).

The remuneration of the highest paid Director amounted to £505,216 (2009: £371,504) excluding pension costs. Group contributions to money purchase pension schemes for that Director amounted to £12,500 (2009: £2,250) in the year.

From August 2007 the Group's contributions to Directors' money purchase pension schemes amounted to 5% of pensionable salaries where members contribute, and the cost of the death-in-service benefits. However, the Group had suspended contributions to the pension schemes in 2009 and this was recommenced in 2010.

Employee numbers and costs

The Group employs staff in its branches and head offices. Aggregate payroll costs of these employees were:

	2010 £'000	2009 £'000
Wages and salaries	**98,697**	68,654
Social security costs	**10,175**	6,832
Pension costs	**2,143**	1,232
Total employee costs	**111,015**	76,718
Subcontractor costs	**4,748**	3,382
Total employee and subcontractor costs[1]	**115,763**	80,100
Share-based payment expense (see below)[2]	**298**	532

1 The total employee and subcontractor costs exclude employees redundancy costs of £8,486,000 (2009: £232,000), which have been shown under Exceptional costs (note 7).
2 The share-based payment expense in 2009 excludes the charge of £42,000 which has been shown under Exceptional costs (note 7).

The monthly staff numbers (including Directors) during the year averaged 3,649 (2009: 2,534).

	2010	2009
Estate Agency and Related Services	**2,834**	1,766
Surveying and Valuation Services	**815**	768
	3,649	2,534

12. Directors and employees continued

Share-based payments

Long Term Incentive Plan

The Group operates a LTIP (an equity-settled share-based remuneration scheme) for certain employees. Under the LTIP, the options vest if the individual remains an employee of the Group after a three year period, unless the individual has left under certain 'good leaver' terms in which case the options may vest earlier and providing the performance conditions are met.

	2010		2009	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	–	23,101	–	195,615
Vested during the year	–	(23,101)	–	(172,514)
Outstanding at 31st December	–	–	–	23,101

There were 23,101 options exercisable at the end of the year (2009: 113,255). The weighted average remaining contractual life is nil years (2009: 0.63 years). The weighted average share price of the options exercised during the year was £2.37 per share.

Joint Share Ownership Plan (JSOP)

The JSOP received shareholder approval at the 2010 AGM. Awards under the JSOP participate in increases in the value of shares in the Company above the share price at the date of grant. Awards comprise of an interest in jointly owned shares (i.e. Ordinary Shares held in co-ownership with the Trust) and a stock appreciation right. A key feature of the JSOP is that individuals are required to purchase their interest in the jointly owned shares and have thereby put their personal capital at risk.

The vesting of JSOP awards granted in 2010 is conditional upon LSL's adjusted EPS performance meeting the following absolute performance targets over a period of 3 financial years starting with the financial year in which the JSOP award is granted:

	Value of shares under the JSOP award at date of grant (as a percentage of salary)	
EPS growth p.a.*	Chief Executive Officer	Senior Executives
10%	100%	100%
13%	150%	–
17%	200%	–

* With straight line vesting between points for the Chief Executive Officer's award.

	2010		2009	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	–	–	–	–
Granted during the year	3.20	382,104	–	–
Outstanding at 31st December	3.20	382,104	–	–

There were nil options exercisable at the end of the year (2009: nil).

The weighted average fair value of options granted during the year was £0.75 (2009: £nil). The weighted average remaining contractual life is 2.5 years (2009: nil years).

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

12. Directors and employees continued

Company Stock Option Plan ("CSOP")

The Group operates a CSOP (an equity-settled share-based remuneration scheme) for certain employees. Under the CSOP, the options vest if the individual remains an employee of the Group after a three year period, unless the individual has left under certain "good leaver" terms in which case the options may vest earlier and providing the performance conditions are met.

	2010		2009	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	–	–	–	–
Granted during the year	2.40	481,870	–	–
Outstanding at 31st December	**2.40**	**481,870**	–	–

There were nil options exercisable at the end of the year (2009: nil).

The weighted average fair value of options granted during the year was £0.95 (2009: £nil). The weighted average remaining contractual life is 2.5 years (2009: nil years).

Save-As-You-Earn scheme

In December 2006, the Group announced an employee SAYE scheme effective from January 2007 and in March 2008 the Group announced a new SAYE scheme effective April 2008. Both these schemes are open to all qualifying employees and provide for an exercise price equal to the daily average market price on the date of grant less 20%. The options will vest if the employee remains in service for the full duration of the option scheme (three years). There are no cash settlement alternatives.

2007 Scheme

	2010		2009	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	1.74	268,800	1.74	401,421
Lapsed during the year due to employees withdrawal		(21,951)	1.74	(132,621)
Vested during the year	1.74	(246,849)		
Outstanding at 31st December	–	–	1.74	268,800

The weighted average of the fair value of the options was £nil (2009: £0.63) and the weighted average remaining contractual life was nil years (2009: 0.01 years). The weighted average share price of the options exercised during the year was £2.80 per share.

There were no options exercisable at the end of the year (2009: none).

2008 Scheme

	2010		2009	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	1.155	800,852	1.155	1,120,177
Lapsed during the year due to employees withdrawal	1.155	(25,641)	1.155	(319,325)
Vested during the year	1.155	(10,234)		
Outstanding at 31st December	**1.155**	**764,977**	1.155	800,852

The weighted average of the fair value of the options was £0.47 (2009: £0.47) and the weighted average remaining contractual life was 0.23 years (2009: 1.23 years). There were no options exercisable at the end of the year (2009: none). The weighted average share price of the options exercised during the year was £2.33 per share.

12. Directors and employees continued

Equity-settled

	2010			2009		
	CSOP	**JSOP**	**SAYE 2008**	SAYE 2008	SAYE 2007	LTIPs
Option pricing model used	**Black Scholes**	**Black Scholes**	**Black Scholes**	Black Scholes	Black Scholes	Black Scholes
Weighted average share price at grant date (£)	**2.71**	**2.71**	**1.34**	1.34	2.35	2.38
Exercise price (£)	**2.40**	**3.20**	**1.155**	1.155	1.74	nil
Expected life of options (years)	**3 years**	**3 years**	**3 years**	3 years	3 years	3 years
Expected volatility	**80%**	**80%**	**42%**	42%	11%	11%
Expected dividend growth rate	**2.15%**	**2.15%**	**2.15%**	2.15%	3.68%	3.68%
Risk free interest rate	**3.35%**	**3.35%**	**5.25%**	5.25%	5.5%	5.5%

The total cost recognised for equity settled transactions is as follows:

	2010 £'000	2009 £'000
Share-based payment charged during the year	**298**	382

A charge of £61,000 (2009: £1,000) relates to employees of the Company.

The volatility assumption, measured at the standard deviation of expected share price returns, is based on statistical analysis of competitor ratios. The dividend yield assumption is based on the fact that the shares awarded are not eligible to receive dividends until the end of the vesting period.

Cash-settled

In 2007, the Group issued shares in a subsidiary undertaking to certain employees of that subsidiary. The shares transferred are subject to restrictions on transferability if the concerned employees are not in continuous employment in the Group. The Group had a "call option" on these shares and the exercise price for the call option is based on future profitability of the subsidiary. The Group has accounted for this share transfer as a cash-settled share-based payment due to the nature of the transaction and recognised a share-based payment charge of £nil (2009: £150,000) using a discount factor rate of 7%. None of this cost relates to the Company. In 2010, the Group acquired the shares in the subsidiary for a total consideration of £328,000 of which £138,000 was paid in 2010 and the remaining £190,000 is payable in March 2013.

13. Taxation

(a) Tax on profit on ordinary activities

The major components of income tax charge in the Group income statements are:

	2010 £'000	2009 £'000
UK corporation tax – current year	**1,280**	5,615
– adjustment in respect of prior years	**281**	401
	1,561	6,016
Deferred tax:		
Origination and reversal of temporary differences	**(966)**	(603)
Impact of rate change on deferred tax	**(80)**	
Adjustment in respect of prior year	**908**	(551)
Total deferred tax	**(138)**	(1,154)
Total tax charge in the income statement	**1,423**	4,862

Income tax credited directly to equity is £24,000 (2009: charged £24,000) which relates to deferred tax on the net loss on the cash flow hedge.

On 22nd June 2010 the UK Government announced proposals to reduce the main rate of corporation tax from 28% to 24% over four years with effect from 1st April 2011. As of 31st December 2010 only the reduction to 27% has been enacted. In addition changes to the capital allowances regime were proposed including a reduction in the rate of capital allowances on plant and machinery additions from 20% to 18% with effect from 1st April 2012. If these proposals had been substantially enacted, the deferred tax liability at 31st December 2010 would have reduced by £217,000.

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

13. Taxation continued

(b) Factors affecting tax charge for the year

The tax assessed in the profit and loss account is lower (2009: higher) than the standard UK corporation tax rate, because of the following factors:

	2010 £'000	2009 £'000
Profit on ordinary activities before tax	**35,958**	16,609
Tax charge on ordinary activities multiplied by rate of corporation tax rate in the UK of 28% (2009: 28%)	**10,068**	4,651
Non taxable negative goodwill on acquisition	**(8,351)**	–
Non taxable income	**(145)**	(26)
Non taxable profit on disposal of available for sale financial asset	**(1,098)**	–
Benefit of deferred tax asset not previously recognised	**(998)**	–
Disallowable expenses	**796**	387
Impact of rate change on deferred tax	**(80)**	–
Others	**42**	–
	234	5,012
Prior period adjustments – current tax	**281**	401
Prior period adjustment – deferred tax	**908**	(551)
Total taxation charge	**1,423**	4,862

(c) Factors that may affect future tax charges (unrecognised)

	2010 £'000	2009 £'000
Unrecognised deferred tax asset relating to:		
Property, plant and equipment temporary differences	**11**	11
Other temporary differences	**82**	85
Losses	**3,509**	–
	3,602	96

£2,733,000 of unrecognised deferred tax on losses carried forward relates to acquisitions during the year. The deferred tax assets in respect of property, plant and equipment temporary differences, other temporary differences and losses may be recoverable in the future and this is dependent on subsidiary companies generating taxable profits sufficient to allow the utilisation of these amounts. These deferred tax assets cannot be offset against profits elsewhere in the Group as they relate to losses brought forward which can only be offset against taxable profits arising from the same trade in which the losses arose. There is no time limit for utilisation of the above tax losses and other temporary differences.

(d) Deferred tax

An analysis of the movements in deferred tax is as follows:

	2010 £'000	2009 £'000
Net deferred tax (asset)/liability at 1st January	**(621)**	557
Deferred tax recognised in equity	**24**	(24)
Deferred tax liabilities arising on business combinations	**2,918**	–
Deferred tax credit in income statement for the year (note 13a)	**(138)**	(1,154)
Net deferred tax liability/(asset) at 31st December	**2,183**	(621)

Analysed as:

	2010 £'000	2009 £'000
Accelerated/(decelerated) capital allowances	**684**	(1,060)
Deferred tax liability on separately identifiable intangible assets on business combinations	**2,298**	2,223
Deferred tax on share options	**(322)**	(371)
Deferred tax on interest rate swap	**(292)**	–
Other short-term temporary differences	**(185)**	(527)
Deferred tax recognised on losses	**–**	(886)
	2,183	(621)

13. Taxation continued

Deferred tax credit in income statement relates to the following:

	2010 £'000	2009 £'000
Amortisation of intangible assets recognised on business combinations	**595**	736
Depreciation in excess of capital allowance	**604**	(67)
Deferred tax on share options	**(49)**	158
Movement in deferred tax recognised on losses	**(886)**	–
Other temporary differences	**(126)**	327
	138	1,154

At 31st December 2010, there was no unrecognised deferred tax liability (2009: £nil) for taxes that would be payable on the unremitted earnings of the Group's subsidiaries.

14. Intangible assets

Goodwill

	2010 £'000	2009 £'000
Cost		
At 1st January	**66,472**	66,422
Arising on acquisitions during the year	**7,914**	33
Adjustment in respect of change in contingent consideration	**356**	143
Impairment of goodwill (note 7)	**–**	(126)
At 31st December	**74,742**	66,472

	2010 £'000	2009 £'000
Carrying amount of goodwill by operating unit		
Estate Agency and Related Services companies		
Your Move	**38,691**	38,691
Reeds Rains	**15,243**	15,243
LSLi	**5,285**	3,703
AMF	**2,206**	–
Home of Choice (now part of First Complete)	**4,146**	–
Templeton LPA	**336**	–
Others	**348**	348
	66,255	57,985
Surveying and Valuation Services companies		
e.surv	**6,677**	6,677
Chancellors Associates	**1,810**	1,810
	8,487	8,487
	74,742	66,472

Impairment of goodwill and other intangibles with indefinite useful lives

The carrying amount of goodwill by operating unit is given above. The carrying amount of brand by operating unit is as follows:

	2010 £'000	2009 £'000
Estate Agency and Related Services companies		
Your Move	**2,510**	2,510
Reeds Rains	**1,241**	1,241
LSLi	**596**	481
AMF	**180**	–
	4,527	4,232
Surveying and Valuation Services companies		
e.surv	**1,281**	1,281
Chancellors Associates	**153**	153
	1,434	1,434
	5,961	5,666

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

14. Intangible assets continued

Goodwill acquired through business combinations and brands has been allocated for impairment testing purposes to statutory companies or Groups of statutory companies which are managed as one cash generating unit as follows:

- Estate Agency and Related Services companies
  - Your Move
  - Reeds Rains
  - LSLi, which includes:
    - ICIEA[1]
    - Zenith Properties[1]
    - David Frost Estate Agency[1]
    - JNP Estate Agents[1]
    - GFEA[1]
    - Phillip Green Lettings[1]
  - AMF
  - Templeton LPA
  - First Complete
  - Others include Martin Stewart partnership and 4 Thornton Hill estate agency branches
- Surveying and Valuation Services companies
  - e.surv
  - Chancellors Associates

These represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

Estate Agency and Related Services companies

The recoverable amount of the Estate Agency and Related Services companies has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by the Board and 5 year plan. The discount rate applied to cash flow projections is 11.5% (2009: 14%) and cash flows beyond the 5 year plan are extrapolated using a 0% (2009: 0%) growth rate even though there is evidence of gain in market share in 2010.

Surveying and Valuation Services companies

The recoverable amount of the Surveying and Valuation Services companies is also determined on a value-in-use basis using cash flow projections based on financial budgets approved by the Board and 5 year plan. The discount rate applied to the cash flow projections is 11.5% (2009: 12%). The growth rate used to extrapolate the cash flows of the Surveying and Valuation Services companies beyond the five-year plan is 0% (2009: 0%).

Key assumptions used in value-in-use calculations

The calculation of value-in-use for each of the Estate Agency and Related Services and Surveying and Valuation Services companies is most sensitive to the following assumptions:

- Gross margin
- Discount rates
- Market share and market recovery
- Growth rate used to extrapolate cash flows beyond the budget period.

Gross margins are based on average values achieved in the three years preceding the start of the budget period. These are increased over the budget period for anticipated efficiency improvements. A factor of 2% per annum was applied for Estate Agency and Related Services and Surveying and Valuation Services companies and 1.5% per annum for the surveying companies. This is based on the opinion of the directors.

Discount rates reflect management's estimate of Weighted Average Cost of Capital (WACC) of the Group. This is the benchmark used by management to assess operating performance and to evaluate future acquisition proposals.

Market share and market recovery assumptions are important because, as well as using industry data for growth rates (as noted below) management assess how the Company's relative position to its competitors might change over the budget period. Management expects the Group's share of the surveying market to remain at the same levels over the budget period. There has been a significant growth in the market share of the Estate Agency companies both organically (due to various market share growth initiatives) and following the acquisition of HEAL in January 2010. For impairment test purposes, management have not considered any further market share growth beyond 2011. Further, the carrying value of goodwill in the Estate Agency companies is dependent on future cash flows arising from a reasonable level of recovery in housing transaction volumes over the next five years.

1 Management viewed these companies/operating units as part of LSLi for impairment testing purposes.

14. Intangible assets continued

Growth rate estimates are based on management estimates.

The results of the impairment tests in 2010 confirmed that there had been no impairment in respect of the carrying amount of goodwill held on the balance sheet.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use for each of the above companies, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the company to exceed its recoverable amount. Despite the unprecedented market conditions, the principal Estate Agency and Related Services companies, Your Move and Reeds Rains have been profitable in 2010 (without considering the impact of the HEAL Branches which were hived up to Your Move, Reeds Rains and ICIEA). Underpinning the carrying amount of goodwill is the assumption that more normal market conditions will resume in the future.

Other intangible assets

As at 31st December 2010

	Brand Names £'000	Customer Contracts £'000	Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Other* £'000	Total £'000
Cost							
At 1st January 2010	5,704	44,774	5,612	2,044	5,323	1,127	64,584
Arising on acquisition during the year	295	2,500	–	–	–	–	2,795
At 31st December 2010	**5,999**	**47,274**	**5,612**	**2,044**	**5,323**	**1,127**	**67,379**
Aggregate amortisation and impairment							
At 1st January 2010	38	29,395	3,953	2,044	5,323	936	41,689
Charge for the year	–	7,147	888	–	–	42	8,077
At 31st December 2010	**38**	**36,542**	**4,841**	**2,044**	**5,323**	**978**	**49,766**
Carrying amount							
At 31st December 2010	**5,961**	**10,732**	**771**	**–**	**–**	**149**	**17,613**

As at 31st December 2009

	Brand Names £'000	Customer Contracts £'000	Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Other* £'000	Total £'000
Cost							
At 1st January 2009	5,704	44,774	5,612	2,044	5,206	1,127	64,467
Additions	–	–	–	–	117	–	117
At 31st December 2009	5,704	44,774	5,612	2,044	5,323	1,127	64,584
Aggregate amortisation and impairment							
At 1st January 2009	38	21,808	3,065	2,044	5,206	893	33,054
Charge for the year	–	7,587	888	–	117	43	8,635
At 31st December 2009	38	29,395	3,953	2,044	5,323	936	41,689
Carrying amount							
At 31st December 2009	5,666	15,379	1,659	–	–	191	22,895

* Other relates to in-house software and franchise agreements.

The brand value relates to the following:

- Your Move, a network of estate agencies and to e.surv, a surveying company which were acquired by the Group in 2004;
- Reeds Rains, a network of estate agencies which were acquired by the Group in October 2005;
- Chancellors Associates, a surveying business which was acquired by the Group in July 2006;
- ICIEA, a network of estate agencies which were acquired by the Group in February 2007;
- David Frosts Estate Agents, a network of estate agencies which were acquired by the Group in July 2007;
- JNP Estate Agents, a network of estate agencies which were acquired by the Group in September 2007;
- Goodfellows Estate Agents, a network of estate agencies which were acquired in May 2010; and
- AMF (trading as Pink Home Loans) acquired in December 2010.

The businesses are run as separate reporting units within the Group. There have been no fundamental changes to the manner in which the businesses have been run since their acquisition and therefore the results of the businesses are considered to be derived from the brand names nationally.

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

14. Intangible assets continued

All amortisation charges have been treated as an expense in the income statement. Brand names are not amortised as the Directors are of the opinion that they have an indefinite useful life. This is based on the expectation of the Directors that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows to the businesses and the Directors are confident that trademark registration renewals will be filed at the appropriate time and sufficient investment will be made in terms of marketing and communication to maintain the value inherent in the brand.

15. Property, plant and equipment

As at 31st December 2010

	Freehold land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost					
At 1st January 2010	–	3,487	49	12,886	16,422
Acquisitions during the year	8,593	44	19	604	9,260
Additions	–	49	–	4,933	4,982
Disposals	(715)	–	(35)	–	(750)
At 31st December 2010	**7,878**	**3,580**	**33**	**18,423**	**29,914**
Depreciation and impairment					
At 1st January 2010	–	3,384	32	10,929	14,345
Charge for the year	150	31	19	1,548	1,748
Disposals	–	–	(29)	–	(29)
At 31st December 2010	**150**	**3,415**	**22**	**12,477**	**16,064**
Carrying amount					
At 31st December 2010	**7,728**	**165**	**11**	**5,946**	**13,850**

As at 31st December 2009

	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost				
At 1st January 2009	3,427	43	13,614	17,084
Additions	60	6	596	662
Disposals	–	–	(1,324)	(1,324)
At 31st December 2009	3,487	49	12,886	16,422
Depreciation and impairment				
At 1st January 2009	3,299	16	10,928	14,243
Charge for the year	85	16	1,306	1,407
Disposals	–	–	(1,305)	(1,305)
At 31st December 2009	3,384	32	10,929	14,345
Carrying amount				
At 31st December 2009	103	17	1,957	2,077

16. Financial assets

Available-for-sale financial assets

	2010 £'000	2009 £'000
Unquoted shares carried at cost	**497**	497
Acquired during the year	**945**	–
Impairment	**(345)**	(345)
	1,097	152
Unquoted shares carried at fair value	**–**	3,900
Carrying value	**1,097**	4,052

16. Financial assets continued

Unquoted shares carried at cost

The financial assets are in unlisted equity instruments and these are carried at cost less any impairment as the market value cannot be reliably measured.

Unquoted shares carried at fair value

In 2003 the Group acquired 84 'A' Ordinary Shares of £0.01 each in Hometrack Data Systems Limited for a consideration of £1. This amounts to a 14.19% shareholding in that company. In 2009 the Directors estimated the value of the unlisted equity shares was £3,900,000 based on the estimated present value of the expected royalty income stream at a discount rate of 12%. These shares were sold in 2010 for a total consideration of £3,923,000.

17. Trade and other receivables

	2010 £'000	2009 £'000
Current		
Trade receivables	**17,337**	13,079
Prepayments and accrued income	**7,799**	6,973
	25,136	20,052

Trade receivables are non-interest bearing and are generally on 0-90 days' terms.

As at 31st December 2010, trade receivables at nominal value of £533,000 (2009 – £751,982) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2010 £'000	2009 £'000
At 1st January	**752**	1,154
Charge for the year	**–**	289
Amounts written off	**(165)**	(455)
Unused amounts reversed	**(54)**	(236)
At 31st December	**533**	752

As at 31st December, the analysis of trade receivables that were past due but not impaired is as follows:

			Past due but not impaired	
	Total £'000	Neither past due nor impaired £'000	0-90 days £'000	>90 days £'000
2010	**17,337**	**13,440**	**2,603**	**1,294**
2009	13,079	7,766	5,171	142

18. Cash and cash equivalents

	2010 £'000	2009 £'000
Short-term deposits	**338**	858

Cash at bank earns interest at floating rates based on daily bank overnight deposit rates. Short-term deposits are made for varying periods of between one day and three days depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £0.3m (2009: £0.9m). At 31st December 2010, the Group had available £73.5m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2009: £50.8m).

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

19. Trade and other payables

	2010 £'000	2009 £'000
Current		
Trade payables	**8,895**	6,675
Other taxes and social security payable	**8,993**	5,631
Other payables	**1,016**	277
Accruals	**26,181**	20,626
	45,085	33,209
Non-current		
Accruals	**–**	27

Terms and conditions of the above financial liabilities:
- Trade payables are non-interest bearing and are normally settled on between 30 and 60 day terms.
- Other payables are mainly non-interest bearing and have an average term of three months.

20. Financial liabilities

	2010 £'000	2009 £'000
Current		
Unsecured bank loan	**–**	13
Unsecured loan notes	**–**	322
Other unsecured loans	**–**	24
Deferred consideration	**92**	–
Cash-settled share based payment	**–**	313
Contingent consideration	**–**	321
	92	993
Non-current		
Secured bank loans – RCF	**1,509**	25,071
Other unsecured loans	**750**	–
Cash-settled share based payment	**–**	90
Deferred consideration	**600**	–
Contingent consideration	**1,213**	325
Derivatives carried at fair value	**1,083**	–
Derivatives designated as hedges – interest rate swap	**–**	87
	5,155	25,573

Secured bank loans – revolving credit facility

The secured bank loans totalling £1.5m (2009: £25.1m) are secured by a debenture over the Group's assets excluding the following subsidiaries, Lending Solutions, Homefast Property Services, Linear Mortgage Network, Linear Financial Services, Templeton LPA, AMF, BDS, property-careers.com, Chancellors Associates and LSLi and its subsidiaries.

The secured bank loans relate to the revolving credit facility. The utilisation of this revolving credit facility may vary each month as long as this does not exceed the maximum £75m facility (2009: £75m). The banking facility was renewed in 2010 for a further period until March 2014.

Interest and fees payable on the revolving credit facility amounted to £1.6m (2009: £1.6m). The interest rate applicable to the facility is LIBOR plus a margin rate of 2.0% (2009: LIBOR plus 1.5%). The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

Unsecured bank loan

The unsecured bank loan of £13,000 was repaid during the year.

Unsecured loan notes

Unsecured loan notes of £322,000 were repaid during the year.

20. Financial liabilities continued

Other unsecured loan

Unsecured loans of £24,000 were repaid during the year. The £750,000 outstanding at year-end represents amounts payable to a customer of the Group and is repayable on 31st March 2012 and does not carry any interest.

Cash-settled share-based payment/deferred consideration

An explanation is given in detail in note 12. During 2010 the Group acquired the shares in Barnwoods for a total consideration of £328,000 of which £138,000 was paid in 2010 and the remaining £190,000 is payable in March 2013 and has been included under deferred consideration at the year-end. No interest is payable on the deferred consideration.

Deferred consideration of £410,000 relates to consideration that is payable for acquisition of AMF (including BDS) over a 18-month period ending June 2012. No interest is payable on this.

Deferred consideration of £92,000 is payable on acquisition of Templeton LPA. This is payable in January 2011 and no interest is payable on this.

Contingent consideration

£1,213,000 (2009: £646,000) of contingent consideration is payable to third parties in relation to the acquisition of its subsidiaries in 2007. This is payable between three and five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years. In 2010, the contingent consideration has been recalculated based on the latest management's expectation using a discount rate of 7% (2009: 7%).

Derivatives carried at fair value – interest rate swap

During 2009 the Group entered into three interest rate swaps to hedge its interest rate risks (see note 28). These are carried at fair value.

21. Provisions for liabilities and charges

	2010			2009		
	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000
Balance at 1st January	7,542	1,643	9,185	5,638	2,143	7,781
Acquisition during the year	–	184	184	–	–	–
Amount utilised	(2,735)	–	(2,735)	(1,663)	(445)	(2,108)
Amount released	–	(835)	(835)	–	(747)	(747)
Provided in financial year	6,094	–	6,094	3,567	692	4,259
Balance at 31st December	10,901	992	11,893	7,542	1,643	9,185
Current	584	–	584	122	626	748
Non-current	10,317	992	11,309	7,420	1,017	8,437
	10,901	992	11,893	7,542	1,643	9,185

The PI claim provision relates to ongoing normal legal claims and is the Directors' best estimate of the likely outcome of such claims. The provision will be utilised as individual claims are settled and the settlement amount may vary from the amount provided depending on the outcome of each claim. It is not possible to estimate the timing of payment of all claims and therefore most of the provision has been classified as non-current.

The provision for lease obligations relates to obligations under leases on vacant properties. The provision is expected to be fully utilised by June 2020. The final outcome depends upon the ability of the Group to sublet or assign the lease over the related properties.

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

22. Obligations under leases

Operating leases

The Group had annual commitments in respect of non-cancellable operating leases for which no provision has been made in these Financial Statements (other than the onerous lease provision as disclosed in note 21). Future minimum rentals payable under these operating leases are as follows:

	2010			2009		
	Land and building £'000	Plant and machinery £'000	Total £'000	Land and building £'000	Plant and machinery £'000	Total £'000
No later than one year	**8,704**	**1,998**	**10,702**	6,073	1,765	7,838
After one year but not more than five years	**21,455**	**1,593**	**23,048**	17,516	1,596	19,112
After five years	**7,355**	**–**	**7,355**	10,442	–	10,442
	37,514	**3,591**	**41,105**	34,031	3,361	37,392

The Group had annual commited revenue in respect of non-cancellable operating leases for which no accrual has been made in these Financial Statements. Future minimum rentals receivable under non-cancellable operating leases are as follows:

	2010 Land and buildings £'000	2009 Land and buildings £'000
Not later than one year	**1,360**	374
After one year but not more than five years	**1,638**	914
After five years	**647**	588
	3,645	1,876

23. Share capital

	2010		2009	
	Shares	£'000	Shares	£'000
Authorised:				
Ordinary shares of 0.2p each	**500,000,000**	**1,000**	500,000,000	1,000
Issued and fully paid:				
At 1st January and 31st December	**104,158,950**	**208**	104,158,950	208

24. Reserves

Share premium

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

Share-based payment reserve

The share-based payment reserve is used to record the value of equity-settled share-based payment provided to the employees, as part of their remuneration. Note 12 gives further details of these plans.

Treasury shares

Treasury shares represent the cost of LSL Property Services plc shares purchased in the market and held by the Trust to satisfy future exercise of options under the Group's share options schemes. At 31st December 2010 the Group held 1,381,907 (2009: 1,287,960) of its own shares at an average cost of £2.27 (2009: £2.18). The market value of the shares at 31st December 2010 was £3,455,000 (20th February 2010: £3,465,000). The nominal value of each share is 0.2p.

Unrealised gains reserve

This reserve records fair value changes on available-for-sale financial assets.

Hedging reserve

The cash flow hedge loss contains the effective portion of the cash flow hedge relationships incurred as at the reporting date and the effective portion of the gain or loss on hedging instruments in cash flow hedge.

25. Pension costs and commitments

The Group operates defined contribution pension schemes for all its Directors and certain employees. The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group, from January to March 2009, made a contribution of a maximum of 5% of pensionable salaries and the cost of death-in-service benefits, where "old" members of the existing defined contribution scheme, make contributions to the scheme. Contributions to the scheme were suspended by the Group in April 2009 but were recommenced in 2010.

The Group's contributions for "new" members of the defined contribution stakeholder scheme (those members who were part of the Aviva scheme until the Group left the Aviva Group in 2004) were 5% of pensionable salaries where members contribute and the cost of the death-in-service benefits. The Group made contributions from January to March 2009, but suspended contributions in April 2009. This was recommenced in 2010.

Total contributions to the defined contribution schemes in the year were £2.1m (2009: £1.2m). There was an outstanding amount of £157,000 in respect of pensions as at 31st December 2010 (2009: £159,000).

26. Acquisitions during the year
Year ended 31st December 2010

The Group acquired the following businesses during the year:

a. HEAL

On 15th January 2010, the Group completed the acquisition of the entire share capital of HEAL for the consideration of £1 (one pound). The HEAL network, comprising 206 estate agency branches, were absorbed into the main brands within LSL, namely Your Move, Reeds Rains and Intercounty. The acquisition also brought HEAL's asset management business into the LSL Group.

The fair value of the identifiable assets and liabilities of HEAL as at the date of acquisition were:

	Fair value recognised on acquisition £'000
Customer relationships	2,500
Property, plant and equipment	8,928
Financial assets (investments)	750
Trade and other receivables	5,623
Cash and cash equivalents	25,946
Trade and other payables	(10,816)
Deferred tax liabilities	(3,106)
Total identifiable net assets acquired	29,825
Purchase consideration	–
Negative goodwill	(29,825)

Analysis of cash flow on acquisition	£'000
Transaction costs (including rebranding) (included in cash flows from operating activities)	(6,125)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	25,946
Net cash flow on acquisition	19,821

Transaction costs (including rebranding costs) have been expensed and are included under exceptional costs (see note 7).

From the date of acquisition to 31st December 2010, HEAL assets have contributed to £24.2m of revenue and £3.2m loss before tax of the Group. If the combination had taken place at the beginning of the year, the consolidated Group operating profit (before exceptional costs, amortisation and share-based payments) would have been lower by £1.1m and revenue would have been higher by £0.8m.

b. Home of Choice and AMF

On 7th May 2010, the Group completed the acquisition of the trade and assets of Home of Choice Limited (HoC) from administrators for a total consideration of £0.4m. HoC is a multi-tied specialist mortgage network provider to approximately 500 self employed mortgage advisers with extensive financial services expertise and knowledge of the mortgage market. Subsequent to acquisition, the trade and assets of HoC were integrated into First Complete.

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

26. Acquisitions during the year continued

On 30th November 2010, the Group completed the acquisition of 100% of the issued capital of AMF and its subsidiary BDS (together trading as Pink Home Loans). AMF operates as a mortgage and insurance distribution company providing products and services to financial intermediaries, while BDS operates as a mortgage and insurance network and packager.

The provisional fair value of the identifiable assets and liabilities of Home of Choice and Pink Home Loans as at the dates of acquisition were:

	Provisional fair value recognised on acquisition £'000
Intangible assets (brand)	180
Property, plant and equipment	112
Deferred tax asset	206
Trade and other receivables	1,931
Trade and other payables	(5,631)
Financial liabilities	(750)
Total identifiable net liabilities acquired	(3,952)
Purchase consideration	2,400
Goodwill arising on acquisition	6,352
Purchase consideration discharged by:	
Cash	1,990
Deferred consideration	410
Total	2,400

The goodwill of £4,146,000 for Home of Choice and £2,386,000 for Pink Home Loans comprises certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the expected value of synergies, self employed mortgage advisors, appointed representative network and an assembled workforce. Goodwill is allocated entirely to Estate Agency and Related Services segment. Goodwill relating to Home of Choice is expected to be deductible for income tax purposes as this is a trade and asset acquisition and this does not represent goodwill arising on consolidation.

From the date of acquisition to 31st December 2010, Home of Choice and Pink Home Loans have together contributed to £2,842,000 of revenue and £12,000 to profit after tax of the Group. If the combination had taken place at the beginning of the year, the consolidated Group operating profit (before exceptional costs, amortisation and share-based payments) would have been lower by £954,000 and revenue would have been higher by £4,653,000.

c. Other acquisitions

During 2010 the Group also acquired:

- the entire share capital of Templeton LPA on 8th February 2010 for a total consideration of £454,000 of which £362,000 was paid in cash and a further £92,000 is deferred consideration payable in January 2011;
- the assets of the estate agency, land and new home and lettings business of Goodfellows on 28th May 2010 for a cash consideration of £1,030,000. Goodwill on this is included as part of LSLi; and
- lettings business of Phillip Green Estate Agents for a cash consideration of £360,000 in June 2010 (referred to as "PG Lettings" on page 79). Goodwill on this is included as part of LSLi.

26. Acquisitions during the year continued

The combined fair values of the identifiable assets and liabilities as at the date of acquisition of the above three acquisitions were:

	£'000
Intangible assets (brand)	115
Property, plant and equipment	220
Trade and other receivables	246
Trade and other payables	(283)
Deferred tax liability	(16)
Total identifiable net assets acquired	**282**
Purchase consideration	1,844
Goodwill arising on acquisition	**1,562**
Purchase consideration discharged by:	
Cash	1,752
Deferred consideration	92
Total	**1,844**
Analysis of cash flow on acquisition	
Transaction costs (included in cash flows from operating activities)	(55)
Cash consideration	(1,752)
	(1,807)

From the dates of acquisition to 31st December 2010, Templeton, Goodfellows and PG Lettings have together contributed to £3,120,000 of revenue and £182,000 to profit after tax of the Group. If the combination had taken place at the beginning of the year, the consolidated Group operating profit (before exceptional costs, amortisation and share-based payments) would have been higher by £165,000 and revenue would have been higher by £1,326,000.

Year ended 31st December 2009

On 24th April 2009, the Group acquired certain assets of an Estate Agency business for a cash consideration of £135,000. On 11th June 2009, the Group acquired another Estate Agency business for a cash consideration of £15,000. The combined effect of all acquisitions had the following effect on the Group's assets and liabilities.

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Other intangible assets – order book	–	33	33
			33
Goodwill arising on acquisition			117
			150
Discharged by:			
Cash			150

Other disclosure required by IFRS 3 were not given in 2009 as it is not practical on the basis that these acquisitions were considered insignificant to the Group.

27. Client monies

As at 31st December 2010, client monies held by subsidiaries in approved bank financial statements amounted to £35,007,000 (2009: £25,576,000). Neither this amount, nor the matching liabilities to the clients concerned are included in the Group balance sheet, as the Group is not entitled to the benefit from the use of the amount held in these accounts.

28. Financial instruments – risk management

The Group's principal financial instruments comprise bank loans and other loans. The main purpose of these financial instruments is to raise finance for the Group's operations and to fund acquisitions. The Group has various financial assets and liabilities such as trade receivables, cash and short-term deposits and trade payables, which arise directly from its operations.

The Group enters into derivative transactions, relating to the purchase of interest rate cap products and interest rate swaps. The purpose is to manage the interest cost arising from the Group's operations and its sources of finance.

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

28. Financial instruments – risk management continued

It is, and has been throughout 2010 and 2009 the Group's policy that trading in derivatives shall not be undertaken, apart from the interest rate swap agreements mentioned on previous page.

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

- cash flow interest rate risk;
- liquidity risk; and
- credit risk.

Policy for managing these risks is set up by the Board following recommendations from the Group Finance Director. Certain risks are managed centrally, while others are managed locally following communications from the centre. The policy for each of the above risks is described in more detail below.

Cash flow interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

It is currently the Group policy that the majority of external Group borrowings are variable interest based. This policy is managed centrally. The subsidiaries are not permitted to borrow from external sources directly without approval from the Head Office team. Where the Group wishes to fix the amount of external variable rate debt, it considers the use of interest rate swap agreements available to achieve the desired interest rate profile.

The Group entered into an interest rate swap agreement in April 2009 to fix interest rates on £10m of the Group's bank borrowings. The interest rate swap agreement restricts the LIBOR to 2.91% until 17th April 2014. On 13th May 2009, the Group entered into a further interest rate swap agreement for £10m of the Group's bank borrowings. The interest rate swap agreement restricts the LIBOR to 2.96% until 13th May 2014. On 15th May 2009, a further interest rate swap agreement was entered into for £5m of the Group's bank borrowings. The interest rate swap agreement restricts the LIBOR rate to 2.9% until 15th May 2014. In the prior year the Group had applied hedge accounting (using cash flow hedge) on these interest rate swap agreements as these swaps are designated to hedge underling debt obligations. However, since these hedges are not considered effective, the change in the fair value of the interest rate swap agreements has been included in the Income Statement (as exceptional finance costs). In view of the low level of net debt of the Group at 31st December 2010, the Group is currently reviewing the exit options available to cancel the interest rate swap. However, no decision has been made in this regard as at the date of approval of the Financial Statements.

Although the Group accepts that this policy neither protects the Group entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks. The impact of interest rate risk to cash is considered minimal as the cash balance is not significant.

At 31st December 2010, after taking into account the effect of interest rate swaps, approximately 100% of the Group's borrowings are at a fixed rate of interest (2009: 100%).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings, after the impact of hedge accounting. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows. There is no material impact on the Group's equity.

	Increase/ decrease in basis point	Effect on profit/(loss) before tax £'000
2010	**+100**	**–**
	-100	**–**
2009	+100	(1)
	-100	1

Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generation by its operations, dividend policy and acquisition strategy. Acquisitions are carefully selected with authorisation limits operating up to Group board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating to facilitate fund raising. The Group is also very cash generative as demonstrated by the cash from operations.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool and daily cash flow reporting. This tool considers the maturity of both its financial investments and financial assets (e.g. accounts receivable, and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility for potential acquisitions through the use of its banking facilities.

28. Financial instruments – risk management continued

The table below summarises the maturity profile of the Group's financial liabilities at 31st December 2010 based on contractual undiscounted payments:

Year ended 31st December 2010

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	171	541	2,690	–	**3,402**
Other unsecured loan	–	–	–	750	–	**750**
Trade and other payables	–	8,895	–	–	–	**8,895**
Contingent consideration	–	–	–	1,213	–	**1,213**
Deferred consideration	–	92	410	190	–	**692**
Interest rate swap (gross outflow)	–	184	559	1,690	–	**2,433**
	–	**9,342**	**1,510**	**6,533**	**–**	**17,385**

Year ended 31st December 2009

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	116	1,647	25,782	–	27,545
Trade and other payables	–	6,675	–	–	–	6,675
Contingent consideration	–	–	–	325	–	325
Interest rate swap	–	280	486	2,291	–	3,057
	–	7,071	2,133	28,398	–	37,602

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts.

Year ended 31st December 2010

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Inflows	–	40	140	1,170	–	**1,350**
Outflows	–	(184)	(559)	(1,690)	–	**(2,433)**
Net	–	(144)	(419)	(520)	–	**(1,083)**

Year ended 31st December 2009

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Inflows	–	50	175	2,745	–	2,970
Outflows	–	(280)	(486)	(2,291)	–	(3,057)
Net	–	(230)	(311)	454	–	(87)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains appropriate capital structure to support its business objectives and maximise shareholder value. Capital includes share capital and other equity attributable to the equity holders of the parent.

In the medium to long term, the Group will strive to maintain a reasonable leverage (i.e. balance between debt and equity) to help achieve the Group's business objectives of growth (through acquisitions and organic growth) and dividend policy. In the short term, the Group does not have a set leverage ratio to be achieved but the Directors monitor the ratio of net debt to operating profit to ensure that the debt funding is not excessively high.

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

28. Financial instruments – risk management continued

The Group has a current ratio of net debt to operating profit of 0.15:1 (2009: 0.90:1), net debt of £4.9m (2009: debt of £25.7m) and operating profit before exceptional costs, amortisation and share-based payment charge of £31.9m (2009: profit of £28.3m). The business is cash generative with a low capital expenditure requirement. The Group remains committed to its stated dividend policy of 30% to 40% of Underlying Operating Profit after interest and tax. In addition, the Group's other main priority is to generate cash to support its operations and to fund any strategic acquisitions.

	2010 £'000	2009 £'000
Interest bearing loans and borrowings	**5,247**	26,566
Less: cash and short term deposit	**(338)**	(858)
Net debt	**4,909**	25,708

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

All surplus cash is held centrally to offset against the Group's borrowings and reduce the interest payable. The type of cash instrument used and its maturity date will depend on the Group's forecast cash requirements. The Group has a revolving credit facility with a syndicate of major banking corporations to manage longer term borrowing requirements.

Credit risk

There are no significant concentrations of credit risk within the Group. The Group is exposed to a credit risk in respect of revenue transactions (i.e. turnover from customers). It is Group policy, implemented locally, to obtain appropriate details of new customers before entering into contracts. The majority of the estate agency customers use the Group's services as part of a house sale transaction and consequently the debt is paid from the proceeds realised from the sale of the house by the vendor's solicitor before the balance of funds is transferred to the vendor. These minimise the risk of the debt not being collected.

The majority of the surveying customers and those of the asset management business are large financial institutions and as such the credit risk is not expected to be significant. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

Interest rate risk profile of financial assets and liabilities

Treasury policy is described in the note above. The disclosures below exclude short term receivables and payables which are primarily of a trading nature and expected to be settled within normal commercial terms.

The interest rate profile of the financial assets and liabilities of the Group as at 31st December 2010 is as follows:

Fixed rate	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Revolving credit facility[1]				1,509			**1,509**

Floating rate	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Cash and cash equivalents	328						**328**

1 Includes the effect of interest rate swap.

The effective interest rate and the actual interest rate charged on the loans is as follows:

	Effective rate	Actual rate
Revolving credit facility	13.1%	2.7%

The effective interest rate is high due to commitment fees payable on committed undrawn borrowing facility.

The interest rate profile of the financial assets and liabilities of the Group as at 31st December 2009 is as follows:

Fixed rate	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Unsecured loans	(359)	–	-	–	–	–	(359)
Revolving credit facility*	–	–	(25,000)	–	–	–	(25,000)

28. Financial instruments – risk management continued

Floating rate	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Cash and cash equivalents	858	–	–	–	–	–	858
Revolving credit facility	–	–	(71)	–	–	–	(71)

The effective interest rate and the actual interest rate charged on the loans were as follows:

	Effective rate and actual rate
Revolving credit facility	4.43%
Other unsecured loans	7.81%
Unsecured loan notes	5.00%
Unsecured bank loan	5.80%

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the Financial Statements:

	2010		2009	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Financial assets				
Cash and cash equivalents	**328**	**328**	858	858
Available-for-sale financial assets	**1,097**	**n/a[1]**	4,052	4,052
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	**(1,509)**	**(1,509)**	(25,071)	(25,071)
Fixed rate borrowings	**–**	**–**	(359)	(359)
Derivative financial liabilities – interest rate swaps	**(1,083)**	**(1,083)**	(87)	(87)
Contingent consideration	**(1,213)**	**(1,213)**	(646)	(509)
Deferred consideration	**(692)**	**(692)**	–	–

The fair values for the majority of the financial instruments have been calculated by discounting the expected future cash flows at interest rates prevailing for a comparable maturity period for each instrument. The fair values of the interest rate caps are determined by reference to market values for similar instruments.

Fair value hierarchy

As at 31st December 2010, the Group held the following financial instruments measured at fair value. The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Liabilities measured at fair value	**2010 £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Derivatives designated as hedges				
Interest rate swap	1,083	–	1,083	–

1 It has not been possible to reliably determine the fair value of unquoted investments in available-for-sale financial assets.

Notes to the Group Financial Statements Continued

for the year ended 31st December 2010

28. Financial instruments – risk management continued

	2009 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Available-for-sale financial assets				
Unquoted shares	3,900	–	–	3,900

Liabilities measured at fair value	2009 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Derivatives designated as hedges				
Interest rate swap	87	–	87	–

29. Analysis of net debt

	2010 £'000	2009 £'000
Interest bearing loans and borrowings		
– Current	**92**	993
– Non-current	**5,155**	25,573
	5,247	26,566
Less: cash and short-term deposits	**(338)**	(858)
Net debt at the end of the year	**4,909**	25,708

During the year, the Group has repaid £23.6m (2009: repaid £22.7m) of the revolving credit facility. The utilisation of this revolving credit facility may vary each month as long as this does not exceed the maximum £75m facility. The banking facility was renewed for a period until March 2014. The revolving credit facility is repayable when funds permit.

The interest rate applicable to the facility in 2010 was LIBOR plus a margin rate of 2% (2009: 1.5%). The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

30. Related party transactions

During the year, the Group acquired the remaining 4.95% of shares in its subsidiary Barnwoods. Barnwoods was fully consolidated in the Group's consolidated Financial Statements as there were restrictions on transferability of the 4.95% shares in Barnwoods if the concerned employees were not in continuous employment in the Group. The Group also had a "call option" on these shares and the exercise price for the call option was based on future profitability of the subsidiary. The Group had accounted for this as a "cash-settled" share-based payment and had consolidated 100% of Barnwoods' results in prior years. In 2010, the Group acquired this 4.95% shares from the employees (of whom one of them was also a director of Barnwoods) for a total consideration of £328,000 of which £143,000 was paid in 2010 and the remaining £185,000 is payable in March 2013.

One of the Executive Directors Alison Traversoni benefitted from a reduction of £285 (two hundred and eighty five pounds) in Your Move fees being staff discount.

Other than the above and the Directors' Remuneration as disclosed in note 12, there were no related party transactions with key management personnel.

31. Capital commitments

	2010 £'000	2009 £'000
Capital expenditure contracted for but not provided	**496**	34

32. Principal subsidiary companies

The Group owns directly or indirectly the following issued and fully paid ordinary and preference share capital of its principal subsidiary undertakings, all of which are incorporated in Great Britain and whose operations are conducted mainly in the United Kingdom:

Name of subsidiary company	Holding	Proportion of nominal value of shares held	Nature of business
Your Move	Ordinary Shares	100%	Estate Agency and Related Activities
e.surv[1]	Ordinary Shares	100%	Surveying and Valuation Services
Homefast Property Services	Ordinary Shares	77.5%	Dormant
First Complete[1]	Ordinary Shares	100%	Financial Services
LSL Corporate Client Services[1]	Ordinary Shares	100%	Asset Management
St Trinity[1]	Ordinary Shares	100%	Asset Management
Reeds Rains[1]	Ordinary Shares	100%	Estate Agency and Related Activities
Linear Mortgage Network	Ordinary Shares	76%	Financial Services
Linear Financial Services	Ordinary Shares	86%	Dormant
Chancellors Associates	Ordinary Shares	100%	Surveying and Valuation Services
LSLi[1]	Ordinary Shares	75%	Holding Company
ICIEA	Ordinary Shares	87.5%	Estate Agency and Related Activities
Barnwoods[1]	Ordinary Shares	100%	Surveying and Valuation Services
David Frost Estate Agents	Ordinary 'A' Shares Ordinary 'B' Shares Non cumulative redeemable preference shares	100%	Estate Agency and Related Activities
JNP Estate Agents	Ordinary Shares Ordinary 'B' Shares Ordinary 'C' Shares	80%	Estate Agency and Related Activities
Albany Insurance Company (Guernsey)[1]	Ordinary Shares	100%	Captive insurer
AMF[1]	Ordinary Shares Preference Shares	100%	Financial Services

1 Held directly by the Company.

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 have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements 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 those Financial Statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have 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.

The Directors are responsible for keeping proper 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.

Independent Auditor's Report to the Members of LSL Property Services plc

We have audited the Parent Company financial statements of LSL Property Services plc for the year ended 31st December 2010 which comprise the Company Balance Sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 26, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the Parent Company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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 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.

Opinion on financial statements

In our opinion the Parent Company financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2010;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matter

We have reported separately on the Group financial statements of LSL Property Services plc for the year ended 31st December 2010.

Stuart Watson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
2nd March 2011

Parent Company Balance Sheet

as at 31st December 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Intangible fixed assets	2	**(3,162)**	–
Tangible fixed assets	3	**107**	56
Investments	4	**114,034**	109,157
		110,979	109,213
Current assets			
Debtors	5	**27,243**	37,374
Creditors: amounts falling due within one year	6	**(80,288)**	(73,936)
Net current liabilities		**(53,045)**	(36,562)
Total assets less current liabilities		**57,934**	72,651
Creditors: amounts falling due after one year	7	**(18,889)**	(39,706)
Net assets		**39,045**	32,945
Capital and reserves			
Called up share capital	10	**208**	208
Share premium account	11	**5,629**	5,629
Share-based payment reserve	11	**1,014**	2,019
Treasury shares	11	**(3,139)**	(2,805)
Hedging loss	11	**–**	(63)
Profit and loss account	11	**35,333**	27,957
Shareholders' funds		**39,045**	32,945

The Financial Statements were approved by the Board on 2nd March 2011 and were signed on its behalf by:

Steve Cooke
Group Finance Director

Simon Embley
Group Chief Executive Officer

Notes to the Parent Company Financial Statements

for the year ended 31st December 2010

1. Accounting policies

Basis of preparation of financial statements

The Financial Statements of the Company have been prepared under the historical cost convention modified to include the fair value of derivative financial liabilities and are prepared in accordance with applicable Accounting standards in the United Kingdom and with those parts of the Companies Act 2006 applicable to companies reporting under UK GAAP.

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 31st December 2010. The Company's Financial Statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The Company has taken advantage of the exemption in paragraph of 2D of FRS 29 *Financial Instruments: Disclosures* and has not disclosed information required by that standard, as the Group's group financial statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 *Financial Instruments: Disclosures*.

Taxation

Current Tax

Current tax (UK corporation tax) is provided at amounts expected to be paid (or recovered) using the tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise for in the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the Financial Statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions costs

The Company operates a defined contribution pension scheme for employees of the Company, although contributions to the scheme were suspended during the year. The assets of the scheme are invested and managed independently of the finances of the Company. Contributions to the defined contribution scheme are recognised in the profit and loss account in the period in which they become payable.

Share-based payment transactions

The share option programme allows Group employees to acquire shares of the Company. The fair value of the options granted is recognised as an employee expense with the corresponding increase in equity in the case of equity settled schemes. The fair value is measured at the grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes model, taking into account the terms and conditions upon which the options were granted. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-market vested condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The financial effect of awards by the Company of options over its equity shares to employees of subsidiary undertakings are recognised by the company in its individual financial statements. In particular, the Company records an increase in its investment in subsidiaries with a credit to equity equivalent to the FRS 20 cost in subsidiary undertakings.

1. Accounting policies continued

Investment in subsidiaries
Investments in subsidiaries are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

Treasury shares
The Company has an employee share trust ("ESOT") for the granting of Group shares to Executive Directors and senior employees. Shares in the Company held by the ESOT are treated as treasury shares and presented in the balance sheet as a deduction from equity. Dividends earned on shares held in the ESOT have been waived.

Financial instruments
Financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification.

The Company's accounting policy for each category of financial instruments is as follows:

Interest bearing loans and borrowings
All loans and borrowings are initially recognised at fair value less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses arising on repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in investment income and finance costs.

Finance costs comprise interest payable on borrowings calculated at the effective interest rate method and recognised on an accruals basis, together with dividends paid.

Borrowing costs are recognised as an expense when incurred.

Derivative financial instruments
The Company uses derivative financial instruments such as interest rate caps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

The Directors have taken advantage of FRS29 and have excluded disclosures relating to financial instruments from the financial statements on the basis that the financial instruments of the Company are included within the Group financial statements of the Group.

Tangible fixed assets
Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the assets capable of operating as intended.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value of each asset evenly over its expected useful life as follows:

Fixtures and fittings	–	over 5 years
Computer equipment	–	over 3 years
Leasehold improvements	–	over the life of the lease period

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible fixed assets
Intangible assets other than goodwill that are acquired separately are measured at cost on initial recognition. Following the initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses.

Notes to the Parent Company Financial Statements Continued

for the year ended 31st December 2010

2. Intangible fixed assets
As at 31st December 2010

	Negative goodwill £'000
Cost or valuation	
At 1st January 2010	–
Additions	(23,453)
At 31st December 2010	**(23,453)**
Amortisation	
At 1st January 2010	–
Credit during the year	20,291
At 31st December 2010	**–**
Carrying amount	
At 31st December 2010	**(3,162)**
At 1st January 2010	–

Negative goodwill

On 15th January 2010 the Company completed the acquisition of 100% of the share capital of New Daffodil Limited ("NDL") (formerly HEAL). Subsequent to acquisition, the business of NDL was reorganised within the Group and the business of NDL together with certain assets were transferred to the Company for a total consideration of £1 ("one pound"). The Company then transferred most of the trade and assets to its subsidiaries Your Move, Reeds Rains, LSLi and St Trinity for a consideration of £1 ("one pound") each. However, the following assets were acquired by the Company but not transferred further to Your Move, Reeds Rains, LSLi or St Trinity and this has resulted in the creation of negative goodwill:

Assets acquired	£'000
Investment in a private company	**750**
Cash	**22,703**
Net assets	**23,453**
Consideration paid	**–**
Negative goodwill	**(23,453)**

The negative goodwill at acquisition differs from that of £29,825,000 as disclosed in note 26(a) of the Financial Statements as a result of those assets transferred to subsidiaries noted above, and intergroup reorganisation costs incurred post acquisition.

The negative goodwill is being amortised to match the usage of the assets acquired (mainly cash outflow).

3. Tangible fixed assets
As at 31st December 2010

	Leasehold improvements £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
At 1st January 2010	–	62	62
Additions	49	29	78
At 31st December 2010	**49**	**91**	**140**
Depreciation			
At 1st January 2010	–	6	6
Charge for the year	4	23	27
At 31st December 2010	**4**	**29**	**33**
Carrying amount			
At 31st December 2010	**45**	**62**	**107**
At 1st January 2010	–	56	56

4. Investments

	2010 £'000	2009 £'000
Subsidiary undertakings	**113,089**	109,157
Other investments	**945**	–
	114,034	109,157

Subsidiary undertakings:

Details of the subsidiaries held directly and indirectly by the Company are shown in note 32 to the Financial Statements.

	2010 £'000	2009 £'000
At 1st January	**109,157**	108,507
Additions	**3,700**	250
Adjustment for contingent consideration	**–**	89
Adjustments for share-based payment	**232**	311
At 31st December	**113,089**	109,157

In 2010, an adjustment of £232,000 (2009: increase of £311,000) on investment in subsidiaries for the share-based payment, representing the financial effects of awards by LSL of options over its equity shares to employees of subsidiary undertakings.

In August 2007, LSL set up LSLi (a 75% subsidiary) to acquire other estate agency companies. The Company has a "put and call option" on the remaining 25% of the shares in LSLi. In 2007, LSL estimated the payout under the "call option" to be £754,003 and included the same as a cost of investment. In 2008, LSL estimated the payout under the "call option" to be nil and thus, adjustment to reduce the cost of investment was made. Reassessment in 2009 resulted in an adjustment of the estimate of the payout to £125,000, of which £89,000 has been adjusted against investment in group undertakings.

Other investments

	2010 £'000	2009 £'000
At Cost		
At 1st January	**–**	–
Additions	**945**	–
At 31st December	**945**	–

Other investments represent investment in equity shares of private limited companies.

5. Debtors

	2010 £'000	2009 £'000
Deferred tax asset (note 8)	**293**	40
Corporation tax recoverable	**764**	–
Group relief receivable	**8,081**	8,277
Prepayments	**24**	1,643
Amounts owed by Group undertakings	**18,081**	27,414
	27,243	37,374

Notes to the Parent Company Financial Statements Continued

for the year ended 31st December 2010

6. Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Other taxes and social security payable	**310**	90
Accruals	**1,140**	811
Contingent consideration	**125**	125
Deferred consideration	**491**	–
Amounts owed to Group undertakings	**78,222**	72,910
	80,288	73,936

Contingent consideration

£125,000 (2009: £125,000) of contingent consideration is payable to third parties in relation to the acquisition of its subsidiaries in 2007. This is payable between three and five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years. In 2010, the contingent consideration has been recalculated based on the latest management's expectation using a discount rate of 7% (2009: 7%).

Deferred consideration

Deferred consideration of £491,000 relates to consideration that is payable for acquisition of AMF (including BDS) over a 18 month period ending June 2012. No interest is payable on this.

7. Creditors: amounts falling due after one year

	2010 £'000	2009 £'000
Loans (note 9)	**17,806**	39,592
Derivative financial liability – interest rate swap	**1,083**	87
Accruals	**–**	27
	18,889	39,706

8. Deferred tax asset

	2010 £'000	2009 £'000
Deferred tax asset at 1st January	**40**	16
Deferred tax (debited)/credited to equity	**(24)**	24
Deferred tax credit in profit and loss account for the year	**277**	–
Deferred tax asset at 31st December	**293**	40

Deferred tax asset is in relation to a short term timing difference.

On 22nd June 2010 the UK government announced proposals to reduce the main rate of corporation tax from 28% to 24% over four years with effect from 1st April 2011. As of 31st December 2010 only the reduction to 27% has been enacted. In addition changes to the capital allowances regime were proposed including a reduction in the rate of capital allowances on plant and machinery additions from 20% to 18% with effect from 1st April 2012. If these proposals had been substantially enacted, the deferred tax asset at 31st December 2010 would have reduced by £33,000.

9. Loans

	2010 £'000	2009 £'000
Amounts falling due		
In one year or less	**–**	–
In more than one year but not more than two years	**17,806**	39,592
	17,806	39,592

9. Loans continued

Secured bank loans – Revolving credit facility

The secured bank loans totalling £17.8m (2009: £39.6m) are secured by a debenture over the Group's assets excluding the following subsidiaries, Lending Solutions, Homefast Property Services, Linear Mortgage Network, Linear Financial Services, Templeton LPA, AMF, BDS, property-careers.com, Chancellors Associates and LSLi and its subsidiaries.

The secured bank loans relate to the revolving credit facility. The utilisation of this revolving credit facility may vary each month as long as this does not exceed the maximum £75m facility (2009: £75m). The banking facility was renewed in 2010 for a further period until March 2014.

The interest rate applicable to the facility is LIBOR plus a margin rate of 2% (2009: 1.5%). The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

10. Called up share capital

	2010		2009	
	Shares	**£'000**	Shares	£'000
Authorised				
Ordinary Shares of 0.2p each	**500,000,000**	**1,000**	500,000,000	1,000
Issued and fully paid:				
At 1st January and 31st December	**104,158,950**	**208**	104,158,950	208

11. Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Treasury shares £'000	Hedging loss £'000	Profit and loss account £'000	Total £'000
Balance at 1st January 2009	208	5,629	1,742	(2,934)	–	29,470	34,115
Share-based payments	–	–	277	–	–	–	277
Reassurance of treasury shares	–	–	–	129	–	–	129
Net loss on cash flow hedge (net of tax)	–	–	–	–	(63)	–	(63)
Loss for the year	–	–	–	–	–	(1,513)	(1,513)
Balance at 1st January 2010	**208**	**5,629**	**2,019**	**(2,805)**	**(63)**	**27,957**	**32,945**
Share-based payments	–	–	292	–	–	–	292
Purchase of treasury shares	–	–	–	(1,007)	–	–	(1,007)
Reissuance of treasury shares	–	–	(1,297)	673	–	1,071	447
Recycling of cash flow hedge through profit & loss account (net of tax)	–	–	–	–	63	–	63
Dividend paid	–	–	–	–	–	(8,146)	(8,146)
Profit for the year	–	–	–	–	–	14,451	14,451
Balance at 31st December 2010	**208**	**5,629**	**1,014**	**(3,139)**	**–**	**35,333**	**39,045**

For a description of the reserves refer to note 24 of the Group Financial Statements.

Share premium

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

Share-based payment reserve

This represents the amount provided in the year in respect of share awards. The Company operates Long Term Incentive Plan (including JSOP and CSOP) and a number of SAYE schemes for the employees in the Company and the Group. See note 12 of the Financial Statements for details of the LTIP, JSOP, CSOP and the SAYE schemes.

12. Company profit/loss for the financial year after tax

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The profit after tax for the year was £14,451,000 (2009: loss of £1,513,000).

Remuneration paid to Directors of the Company is disclosed in note 12 of the Financial Statements.

Notes to the Parent Company Financial Statements Continued

for the year ended 31st December 2010

13. Pensions costs and commitments

The Company operates defined contribution pension schemes for all its Directors and employees. The assets of the schemes are held separately from those of the Company in independently administered funds.

The Company's contributions for 'old' members of the existing defined contribution section of the scheme (those members who have always been in this scheme) throughout 2008, were a maximum of 5% of pensionable salaries where members contribute and the cost of the death-in-service benefits. Contributions to the scheme were suspended in April 2009 and recommenced in 2010.

The Company's contributions for 'new' members of the defined contribution stakeholder scheme (those members who were part of the Aviva scheme until the Company left the Aviva group in 2004) was 5% of pensionable salaries where members contribute, and the cost of the death-in-service benefits. Contributions to the scheme were suspended in April 2009 and recommenced in 2010.

Total contributions to the defined contribution schemes in the year were £32,443 (2009: £5,745). There were no outstanding amounts in respect of pensions as at 31st December 2010 (2009: £nil).

14. Capital commitments

The Company had no capital commitments as at 31st December 2010 (2009: none).

15. Related party transactions

The Company has taken advantage of the exemption under FRS 8 not to disclose transactions with wholly owned subsidiaries. During the year the transactions entered into by the Company with the non-wholly owned subsidiaries are as follows:

	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Linear Mortgage Network				
2010	–	–	310	–
2009	–	–	231	–
Linear Financial Services				
2010	–	–	272	–
2009	–	–	117	–
LSLi				
2010	–	–	5,655	–
2009	–	–	5,308	–
ICIEA				
2010	–	–	17	–
2009	–	–	80	–
Barnwoods				
2010	–	–	–	421
2009	–	–	10,679	–
JNP Estate Agents				
2010	–	–	231	–
2009	–	–	–	136

Definitions

"Adjusted Basic earnings Per Share" is defined at note 10 of the Financial Statements

"AGM" Annual General Meeting

"AMF" Advance Mortgage Funding Limited

"Barnwoods" Barnwoods Limited

"BDS" BDS Mortgage Group Limited

"Board" the Board of Directors of LSL

"Corporate Client Services" comprising LSL Corporate Client Services Limited, Templeton LPA Limited and St Trinity Limited providing repossession, asset management and corporate letting services

"C&G" Cheltenham & Gloucester

"Chancellors Associates" Chancellors Associates Limited

"Code" UK Code of Corporate Governance by the Financial Reporting Council in (2010)

"CSOP" company share ownership plan

"CSR" corporate social responsibility

"Director" an Executive Director or Non Executive Director of LSL

"DBP" deferred bonus plan

"EPC" Energy performance certificate

"EPS" earnings per share

"ESG" environmental, social and governance

"Estate Agency Divisions" includes LSL's core estate agency, lettings, financial services, LPA fixed charge receiver and repossessions asset management businesses

"e.surv Chartered Surveyors" or **"esurv"** esurv Limited

"Executive Director" refers to Simon Embley, Steve Cooke, Alison Traversoni and David Newnes

"First Complete" trading name of First Complete Limited

"Financial Statements" financial statements contained in this Report

"Frosts" trading name of David Frost Estate Agents Limited

"Group" LSL Property Services plc and its subsidiaries

"Goodfellows" trading name of GFEA Limited

"HEAL" Halifax Estate Agencies Limited

"HEAL Business" HEAL branches and St Trinity Asset Management

"HIPS" Home Information Packs

"Home of Choice" or **"HoC"** division within First Complete

"Home Report" a report which includes a single survey, energy report and property questionnaire and which must accompany all residential property marketing in Scotland

"HNBS" Hewitt New Bridge Street

"Intercounty" trading name of ICIEA Limited

"IFRS" International Financial Reporting Standards

"JNP" trading name of JNP Estate Agents Limited

"JSOP" joint share ownership plan

"Linear" and "Linear Financial Services" are trading names of Linear Mortgage Network Limited and Linear Financial Services Limited

"LPA" the Law of Property Act 1925

"LSLi" LSLi Limited and its subsidiaries JNP, Intercounty, Frosts and Goodfellows.

"LSL" LSL Property Services plc and its subsidiaries

"LSL Corporate Client Services" LSL Corporate Client Services Limited

"LTIP" long term investment plan

"Net Debt" defined as financial liabilities less cash and cash equivalents

"Non Executive Director" refers to Roger Matthews, Mark Morris, Mark Pain and Paul Latham

"Notice of Meeting" the circular made available to shareholders setting out details of the AGM

"Openwork" Openwork Holdings Limited

"Ordinary Shares" 0.2p ordinary shares in LSL

"PI" professional indemnity

"Pink Home Loans" includes Advance Mortgage Funding Limited and BDS Mortgage Group Limited

"Phillip Green" trading name of Intercounty and JNP

"RCF" Revolving credit facility

"Reeds Rains" Reeds Rains Limited

"Report" LSL's annual report and accounts 2010

"RICS" Royal Institution of Chartered Surveyors

"SAYE" save-as-you-earn

"Senior Independent Director" Mark Morris

"SIP" share incentive plan

"St Trinity Asset Management" St Trinity Limited

"Surveying Division" includes LSL's surveying and valuation businesses

"Templeton" Templeton LPA Limited

"Trust" LSL Property Services plc Employee Benefit Trust

"Trustees" Capita Trustee Limited

"Underlying Operating Profit/Loss" before exceptional costs, amortisation of intangible assets and share based payments

"Underlying Operating Margin" Group Operating Profit before exceptional costs, amortisation and share based payments shown as a percentage of turnover

"Your Move" your-move.co.uk Limited

Investor Information

Company details
LSL Property Services plc
Registered in England (Company Number 5114014)
Registered Office
Newcastle House, Albany Court, Newcastle Business Park, Newcastle Upon Tyne, NE4 7YB
Telephone 0203 215 1015
Facsimile 0207 920 9443
E-mail enquiries@lslps.co.uk
Website www.lslps.co.uk

Share listing
LSL Property Services plc 0.2p Ordinary Shares are listed on the London Stock Exchange under ISIN GB00BIG5HX72

Registrar
Capita Registrars
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA
United Kingdom
Telephone 0871664 0300 (calls cost 10p per minute plus network extras)
Facsimile 01484 600911
Website www.capitaregistrars.com
E-mail shareholder.services@capitaregistars.com

If you move, please do not forget to let the Registrars know your new address

Provisional calendar of events

Preliminary Results Released	**2nd March 2011**
AGM Proxy Form Deadline	**2.30pm 18th April 2011**
AGM	**2.30pm 20th April 2011**

The AGM will be held at LSL's offices at 1 Sun Street, London EC2A 2EP. The Notice of Meeting details the proposed resolutions.

In accordance with its Articles of Association, LSL publishes shareholder information, including notice of AGMs and the Annual Report and Accounts on its website, www.lslps.co.uk. Reducing the number of communications sent by post not only results in cost savings to LSL, it also reduces the impact that unnecessary printing and distribution of reports has on the environment.

At the 2007 AGM, a resolution was passed to amend LSL's Articles of Association to take full advantage of the provisions in the Companies Act 2006 in relation to electronic communications. In particular, the provisions enable all communications between the shareholders and LSL to be made in electronic form. Documents will be supplied via LSL's website to shareholders who have not requested a hard copy, or provided an e-mail address to which documents of information may be sent. Where a shareholder has consented to receive information via the website, a letter will be sent to the shareholder on release of any information directing them to the website.

If a shareholder wishes to continue to receive hard copy documents they should contact Capita Registrars (details above).

LSL Property Services plc

www.lslps.co.uk

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(Company Number 5114014)
Registered Office:
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