LSL Property Services plc

LSL Property Services plc

Annual Report & Accounts 2011

www.lslps.co.uk

LSL Property Services plc is a leading provider of residential property services to its two key customer groups. Services to consumers include: residential sales, 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.

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Forward-Looking Statements

This Report may contain forward-looking statements with respect to certain plans, goals and expectations relating to the future financial condition, business performance and results of LSL. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of LSL, and they may cause the actual results or performance of LSL to be materially different from the results or performance implied by such statements. Any forward-looking statements will be by reference to the date of this Report only and must not be regarded as guarantees of future performance. Further, nothing in the Report should be construed as a profit forecast. Some of the factors which may affect LSL's actual future financial conditions, business performance and results are contained within the Business Review in the 'principal risks and uncertainties section' on pages 24 and 25 together with information on the management of the principal risks and uncertainties faced by LSL.

Highlights 2011

2011 was a year of investment for the future and one of strong progress for the Group

Group

Group Revenue

£218.4m

2011	£218.4m
2010	£206.9m

Group Underlying Operating Profit

£31.1m

2011	£31.1m
2010	£31.9m

Group Underlying Operating Margin

14.3%

2011	14.3%
2010	15.5%

Adjusted Basic Earnings Per Share

21.0p

2011	21.0p
2010	21.0p

Total dividend for the full year

8.7p

2011	8.7p
2010	8.4p

Group profit before tax after exceptional costs

£17.6m

2011	£17.6m
2010	£36.0m

	2011	2010
Financial		
Group revenue increased by 6%	**£218.4m**	£206.6m
Group Underlying Operating Profit[1]	**£31.1m**	£31.9m
Group Underlying Operating Margin[2]	**14.3%**	15.4%
Group profit before tax after exceptional costs[3]	**£17.6m**	£36.0m
Adjusted Basic Earnings Per Share[4]	**21.0p**	21.0p
Basic earnings per share	**12.9p**	33.6p
Final dividend proposed per share	**5.9p**	5.9p
Total dividend for the year increased 4%	**8.7p**	8.4p
Balance Sheet		
Continued strong cash generation with net debt[5] increased by £33.5m (as at 31st December 2011) after acquisition of Marsh & Parsons for an initial cash consideration of £45.4m	**£38.4m**	£4.9m

1 Underlying Operating Profit is before exceptional costs, amortisation of intangible assets and share based payments.
2 Group Underlying Operating Margin was after increased revenue investment of £6.1m into the Estate Agency Division.
3 Profit before tax was after net exceptional costs of £2.4m arising principally from the acquisition of Marsh & Parsons. (2010: exceptional gain of £10.2m arising principally from the acquisition of HEAL and a one off profit of £3.9m on the sale of an investment).
4 The calculations of the Adjusted Basic Earnings per Share is given in note 10 of the Financial Statements.
5 Net debt excludes loan notes issued on the acquisition of Marsh & Parsons as calculated in note 30 of the Financial Statements.

Surveying and Valuation Services

Underlying Operating Profit

£23.7m

2011	£23.7m
2010	£27.3m

Estate Agency and Related Services

Underlying Operating Profit

£10.3m

2011	£10.3m
2010	£7.2m

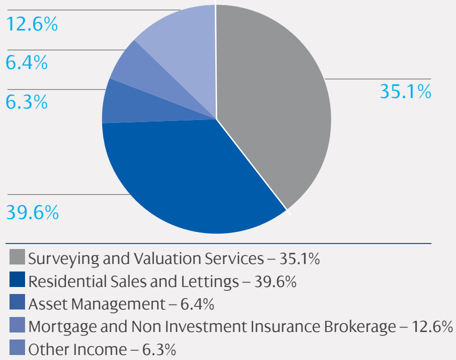
	2011	2010
Surveying and Valuation Services Performance		
Revenue decline of 5% primarily because of strong comparatives for certain key lenders. Revenue fell by 1% in the second half		
Underlying Operating Profit	**£23.7m**	£27.3m
Underlying Operating Margin[6]	**31.0%**	33.7%
Renewal of Barclays contract to June 2014		
Revenue for provision of surveying services to private buyers	**£2.8m**	£nil
Estate Agency and Related Services Performance		
Revenue increased by 13%	**£141.8m**	£125.7m
Underlying Operating Profit increased by 42%[7]	**£10.3m**	£7.2m
Market share increase of 0.2% (and pipeline growth of 7%)	**4.7%**	4.5%
Strong contribution from Lettings with revenue up 20%	**£29.6m**	£24.6m
Contribution from Financial Services up 49%	**£27.6m**	£18.6m
LSL acquired Marsh & Parsons in November 2011 for an enterprise value of £50m		
Marsh & Parsons is an excellent strategic fit for LSL providing exposure to the prime Central London market and offering a significant growth opportunity		

6 Underlying Operating Margin was after continued investment in customer services.
7 Underlying Operating Profit was after a revenue investment of £6.1m in people and call centre.

LSL's Markets

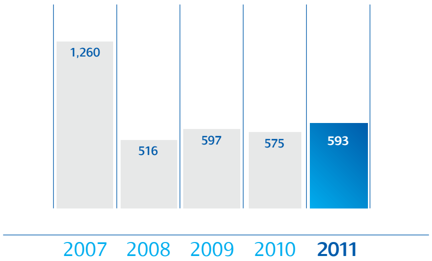
LSL operates across the residential property services value chain

Group Revenue Split

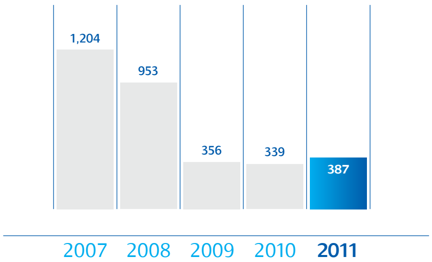


Market Transaction Data

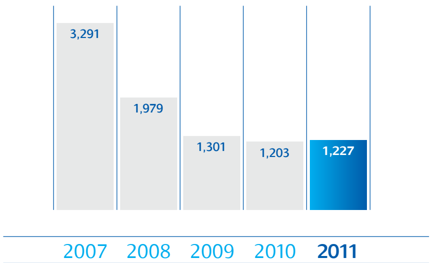
Total Mortgage Approvals for House Purchases '000



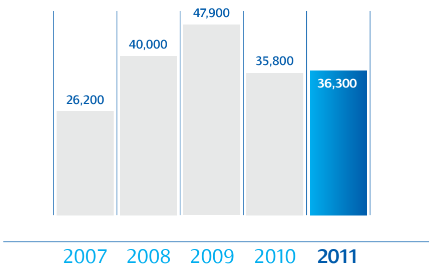
Remortgage Volumes '000



Total Mortgage Approvals[1] '000



Repossessions[2]



Our market can be categorised into two principal segments:

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

Surveying and Valuation Services

35.1% of Group revenue in 2011 (2010: 39%)

- Valuation services for lenders for residential mortgage purposes.
- Surveying services for private house purchasers.

Remortgage volumes of 387,000 were up 14% compared to 2010 (339,000). Total mortgage approvals only increased slightly by 2% to 1,227,000 (2010: 1,203,000) and have now been at this level for the last three years. The historic normalised level of total transactions for the period from 2002 to 2007 was circa 3.6m per annum.

Estate Agency and Related Services

The Estate Agency and Related Services segment includes Residential Sales 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.

Residential Sales and Lettings

39.6% of Group revenue in 2011 (2010: 37.3%)

- Estate Agency services for residential property sales.
- Comprehensive Lettings service for residential landlords and tenants.

In 2011 market transaction volumes increased slightly but are still at an extremely low point in the cycle compared to historic normalised levels of 1.2m per annum. Having fallen by 4% in the first half of the year, mortgage approvals for house purchases rose by 10% in the second half and at 593,000 (2010: 575,000) for the full year were up 3% year on year overall.

Asset Management

6.4% of Group revenue in 2011 (2010: 6.8%)

- Repossessions asset management services for lenders.
- Property management services for multi property landlords.

Repossession volumes fell by 1% to 35,800 in 2011 (2010: 36,300) which is somewhat surprising given the general difficulties in the housing market and the steady stream of disappointing economic news.

Mortgage and Non Investment Insurance Brokerage

12.6% of Group revenue in 2011 (2010: 9.0%)

- Brokerage services for mortgages.
- Brokerage services for non investment insurance (in particular mortgage protection products).

Other Income

6.3% of Group revenue in 2011

This includes franchising income, conveyancing services, EPCs, Home Reports, utilities and other products and services to clients of the Estate Agency branch network.

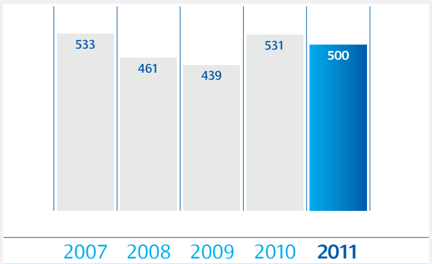
1 Source: Bank of England for "House Purchase Approvals", "Remortgage Approvals" and "Total Mortgage Approvals" 2011.

2 Source: Council of Mortgage Lenders arrears and repossessions data relating to properties taken into possession by first-charge mortgage lenders for 2011.

LSL's Market Intelligence

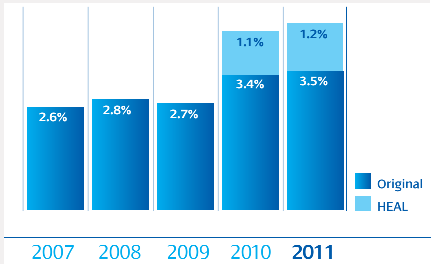
Market Share
Surveying Valuation Services Market Share

Jobs Performed '000



Estate Agency Market Share

Market Share



Surveying and Valuation Services

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's final approvals data.

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 sixteen categories are announced. The Awards, now in their second year, will be announced on 19th March 2012 at the Hospital Club, Covent Garden, London.

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

Estate Agency and Related Services

LSL Acadametrics House Price Index

The monthly House Price Index reports on transaction 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.

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.

LSL Consumer Sentiment Survey

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

LSL Landlord Sentiment Survey

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

For further information on any of the aforementioned reports, visit www.lslps.co.uk

LSL Today

LSL has established market leading positions in its market segments

Milestones

2004	2005
Acquisition of Reeds Rains; Acquisition of Linear Mortgage Network	MBO of Your Move and e.surv Chartered Surveyors

Surveying and Valuation Services

Surveying and Valuation

- Market leader.
- 499,146 valuation jobs completed in 2011 (2010: 531,000).
- 425 employed surveyors in 2011 (2010: 412).

– **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

Residential Sales and Lettings

- 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 with 568 branches (2010: 584).
- Acquisition of Marsh & Parsons in November 2011, providing exposure to prime Central London property market.
- Branch services include Residential Sales, Lettings and Financial Services.
- Technically advanced proprietary browser based IT systems common across most brands.
- Successful franchise model operating in 142 branches across Your Move, Reeds Rains, and Intercounty.
- Members of The Property Ombudsman, with a sales code of practice which is approved by the Office of Fair Trading.

– **Your Move**
The largest single brand UK estate agency with 314 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: Neilsen January 2012.

– **Reeds Rains**
A predominantly northern based network of 199 branches (made up of wholly owned and franchised branches).
www.reedsrains.co.uk

– **LSLi**
LSLi is the holding company for five estate agency brands with a combined network of 41 branches (made up of wholly owned and franchised branches).
www.lsli.co.uk

– **Marsh & Parsons**
Leading London premium brand estate agency operating in the Central, West and South West London property markets out of 14 branches.
www.marshandparsons.co.uk

IPO on main market, valuing the business at £208m

Launch of Asset Management and Corporate Lettings business

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

Launch of private survey initiative – RICS Home Buyers Report

2006 | 2007 | 2008 | 2009 | 2010 | 2011

Acquisition of Intercounty, Frost and JNP

Cheltenham & Gloucester valuations panel management contract acquired

Acquisition of Ekins from Barclays Bank plc and grant of associated surveying and Valuation services agreement

Santander contract expansion

Investment in Legal Marketing Services and LMS Direct Conveyancing

Acquisition of Marsh & Parsons and entry into the Central London residential property market

Launch of PropertyCare+

Barclays Bank plc contract renewal

Estate Agency and Related Services Continued

Asset Management

- Market leader.
- 11,200 repossessions in 2011 (2010: 10,500).
- Utilises network of up to 3,500 estate agency branches.

– **LSL Corporate Client Department**
Emerging from the Estate Agency business, LSL CCD 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 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.
www.templetonlpa.co.uk

Financial Services

- Specialising in brokerage of mortgage and protection products – LSL's combined appointed representative network is the fourth largest network in the UK.[1]
- Multi brand including Your Move, Reeds Rains, Linear, First Complete and Pink Home Loans.
- Total value of mortgage applications arranged £6.8bn (2010: £2.6bn).

1 Source: Which Network – Network Performance Figures for 2011 showing the combined numbers for First Complete (6th) and Pink Home Loans (8th).

– **First Complete**
Operates a mortgage brokerage business and mortgage intermediary network. The First Complete employed financial consultants offer financial services across LSL's entire Estate Agency branch network.
www.firstcomplete.co.uk

– **The Mortgage Alliance**
The Mortgage Alliance (which also trades as TMA) is a mortgage club which became a division of First Complete in June 2011. They distribute mortgages and financial services products to directly authorised mortgage intermediaries.
www.themortgagealliance.com

– **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, remortgages and life assurance through a network of financial consultants based remotely and in the offices of estate agents.
www.linearfs.com

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

LSL's Strategy

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

Surveying and Valuation Services

425 (2010: 412)
surveyors

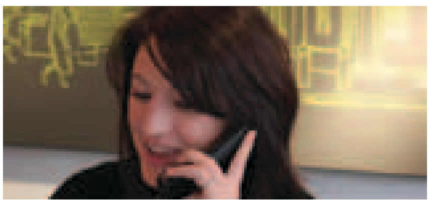
Estate Agency branch network

568 (2010: 584)
branches

Combined Financial Services Network (including introducer appointed representatives)

721 (2010: 589)
appointed representatives

1,178 (2010: 1,127)
advisers



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

- Surveying and Valuation Services (retain key lender clients and continue to develop the provision of surveying services to private clients); and
- Estate Agency and Related Services (continue to grow market share and profitability and to expand our presence in the prime Central London residential sales and lettings markets).

There are significant opportunities for the Group to achieve market share growth in its market segments.

Surveying and Valuation Services

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 continuing to develop the market for the provision of private surveying services delivered direct to private house purchasers with the addition of new products such as "PropertyCare+".

Estate Agency and Related Services

Residential Sales and Lettings

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

Drive organic growth through increasing market share of Residential Sales transaction volumes and investing further in Lettings services.

Support Marsh & Parsons' plans to grow their share of the Central London residential sales and lettings markets and augment with "bolt on" acquisitions.

Asset Management

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

Mortgage and Non Investment Insurance Brokerage Services

Build strong broker networks for the provision of mortgage and protection products and realise synergies and cost 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 continue to consider selective acquisitions across the residential property services value chain in order to enhance market positions and to grow scale.

Directors' Report & Business Review

Business Review

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Directors' Report and Business Review of the year ended 31st December 2011.
The Directors' have pleasure in presenting their annual report and the audited accounts for the year ended 31st December 2011.

The Directors' Report and Business Review is set out on pages 02 to 57.

Chairman's Statement

Roger Matthews

Group Revenue

£218.4m

Group Underlying Operating Profit

£31.1m

Our strong balance sheet and cash generation allowed us to take the opportunity of acquiring Marsh & Parsons

Introduction

In a market where transaction levels remained exceptionally low, 2011 was a year of investment for the future and one of strong progress for the Group. LSL delivered a 6% increase in revenue to £218.4m (2010: £206.6m) and Underlying Operating Profit of £31.1m (2010: £31.9m) after increased investment of £6.1m in Estate Agency initiatives. We invested as planned in key programmes in the Estate Agency businesses to drive revenue growth and were able to increase both market share and profitability in this part of the Group. We were delighted to renew the Barclays surveying and valuation services contract and to make an encouraging start in delivering surveying services to private buyers. Our strong balance sheet and cash generation allowed us to take the opportunity of acquiring Marsh & Parsons which is an excellent strategic fit for LSL.

Marsh & Parsons gives our Estate Agency Division exposure to the prime Central London market through a business that has a consistent record of profitable growth, a balanced business model with an equal split of residential sales and lettings, and which is led by a high calibre management team.

Market transaction volumes for both Surveying and Estate Agency increased slightly during 2011 but are still at an extremely low point in the cycle and we are now entering a fourth year of trading at these levels. Repossession volumes fell slightly during the year which was somewhat surprising given the general difficulties in the housing market and the steady stream of disappointing economic news.

Financial Results

Group revenue increased by 6% to £218.4m (2010: £206.6m) generating Group Underlying Operating Profit of £31.1m (2010: £31.9m). Group Underlying Operating Margin decreased from 15.4% to 14.3%, after the planned investment of £6.1m in initiatives to increase Estate Agency market share over the medium term.

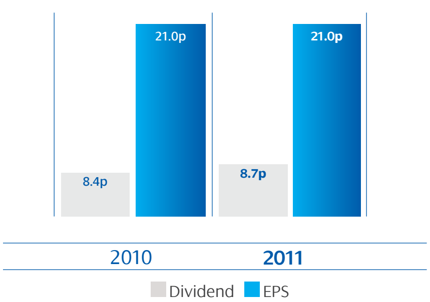
The Estate Agency Division increased Underlying Operating Profit by 42% to £10.3m (2010: £7.2m) in a year when house purchase approvals fell by 4% in the first half of the year and then increased by 10% in the second half, resulting in a full year increase of 3% to 593,000 (2010: 575,000). Repossession volumes fell by 1% to 35,800 in the year (2010: 36,300). The Estate Agency Division outperformed the market through continued profit improvement in the ex HEAL branches, market share gains, strong growth in Lettings and Financial Services and benefits from the first year of integration of our mortgage intermediary businesses which were acquired in 2010.

The Surveying Division traded well in a difficult market. Although total mortgage approvals increased by 2% to 1,227,000 (2010: 1,203,000) this included a 14% increase in remortgages to 387,000 (2010: 339,000), the majority of which did not result in a physical valuation. Surveying revenue decreased by 5% and Underlying Operating Profit decreased by 13% to £23.7m (2010: £27.3m) with an Underlying Operating Margin of 31.0% (2010: 33.7%). The revenue decline occurred mostly in the first half – during which many of our key lender clients were trading against particularly challenging comparatives. In addition, profitability and margin were impacted by continued investment in industry leading service levels.

£2.8m revenue from private surveys

£2.8m revenue delivered through the provision of surveying services for private buyers

EPS and Dividend



Professional Indemnity ("PI") claims in the market have continued at high levels especially relating to valuations undertaken in the period between 2005 and 2007. There has been a net reduction in the provision for inaccurate valuations to £9.6m (2010: £10.9m) as a result of the increase relating to new and possible expected claims being offset by the settlement of a number of existing claims. While the income statement charge in 2011 was in line with budgeted levels, cash payments for settlement of claims have run at a higher rate particularly in the second half.

Profit before tax, amortisation and exceptional costs was £28.5m (2010: £33.9m). The prior year included a one-off gain on the sale of an investment amounting to £3.9m. Acquisition costs relating to Marsh & Parsons contributed to an overall net exceptional cost of £2.4m (2010: exceptional profit £10.2m). The 2010 net exceptional profit was mostly as a result of the acquisition of the assets of HEAL. Amortisation during the year was £8.5m (2010: £8.1m) giving a profit before tax of £17.6m (2010: £36.0m). The profit after tax was £13.2m (2010: £34.5m). On an adjusted basis, earnings per share benefitted from a lower tax rate and was flat at 21.0p (2010: 21.0p).

Cash generated from operations before exceptional costs was £22.4m (2010: £30.7m) after capital expenditure of £3.2m (2010: £5.0m) and revenue investment in the Estate Agency initiatives of £6.1m (2010: nil). Cash flow was lower compared to the previous year because of an increase in working capital driven by the loss of HIPs income, an increase in deferred marketing fees, higher PI cash payments and investment in Asset Management work in progress. Without the acquisition of Marsh & Parsons, the strong cash flow would have resulted in net debt improving from £4.9m at 31st December 2010 to net cash of £7.1m even after the payment of £1.1m for a number of lettings businesses, investment in joint ventures of £0.7m and an increase in dividends paid in the year of £0.8m. After the payment of an initial cash consideration of £45.4m for Marsh & Parsons, acquisition costs paid of £0.9m and cash acquired of £5.7m; net debt was £38.4m as at 31st December 2011 (2010: £4.9m).

Dividend

As a result of the strong underlying profitability of the Group and the Board's view of future prospects for the business following the many positive developments during 2011, a maintained final dividend of 5.9p per share will be proposed to shareholders at the forthcoming AGM, bringing the total dividend for 2011 to 8.7p per share. This represents a 4% increase on the 2010 dividend of 8.4p per share. The proposed dividend payment is slightly higher than our previously stated policy of applying a dividend payout ratio of between 30% to 40% of Group Underlying Operating Profit after interest and tax, and reflects our confidence in the future and cash generative characteristics of the Group. The ex-dividend date for the final dividend is 28th March 2012 with a record date of 30th March 2012 and a payment date of 27th April 2012. Shareholders have the opportunity to elect to reinvest their cash dividend and purchase existing shares in LSL through a dividend reinvestment plan.

Developments

In Surveying we have continued to invest in industry leading solutions and service levels and have secured a number of key contract renewals during the period, most notably extending our relationship with Barclays for the provision of UK residential survey and valuation services for a new 30 month term from January 2012.

We are particularly pleased with the progress we have made during 2011 in expanding the provision of surveying services for private buyers. This is a key strategic initiative for the Group and has delivered revenue of £2.8m in the year. This result has primarily been achieved by accessing private buyers through Group distribution channels. We are now expanding our product range and distribution channels.

Chairman's Statement

Continued

£6.1m revenue investment in Estate Agency

Market share increase has been driven by investment in branch management, "The Bridge" call centre and in additional online activity

The Estate Agency Division has performed well in a market in which mortgage approvals increased by 3%, although all of the increase occurred in the final four months of the year. The typical three month lag between a mortgage approval and house completion resulted in market completions falling by an estimated 5% year on year. Our market share has increased from 4.5% in 2010 to 4.7% in 2011 but was somewhat depressed by the significant increase in mortgage approvals in the final few months of the year, the benefit of which will not be felt until early 2012. The market share increase has been driven by the £6.1m investment made in branch management, "The Bridge" call centre and in additional online activity. We are well placed going into 2012 with the pipeline 7% higher in December 2011 than in December 2010.

Lettings and Financial Services income streams have grown by 20% and 49% respectively during the year with a particularly strong contribution from the ex HEAL branches. More generally, the ex HEAL business contributed an improvement in operating profit of £3.2m in 2011 compared to 2010.

A key development for the Estate Agency Division was the acquisition of Marsh & Parsons which has an excellent geographic and strategic fit with LSL. It gives LSL exposure to the prime Central London market where volumes and commission rates have been consistently strong compared to other parts of the UK. The business represents a trusted premium brand with consistently high customer satisfaction levels and is led by a high quality and experienced management team who have an excellent track record and have built a business model balanced equally between residential sales and lettings. The management team has exciting growth plans for the future including two new openings during 2012. In addition, LSL is prepared to augment these plans with "bolt on" acquisition opportunities where appropriate.

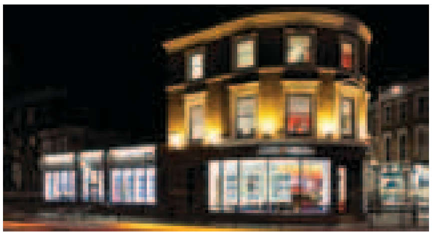
Our Asset Management business increased its market share once again. Although Asset Management income of £13.9m was the same as in the prior year (2010: £13.9m) this was against a reduction of 1% in market volumes. When combined with Lettings income of £29.6m (2010: £24.6m) this resulted in total counter cyclical income of £43.5m (2010: £38.5m) which is now a key profit driver for LSL. Lettings income accounted for 21% of total Estate Agency revenues in 2011 (2010: 19%) and this is expected to increase further during 2012.

Corporate Governance and Board

The Board is committed to high levels of corporate governance as defined by the June 2010 UK Corporate Governance Code. We conduct an annual review of matters reserved for the Board and we have reviewed the terms of reference of its Committees during the year. We will be adopting the practice of all our Directors standing for re-election at this year's AGM.

The Nominations Committee have considered at length the composition of the Board, the balance of skills and experience required to optimise shareholder value, and its policy on diversity. In this context, I am delighted that we recently announced the appointment of Helen Buck as an additional Non Executive Director with effect from 1st December 2011. Helen is currently on the Board of Sainsbury's Supermarkets Limited as Retail Director and previously held senior retail and marketing positions at Marks & Spencer PLC and Safeway PLC. I am sure Helen will make a valuable contribution to the Board and to the growth of the business. Amongst our Non Executive Directors, we have experience in surveying, financial services, residential housing building, retail and marketing, operations, business services, entrepreneurial private and public companies and finance.

Acquisitions during the year



We have also recognised the benefits of gender diversity on the Board. We now have two female Directors representing 22% of the Board. We have also reviewed gender diversity across the management teams within the Group businesses through a gender diversity survey. I am reassured by the feedback as it confirms that the Group is sufficiently diverse and positive to our female employees. We do not believe in setting targets for the number of female Directors on the Board and while we will continue to appoint on merit, I will ensure that our searches take into account diversity.

I also continuously review and encourage feedback on the effectiveness of the Board and undertake an annual evaluation. Whilst no significant issues requiring action arose from these evaluations, a number of recommendations were made to further improve the effectiveness of the Board.

People

The Group expanded further during 2011 through both investment in our existing businesses and through acquisitions. I would like to extend a very warm welcome to all new colleagues and wish them well in their careers with the Group. In total, the number of Group employees increased by 341 (8%) to 4,831 (2010: 4,490).

This has been another particularly challenging year and our Group revenues have been underpinned by exceptional customer service in the face of ever increasing competition in a low transaction environment. Such service is dependent on the skills and efforts of our employees and I would like to thank them all for the tremendous commitment they have shown during the year.

Current trading and outlook

Housing transaction volumes remain at less than half of normal historic levels and the Group retains a cautious view of 2012. The housing market is now entering a fourth year that will be impacted by a shortage of available mortgage finance added to which the ongoing general economic uncertainty is adversely impacting consumer confidence. Against this difficult backdrop the Group will continue to focus on growing market share and profitability in Estate Agency and on the retention of key lender clients for Surveying and Valuation Services. There are also significant opportunities to build on the strong start made in providing surveying services to private buyers and to expand our presence in the prime Central London market through Marsh & Parsons.

Activity levels to the end of February 2012 are in line with our expectations with market volumes still constrained. We are making further progress as planned with our organic growth initiatives across the Group and Marsh & Parsons is trading well.

The Group is extremely cash generative and has a strong balance sheet. We will retain a prudent approach to leverage which will place a premium on delivery of organic growth but with scope for further acquisitions. The Group is well placed to increase shareholder value through the execution of this strategy.

Roger Matthews
Chairman
1st March 2012

Surveying and Valuation Services

In 2011 e.surv Chartered Surveyors renewed a major contract with a key lender client and continued to develop services for the private survey market

Key Performance Indicators

Income per job

£153

Profit margin

31%

Number of surveyors

425

Surveying Division Performance

While total mortgage approvals during 2011 increased by 2% to 1.2m, this included a 14% increase in remortgages, not all of which result in a physical valuation. In addition, key lender clients were trading against challenging comparatives, particularly in the first half of the year. Against this backdrop the Surveying Division has traded well. Turnover fell by 5% to £76.6m (2010: £80.9m) with the total numbers of jobs performed reducing by 6% to 500,000 (2010: 531,000). The Division made excellent progress in developing surveying services for private buyers and delivered revenue of £2.8m in the year (2010: nil).

Underlying Operating Profit reduced by 13% and the Underlying Operating Profit margin decreased to 31% (2010: 34%) which reflected both the overall revenue decline and further investment in provision of high service levels for all lender clients. As part of this investment there was a switch towards the use of employed surveyors rather than contractors and the total number of employed surveyors increased to 425 (2010: 412).

PI claims in the market have continued at high levels, especially relating to valuations undertaken in the period between 2005 and 2007. There has been a net reduction in the provision for inaccurate valuations to £9.6m (2010: £10.9m) as a result of the increase relating to new and possible expected claims being offset by the settlement of a number of existing claims. While the income statement cost in 2011 was in line with budgeted levels, cash payments for settlement of claims have run at a higher rate particularly in the second half.

Surveying Developments

2011 saw a successful start to the delivery of our private survey initiative and levels of revenue and margin have exceeded expectations. The Group has an unparalleled potential distribution network for private surveying services including other key lender clients, the Group's Estate Agency branch network including, online activity, direct marketing and through the e.surv Chartered Surveyors and Barnwoods brands. We will be accelerating the roll out of our offer through additional distribution channels during 2012.

e.surv Chartered Surveyors successfully renewed the Barclays' surveying and valuation services contract for a 30 month term commencing from 1st January 2012. This was an excellent achievement in what continues to be very uncertain market conditions and is a reflection of our market leading service levels. The C&G contract contributed £12.5m of turnover in 2011 compared to £13.6m in 2010 due to the impact of Lloyds Banking Group's mortgage strategy and is due for renewal in July 2012.

The Surveying Division has a number of key relationships which are managed both on an exclusive basis and through panel management arrangements. We continue to remain committed to providing excellent quality advice and service levels to all lender clients and have underpinned this with further investment during the year.

Feedback from both our lender clients and private customers is consistently positive and we particularly differentiate ourselves on meeting demanding key service measures. For lender clients these include turnaround time for valuations reflecting our use of innovative technology, the flexibility of our panel management arrangements and assisting lenders in the management of the risk of mortgage fraud. Our Surveying Division's risk management arrangements have been widely acknowledged by our lender clients as being market leading and unique.

During 2011 e.surv Chartered Surveyors' risk management and relationship management arrangements have received recognition through the nomination for the Managing Partners and European Leadership Awards and the CCR Credit Excellence Awards. Further details relating to these nominations are set

Financial	2011 £m	2010 £m
Revenue	**76.6**	80.9
Operating expenditure	**(52.9)**	(53.6)
Underlying Operating Profit	**23.7**	27.3

KPIs	2011	2010
Profit margin	**31%**	34%
Jobs performed ('000)	**500**	531
Revenue from private surveys (£m)	**2.8**	–
Income per job (£)	**153**	153
Professional Indemnity insurance provision (£m)	**9.6**	10.9
Underlying Operating Margin	**31%**	34%
Number of surveyors	**425**	412

best company
'one to watch'
2012

out below and further details of how we manage customer relationships is set out at page 23 of this Report.

Looking forward, we expect the tough market conditions combined with the ongoing cycle of key contract renewals to increase pressure on margins in this division, but in the medium term we expect to be able to mitigate this margin pressure by capitalising on what is a major opportunity to not only claim a significant share of the current private survey market and also to expand the market through the education of customers.

e.surv Chartered Surveyors Achievements/ Awards 2011 & 2012

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

Mortgage Strategy Awards 2011 – Finalist for Best Surveyor/Valuer

e.surv Chartered Surveyors was a finalist and came second in the Best Surveyor/Valuer category.

Mortgage Strategy Awards 2012 – Winner

e.surv Chartered Surveyors received the Best Surveyor/Valuer award on 28th February 2012.

Marketing Week Engage Awards 2011

e.surv Chartered Surveyors was a finalist in the Design category – a great achievement for competing against the biggest brands in the industry.

Sunday Times – Best Companies 2012 – One to Watch

e.surv Chartered Surveyors received this award in February 2012, having come extremely close to being in the top 100 in 2011.

IIP Accreditation

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

Managing Partners and European Leadership Awards 2012 Best Innovation in Client Service or Relationship Management Nominee

Having been listed as a finalist at the MPF European Practice Management Awards for Risk Management in 2011, e.surv Chartered Surveyors has once again in 2012 been listed as a finalist at the Managing Partners and European Leadership Awards which relates to client services and relationship management. These awards recognise the integrated and embedded approach and active involvement to relationship management promoted by e.surv Chartered Surveyors.

BSi ISO 9001 Accreditation Extended

e.surv Chartered Surveyors once again secured an extension to its ISO 9001:2008, which was originally achieved 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). This also covers quality management systems, maintained by the International Organisation for Standardisation.

CCR Credit Excellence Awards 2011

e.surv Chartered Surveyors was selected as a finalist in the CCR Credit Excellence Awards 2011 in the category for "Credit Excellence in Risk". The position within this category was awarded for continued development of risk management and mitigation controls to support its lender clients.

"e.surv Chartered Surveyors is objectively recognised by our clients and professional indemnity insurers as leading the way in the management of risk within the Surveying Industry. The business embraces risk management as a tool to "de-risk" the business, derive a unique selling point and secure new and strengthen existing client contractual relationships."

Estate Agency and Related Services

In 2011 LSL acquired Marsh & Parsons in line with our acquisition strategy to expand our presence in the prime Central London residential sales and lettings markets

KPIs	Actual – including Marsh & Parsons 2011	2010	% change	Like-for-like – excluding Marsh & Parsons 2011	2010	% change
Exchange units	**27,643**	25,766	7%	**27,540**	25,766	7%
Market share	**4.7%**	4.5%	4%	**4.64%**	4.48%	4%
Underlying Operating Margin	**7.2%**	5.8%	26%	**7%**	5.8%	21%

Key Performance Indicators

Total exchange units

+7%

Total market share

+4%

Underlying Operating Margin

+26%

Estate Agency Performance

The Estate Agency Division acquired Marsh & Parsons in November 2011 and the trading has so far had a small impact on the overall performance of the division but is expected to have a significant impact in 2012. Therefore, the results are presented on both an actual and like-for-like basis (excluding Marsh & Parsons). Further details about Marsh & Parsons are set out below and in the Circular to Shareholders dated 4th November 2011, which is available at www.lslps.co.uk/investors-relations/investor-communications.

The Estate Agency Division delivered a strong performance in 2011 with excellent growth in Lettings and Financial Services income streams. The number of mortgage approvals for house purchases increased by 3% to 593,000 (2010: 575,000) which compares to historic normalised levels of 1.2m. The increase in approvals all occurred in the final four months of the year and the typical three month lag between a mortgage approval and house purchase completion actually meant that market completions in 2011 fell by an estimated 5% year on year.

Against this background, total Estate Agency income increased by 13% to £141.8m (2010: £125.7m) and on a like-for-like basis by 11% to £139.2m (2010: £125.7m). Underlying Operating Profit increased by 42% to £10.3m (2010: £7.2m) and on a like-for-like basis by 34% to £9.7m (2010: £7.2m) after investment of £6.1m in people and the new call centre. The HEAL business which was acquired in January 2010 delivered a break even performance in 2011 (2010: £3.2m operating loss) driven by significant increases in Lettings and Financial Services income in the ex HEAL branches. These income streams have also increased in the original non HEAL branches and this is discussed later in this review.

The acquisition of Marsh & Parsons provides a business with an excellent geographic and strategic fit for LSL. It gives LSL exposure to the prime Central London property market where volumes and commission rates have been consistently high and strong compared to other parts of the UK. For the short period between acquisition and the year-end, Marsh & Parsons has traded in line with the Directors' expectations. The management team at Marsh & Parsons is very experienced, has built a business model balanced equally between residential sales and lettings and has an excellent track record in delivering growth.

Estate Agency Branches

Your Move, Reeds Rains and the LSLi brands all continued to perform well during a year in which mortgage approvals reduced in the first half year and then increased significantly in the final four months. LSL has historically measured market share by comparing exchanges against house purchase mortgage approvals data issued by the Bank of England. Using this measure our market share increased from 4.5% to 4.7% in 2011. However, taking into account the three month time lag between mortgage approval and house purchase completions, market completions fell by an estimated 5% in 2011. Our market share of 4.7% was depressed by the significant increase in mortgage approvals in the final months of the year, the benefit of which can be seen in the 7% year on year increase in the pipeline. This increase in market share in our Estate Agency Division has mainly been driven by the investment in people and the new call centre.

Financial	Actual – including Marsh & Parsons 2011 £m	2010 £m	% change	Like-for-like – excluding Marsh & Parsons 2011 £m	2010 £m	% change
Exchange fees	**56.8**	52.4	9%	**54.8**	52.4	5%
Lettings income	**29.6**	24.6	20%	**29.1**	24.6	18%
Asset Management income	**13.9**	13.9	0%	**13.9**	13.9	0%
Financial Services income	**27.6**	18.6	49%	**27.6**	18.6	49%
Other income*	**13.9**	16.2	–14%	**13.8**	16.2	–14%
Total income	**141.8**	125.7	13%	**139.2**	125.7	11%
Operating expenditure	**(131.5)**	(118.5)	11%	**(129.5)**	(118.5)	9%
Underlying Operating Profit	**10.3**	7.2	42%	**9.7**	7.2	34%

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

Counter Cyclical Income

The counter cyclical income streams of Lettings and Asset Management are particularly important to LSL in depressed market conditions. In 2011 LSL has focussed on growing Lettings income especially in the ex HEAL branches to minimise the impact of the market downturn. During 2011 like-for-like Lettings income grew by an impressive 18%. Despite the uncertain economic conditions impacting the housing market and the steady stream of disappointing economic news the repossessions volume fell by 1% to 35,800 in 2011 (2010: 36,300). We are pleased that our market share in Asset Management has increased during the year with revenue remaining at £13.9m (2010: £13.9m) in a declining market. Our Asset Management business is well positioned to capitalise on an increase in repossession volumes when they eventually occur.

Financial Services

Financial services income has increased by 49% in 2011 to £27.6m (2010: £18.6m). This was due to a combination of increase in Financial Services income from the Residential Sales branches and also full year revenue benefit from the acquisition of the Home of Choice network, (which was acquired by First Complete in May 2010) and Pink Home Loans (acquired in November 2010). We have now successfully integrated the 2010 acquisitions and simplified our regulatory operating model with Your Move and Reeds Rains becoming the appointed representatives of First Complete. Total gross mortgage lending arranged through our Financial Services network in 2011 was £6.8 billion (2010: £2.6 billion).

Developments

The key Estate Agency developments during 2011 were the continued focus on execution of the market share growth initiatives started in 2010 and also the acquisition of Marsh & Parsons.

The market share growth initiatives have been built on the platform of an Estate Agency branch network which had been expanded by the acquisition of the HEAL business in January 2010. Following a successful integration of HEAL, all branches have offered a service covering Residential Sales, Lettings and Financial Services since mid 2010. Lettings and Financial Services growth has been targeted with excellent results and is on track to follow a three to five year growth maturity curve with prospects enhanced by favourable conditions in the lettings market. In addition, a number of individual lettings books have been acquired in various locations across the country on a tactical basis.

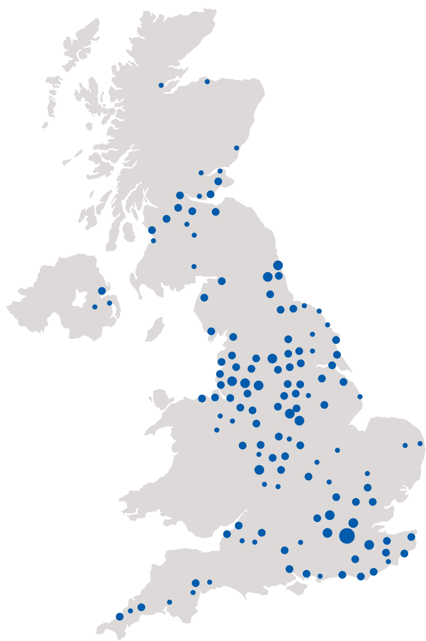
The key element of the organic growth initiative was to increase market share in Residential Sales. The initiative was started in 2010 with refurbishment of all branches and with investment in people at the branch level. This has continued during 2011 and in January 2011 our new call centre "The Bridge", was opened. "The Bridge" operates to help generate instructions for the branches and has had a very successful first year. Overall, market share has increased from 4.5% to 4.7% during the year and pipelines in December 2011 were 7% higher compared to December 2010.

We have also been aiming to increase our market share of higher value properties, against the backdrop of Your Move and Reeds Rains typically selling houses at the national average house price of circa £160,000. This has proved more difficult in the prevailing market conditions and while we have had some success this area remains a major opportunity for the future.

Breakdown of Estate Agency branches

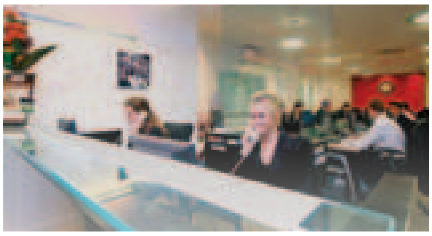
	Owned	Franchised	Totals
YM	229	85	**314**
RR	155	44	**199**
LSLi	28	13	**41**
M&P	14	0	**14**
Totals	426	142	**568**

The above branch numbers include 7 virtual branches.

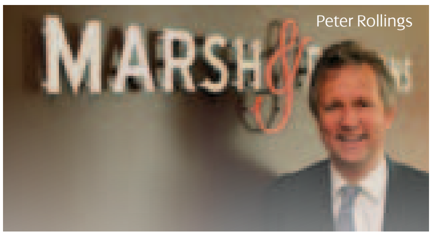


Estate Agency and Related Services

Continued



Liza-Jane Kelly



Peter Rollings

Marsh & Parsons

In November 2011, LSL acquired Marsh & Parsons, which is a leading London estate agency operating a premium brand in the mid-segment of the prime Central London property market, where sale volumes have been robust and commission rates consistently strong in comparison with other parts of the UK.

About Marsh & Parsons

Headquartered in Hammersmith, Marsh & Parsons is a leading premium brand London estate agency operating exclusively in the prime London housing market of Central and South West London from its 14 branches. It was originally established in 1856 when its founder, William T Marsh, established an estate agency on Kensington High Street.

From its inception, the firm has established itself as one of the leading residential estate agents in Central London and it is one of the longest established estate agents in the Royal Borough of Chelsea and Kensington. Marsh & Parsons' 14 branches are based in Balham, Barnes, Battersea, Brook Green, Chelsea, Clapham, Fulham, Holland Park, Kensington, Little Venice, North Kensington, Notting Hill and Pimlico and there is also a virtual office in Mayfair.

The customer offering is predominantly residential sales and lettings services, but it also includes corporate relocation services, property management, residential development, advisory services and professional valuation services.

In June 2005, Marsh & Parsons was acquired by Sherry FitzGerald (Ireland's largest estate agency group) under the leadership of Peter Rollings (previously the Managing Director of Foxtons) and Liza-Jane Kelly. Since then, Marsh & Parsons has grown rapidly (turnover has increased from £10.4m in 2006 to £23.3m in 2010) following the opening of new branches and the acquisition and rebranding of Vanstons in 2007.

In 2011, Marsh & Parsons won a number of awards including receiving awards in four categories at the Negotiator Awards. Details of the awards received by Marsh & Parsons are set out at pages 20 and 21. Marsh & Parsons also holds memberships of both the Association of Residential Lettings Agents (ARLA) and The Property Ombudsman (TPO).

Marsh & Parsons had 208 full time equivalent employees as at 31st December 2011.

The Acquisition

Marsh & Parsons was formerly a subsidiary of Sherry FitzGerald which owned 72% of the entire issued share capital, with the remaining 28% of the issued share capital being owned by the Marsh & Parsons Management Shareholders. Following LSL's acquisition, the Marsh & Parsons Management Shareholders have remained with the business and, as part of their commitment they have reinvested 50% of the net consideration that they received (£6.5m) back into the business.

The enterprise value of the acquisition was £50.0m. After accounting for cash and excess working capital of approximately £3.1m, LSL paid a total consideration of £53.4m (before fair value adjustment to loan notes), which was satisfied by £45.4m in cash, £7.6m in loan notes and £0.4m in Growth Shares for the entire issued share capital of Marsh & Parsons.

Marsh & Parsons Management Shareholders have been incentivised to grow the profitability of the business through the allocation of the £0.4m of Growth Shares which can be sold to LSL at any time between 31st March 2016 and 1st April 2020.

The transaction was funded using LSL's existing bank facility and is expected to significantly enhance adjusted earnings per share for LSL's shareholders in 2012.

Benefits of the Acquisition

The Directors believe that the transaction has a compelling strategic and financial

rationale, with significant benefits for LSL's Shareholders. The London estate agency market has historically proven to demonstrate more robust features through the property cycle. The acquisition of Marsh & Parsons provides LSL the opportunity to significantly increase its exposure in this key geographical location, and provides a vehicle to capitalise on further expansion opportunities in London and, in the medium term, to benefit from the market recovery.

Following the acquisition, Marsh & Parsons continues to operate independently as a separate business and brand within the Group, which already operates a number of estate agency brands and businesses.

The key benefits which flow from the transaction can be summarised as follows:

a. The transaction provides LSL with a presence in the mid-segment of the prime Central London estate agency market. Marsh & Parsons is geographically complementary to LSL's existing estate agency footprint and provides the wider Group with greater coverage of the UK property market.

b. The London property market has historically shown more robust characteristics than the wider UK property market, though transaction levels are still circa 40% lower than peak levels in 2007. The higher proportion of cash sales and greater participation of foreign buyers provide the London property market with higher levels of growth during stronger economic periods but also more resilience against restricted mortgage availability and general economic weakness. More generally, limited housing supply and strong demand for properties from both domestic and foreign buyers contribute to the inherent attractiveness of the London market.

c. The Marsh & Parsons business model is to drive revenue across both residential sales and lettings in order to reduce exposure to the natural cyclicality of the property market. This has been achieved and revenue in 2010 was broadly evenly split between residential sales and lettings.

d. Marsh & Parsons represents a trusted premium brand, established for over 150 years, which enjoys excellent customer satisfaction levels, enabling Marsh & Parsons to increase its market share by 66% since 2005, including the period of the recent market downturn.

e. LSL has gained a high quality, dynamic and experienced management team with an outstanding record of delivering strong and profitable growth against the backdrop of challenging market conditions. The team is led by Chief Executive Peter Rollings, who has over 25 years' experience of successfully growing estate agency businesses in the London market with both Foxtons and Marsh & Parsons, and Liza-Jane Kelly, who has over 18 years in the property market including experience with Sherry FitzGerald, Hamptons International and Marsh & Parsons.

The Marsh & Parsons Management Shareholders remain committed to and have reinvested in the business.

f. The Marsh & Parsons Management Shareholders have exciting growth plans for the business which builds on their recent track record of doubling their number of offices. The next stage of the business plan includes increasing market share across the existing portfolio and further roll out of new offices across prime areas of London together with further bolt on acquisition opportunities.

g. While Marsh & Parsons will operate independently within the Group, there will be opportunities for synergies. LSL has a strong track record of encouraging its separately branded Estate Agency businesses to share best practice and, in particular, there may be opportunities for Marsh & Parsons to further develop certain revenue streams. In addition, it is possible that some existing LSL Estate Agency branches in London could be rebranded Marsh & Parsons.

h. In a challenging London market, Marsh & Parsons has demonstrated an excellent track record of delivery since 2005 through its investment in people, market, business model and brand. During this period, its market share has increased by 66%, revenue has increased by 53% per annum (compound annual average growth rate) and the operating result has improved from a loss of £0.6m in 2005 to a profit before tax of £6.3m in 2010. The business has also delivered excellent cash conversion during this time with high margins and relatively low levels of capital expenditure.

Estate Agency and Related Services

Continued

Regulation

First Complete, Advance Mortgage Funding and BDS Mortgage Group are all directly authorised by the Financial Services Authority in relation to the sale of mortgage and non investment insurance products (which includes pure protection and general insurance products). Your Move and Reeds Rains along with the LSLi subsidiaries are all appointed representatives of First Complete, while Linear is an appointed representative of Advance Mortgage Funding for mortgage and non investment insurance business and also an appointed representative of Openwork (for investment business). Reeds Rains is also 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.

Estate Agency and Related Services Achievements/Awards 2011 & 2012

The Estate Agency businesses achieved the following industry awards demonstrating LSL's continued commitment to customer services:

The Sunday Times Estate Agency of the Year Awards are now a recognised benchmark for excellence throughout the estate agency industry. Competition is fierce from estate agencies nationwide and an award is a great achievement.

Your Move

Sunday Times Estate Agency of the Year Awards 2011:
Gold – Best Marketing
Silver – Best Financial Services

Sunday Times Lettings Agency of the Year Awards 2011:
Bronze – Best Property Management
Bronze – Best Lettings Franchise

Reeds Rains

Sunday Times Estate Agency of the Year Awards 2011:
Shortlisted Best Financial Services Provider

Marsh & Parsons

The Negotiator Awards 2011 – Quadruple Winners

At the 2011 Negotiator Awards Marsh & Parsons were winners of four categories – National Lettings Agency of the Year, Marketing Team of the Year, Leader of the Year, and named as overall "most admired estate agency" earning the Supreme Agency of the Year title.

National Lettings Agency of the Year – the judges were particularly impressed with Marsh & Parsons' newly launched initiatives, including an international desk offering 20 different languages and the 2012 Olympic Accommodation service run by their Corporate & Relocation Services team.

Marketing Team of the Year – Marsh & Parsons were particularly commended for their 0% campaign, designed to introduce the Marsh & Parsons brand in areas where they were relatively unknown.

Leader of the Year – Peter Rollings, Chief Executive of Marsh & Parsons was announced as 2011's Estate Agency 'Leader of the Year'. The judges were impressed with his transformation of the Marsh & Parsons brand, as well as his ability to get the best out of his employees, who "praise their leader for his energy, enthusiasm and commitment, but above all, for his passion for the business".

Overall Supreme Agency of the Year – this award is judged by The Negotiator's "special academy" comprising 50 of the UK's leading property professionals, including Marsh & Parsons' rivals.

Sunday Times Lettings Agency of the Year Awards 2011 – Winner
Gold – Best Medium Letting Agent in London

Intercounty
Sunday Times Estate Agency of the Year Awards 2011 – Winner
Cecil Jackson Cole Award for Social and Corporate Responsibility
The award recognised the work they have been doing with Shelter during 2011 and 2012. The award helps to raise the profile of the issues related to homelessness and raise more money for the cause. Part of Intercounty's campaign included a sponsored sleep rough when some of the staff led by Greg Young, its MD, undertook a 24 hour street collection outside three of its branches in aid of Shelter.

Pink Home Loans
Mortgage Strategy Awards 2012 and 2011 – Finalist
Pink Home Loans was a finalist in both years in the Best Mortgage Network Category.

Linear Financial Services
Mortgage Strategy Awards 2012 and 2011 – Winner
Linear Financial Services was the winner in both years of the Best Broker for Protection award.

First Complete
Mortgage Strategy Awards 2012 – Winner
First Complete won the Best Mortgage Network award.

Mortgage Strategy Awards 2011 – Finalist
First Complete was a finalist in the Best Mortgage Network category.

LSL Corporate Client Department (LSL CCD)
LSL CCD accredited to ISO 9001:2008
In 2011 LSL Corporate Client Department became the first corporate asset manager to be accredited to ISO 9001:2008 leading the way and setting standards in this field. This was achieved when LSL CCD was independently reviewed by the leading global provider of standards and certification body – the British Standards Institution (BSI). This also covers quality management systems maintained by the International Organisation for Standardisation.

Mortgage Finance Gazette Award 2011 – Winner
LSL Corporate Client Department became the winner in the Excellence in Treating Customers Fairly – Non Lenders category. It was noted that: "Treating customers fairly is embedded in the culture of the company from staff training systems, auditing and complaint handling."

St Trinity Asset Management
St Trinity accredited to ISO 9001:2008
In 2011 St Trinity Asset Management became the first part-exchange asset manager in the UK to secure ISO 9001:2008 accreditation, leading the way and setting standards in this field. This was achieved when St Trinity was independently reviewed by the leading global providers of standard and certification body – the BSI. This also covers quality management systems maintained by the International Organisation for Standardisation.

LSL – The Bridge
Sunday Times Estate Agency of the Year Awards 2011 – Finalist
Bronze – Innovation

LSL Land & New Homes
Sunday Times Estate Agency of the Year Awards 2011 – Finalist
Bronze – Best New Homes

Financial Review

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

Revenue

+6%

Underlying Operating Profit

£31.1m

Operating cash flow after capital expenditure

£22.4m

Net debt (excluding loan notes)

£38.4m

INCOME STATEMENT

Revenue

Revenue increased by 6% to £218.4m in the year ended 31st December 2011 (2010: £206.6m).

Operating Expenses Excluding Exceptional Costs, Amortisation and Share Based Payment

Operating expenses increased by 7% to £189.0m (2010: £176.4m). This was mainly in the Estate Agency and Related Services Division and was due to higher revenue. Average full time equivalent employees during the year was 3,930 (2010: 3,649).

Underlying Operating Profit

Group Underlying Operating Profit decreased by 2.6% to £31.1m (2010: £31.9m) with the Underlying Operating Margin of 14.3% (2010: 15.4%).

Exceptional Items

Acquisition costs of £1.6m relating to Marsh & Parsons contributed to an overall net exceptional cost of £2.4m (2010: exceptional profit £10.2m).

Net Financial Costs

Net financial costs (excluding exceptional finance costs) amounted to £1.8m (2010: £2.2m). The finance costs related principally to interest and fees on the revolving credit facility.

Taxation

The effective rate of corporation tax for the year was 24.6% (2010: 4%). The effective tax rate for the year was impacted by non-taxable income for joint ventures and the impact of a rate change on the deferred tax liability. Excluding this impact the effective tax rate is 27.8%. The effective tax rate in the prior year was lower due to the impact of non-taxable income on profit made on the 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 (2010: 21.0p). The Directors consider that 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 £3.2m (2010: £5.0m). The capital expenditure predominantly comprised expenditure on investment in Estate Agency initiatives.

Financial Structure

As at 31st December 2011 net debt (excluding loan notes issued on the acquisition of Marsh & Parsons) was £38.4m (2010: £4.9m). LSL has a £75.0m revolving credit facility in place until March 2014 (2010: £75.0m). The net debt increase followed the payment of an initial consideration of £45.4m for Marsh & Parsons and the payment of £1.1m for a number of lettings businesses, investment in joint ventures of £0.7m and an increase in dividend paid in the year of £0.8m.

Cash Flow

The Group produced £22.4m (2010: £30.7m) of operating cash flow after capital expenditure of £3.2m (2010: £5.0m) and revenue investment in Estate Agency initiatives of £6.1m (2010: nil). Cash flow was lower compared to the previous year because of an increase in working capital driven by the loss of HIPs income, an increase in deferred marketing fees, higher PI cash payments and investment in Asset Management work in progress. Without the acquisition of Marsh & Parsons, the strong cash flow would have resulted in net debt improving from £4.9m in December 2010 to net cash of £7.1m even after the payment of £1.1m for a number of lettings businesses, investment in joint ventures of £0.7m and an increase in dividends paid in the year of £0.8m. After the payment of an initial cash consideration of

£45.4m for Marsh & Parsons, acquisition costs paid of £0.9m and cash acquired of £5.7m, net debt was £38.4m as at 31st December 2011.

Net Assets

The net assets as at 31st December 2011 were £72.4m (2010: £68.1m).

Treasury & Risk Management

LSL has an active debt management policy and due to the cash generative nature of the business and the cash paid for the initial consideration on the acquisition of Marsh & Parsons of £45.4m, the Group's net debt position (excluding loan notes issued on the acquisition of Marsh & Parsons) at 31st December 2011 is £38.4m (2010: £4.9m). The Group has an interest rate swap in place which fixes the interest on borrowings up to £25m at an average rate of 2.93%. This provides a degree of predictability on finance costs. 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.

RELATIONSHIPS

The Corporate Social Responsibility (CSR) statement at pages 51 to 57 details the arrangements for all LSL companies in relation to:

- Employment (including Equal Opportunities);
- Health, Safety & Welfare;
- Environmental; and
- Social and Community Investments (including social and ethical issues).

Other than our shareholders, LSL's performance and value are influenced by other stakeholders, principally our customers, suppliers, employees, Government and our strategic partners. LSL'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 Royal Institute of Chartered Surveyors (RICS), the Association of Mortgage Intermediaries (AMI), the National Association of Estate Agents (NAEA), the Association of Residential Lettings Agents (ARLA), National Federation of Property Professionals (NFoPP) and The Property Ombudsman (TPO), because these give us genuine access to customer views and decision makers in Government and other regulatory bodies.
- 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. 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 51 to 57 of this Report.

PRINCIPAL RISKS & UNCERTAINTIES

LSL's risk management arrangements form an integral part of its overall framework for the management of risks and maintaining internal controls. Through the framework, the Board continually identifies, evaluates and manages the principal risks and uncertainties faced by LSL which could adversely affect its business, operating results and financial condition.

This risk management and internal controls framework includes:

a. Ownership of the risk management and internal controls framework by the Board, supported by the Company Secretary, Head of Risk & Audit and the Group Financial Controller;

b. A network of Risk Owners in each of LSL's businesses with specific responsibilities relating to risk management and internal controls;

c. The documentation and monitoring of risks are recorded and managed through standardised risk registers which undergo regular reviews and scrutiny by local boards and the Head of Risk & Audit;

d. The Board regularly reviews a consolidated risk register as part of the planning and reporting cycle to ensure that risks which impact the Group are identified, monitored and mitigated; and

e. Reporting by the Chairman of the Audit Committee to the Board on any matters which have arisen from the Audit Committee's review of the way in which the risk management and internal control framework has been applied together with any breakdowns in, or exceptions to, these procedures.

Listed on page 25 are the risks which the Board has identified as being significant, and therefore the principal risks and uncertainties faced by LSL, together with details of key mitigation initiatives, which are subject to regular review.

LSL also faces other risks which, although important and subject to regular review, have been assessed as less significant and are not listed here. This includes some risks which were reported in previous years' Annual Report & Accounts and which through changes in external factors and careful management are no longer material to the Group as a whole.

However, many risk factors remain beyond the direct control of LSL and the risk management framework and procedures can only provide reasonable but not absolute assurance that the principal risks and uncertainties are managed to an acceptable level.

Further information relating to the management of these risks and uncertainties is set out in the Corporate Governance Report (Internal Controls) of this Report on page 40.

Principal Risks & Uncertainties	Mitigation
The continued volatility and economic uncertainty within the UK. In particular, within the UK housing market, transaction volumes (both house purchase and remortgage) and house prices may adversely affect the profitability and cash flow of all our key brands and businesses.	The Board regularly focuses on counter-cyclical income streams to ensure that the growth in income in Lettings and Asset Management set off the impact of reduced transaction numbers.
The current economic uncertainty especially in the financial sector (both within the Eurozone and the UK) could also impact on lender behaviour and the availability of mortgage credit which will have a consequential impact on the housing market by impacting mortgage availability.	The Board regularly reviews trends in market volumes and decides whether any actions such as cost base reductions measures are required.
Following the acquisition of Marsh & Parsons, LSL now has a new exposure to the Central London property market. While historically the London market has been more robust compared to the rest of the UK, there is a risk that the London market fails to grow or that LSL fails to maximise the potential growth.	The Group CEO, the Group Finance Director and the Executive Director for Estate Agency are all members of the Marsh & Parsons board and their presence ensures the close monitoring of the company's performance. Further, regular reviews of trends in market volumes are undertaken and decisions made on any cost base reductions measures.
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.	There has been an increased investment in customer services to retain existing clients and attract new ones. In addition, we are continuing to develop our private survey proposition to provide an alternative income stream.
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.	Monitoring arrangements include oversight by the Board (including regular review of the PI provision) and appropriate quality controls and Internal Audit reviews of services provided on a sample basis. There are also specific controls implemented within the Surveying Division which include a risk based criteria in the identification of transactions to be audited.
Failure to effectively deliver and manage the market share initiatives for Estate Agency.	Regular monitoring by the Board is undertaken on the Division's progress.
Changes in legislation, regulation or Government policy may impact on business results or the UK housing market in general.	LSL business units are supported by the Compliance and Legal Services teams who closely monitor any reform proposals. Where appropriate Government departments and/or trade bodies are engaged in a dialogue.

Approved by and signed on behalf of the Board of Directors on 1st March 2012.

Simon Embley
Group Chief
Executive Officer

Steve Cooke
Group Finance
Director

LSL Board

Helen Buck

Non Executive Director

Helen was appointed as a Non Executive Director on 1st December 2011. She is also a member of the operating board of Sainsbury's Supermarkets Ltd (retail director). Helen joined Sainsbury's in 2005 and, after spending four years running Brand Communications, moved to Trading as business unit director, Grocery in 2009 and then ran the Convenience division for two years. Before joining Sainsbury's, Helen held a number of senior positions at M&S, Woolworths and Safeway and was a senior manager at McKinsey and Co.

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 the 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 chartered surveyor and until 2011 was Chair of the RICS World Residential Professional Group. He continues to be a member of this board as well as a member of a number of influential UK trade association boards.

Roger Matthews

Non Executive Chairman and Chairman of the Nominations Committee

Roger was appointed Chairman of LSL and the Nominations Committee 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 and is also a trustee of Cancer Research UK.

Mark Morris

Senior Independent Non Executive Director and Chairman of the Audit Committee

Mark was appointed as an Independent Non Executive Director of LSL and Chairman of the Audit Committee 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 12 years at PricewaterhouseCoopers. Mark is currently non executive director and audit committee chairman at HomeServe plc and is a 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. He is also the MD of Your Move where he has 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.

Mark Pain

Independent Non Executive Director and Chairman of the Remuneration Committee

Mark was appointed as an Independent Non Executive Director and Chairman 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 is the senior independent non executive director and chairs the audit committee. Mark is also a non executive director of Punch Taverns plc and Spirit Pub Company plc, 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. Alison held various senior positions before her appointment as chief operating officer of e.surv Chartered Surveyors 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 and during 2011 Alison was a finalist at the Women in Property Awards.

Sapna B FitzGerald

Head of Legal and Company Secretary

Sapna is a solicitor (qualified in 1998) and has been in the role of Company Secretary at LSL since 2004. Prior to the management buy-out of Your Move and e.surv Chartered Surveyors, Sapna was a member of Aviva Life Legal Services and had since 2001 formed part of the team that supported Your Move and e.surv Chartered Surveyors.

Directors' Report & Business Review

Governance

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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 UK 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 IFRS, 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 Residential Sales, Lettings, Asset Management and Financial Services.

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 Meet (AGM)

The AGM will be held at the London offices of LSL, 1 Sun Street, London EC2A 2EP on 19th April 2012 starting at 2.00pm.

The Notice of Meeting convening the AGM is in a separate circular to be sent to shareholders. 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 financial results of LSL.

Dividend

As a result of the strong underlying profitability of the Group and the Board's view of future prospects for the business following the many positive developments during 2011, a final dividend of 5.9p per share will be proposed to shareholders at the forthcoming AGM, bringing the total dividend for 2011 to 8.7p per share. This represents a 41% payout ratio (based on adjusted EPS of 21.0p per share) and a 4% increase on the 2010 dividend of 8.4p per share. The proposed dividend payment is slightly higher than our previously stated policy of applying a dividend payout ratio of between 30% to 40% of Group Underlying Operating Profit after interest and tax, and reflects our confidence in the future.

The ex dividend date for the final dividend is 28th March 2012 with a record date of 30th March 2012 and a payment date of 27th April 2012. Shareholders have the opportunity to elect to reinvest their cash dividend and purchase existing shares in LSL through a "Dividend Reinvestment Plan".

Employees

LSL recognises that our people are a valuable asset and it is committed to providing a working environment in which employees can develop to achieve their full potential with opportunities for both professional and personal development. By creating such an environment, LSL believes 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 ensures that LSL, in its decision-making, takes into account employee 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 employees is detailed in the CSR statement at pages 51 to 57 of this Report. The CSR statement also summarises 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 29 of the Financial Statements.

Directors
The current Directors are listed with their biographies under LSL Board at pages 26 and 27 of this Report.

During 2011 Helen Buck was appointed to the Board as an independent Non Executive Director (1st December 2011). Full details of the Directors are also contained within the Directors' Remuneration Report.

Re-election & Election
In accordance with the Articles of Association, all of the Directors 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 Helen Buck, having been appointed since the last AGM is standing for election. LSL may by ordinary resolution elect or re-elect any individual as a Director.

During the 2011 Board effectiveness review, the performance of the Directors, who are all standing for re-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 page 49. Other than the acquisition of 105 shares by the LSL BAYE/SIP Trust on behalf of Alison Traversoni (resulting in her total shareholding amounting to 616,954), during the period between 31st December 2011 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 an anti bribery and 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.

Directors' Service Contracts
Details of the Executive Directors' service agreements and the Non Executive Directors' letters of appointment are set out in the Directors' Remuneration Report at page 45 of this Report.

Auditors
Ernst & Young LLP, the external auditors of the Group have advised of its willingness to continue in office and resolutions 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 & 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 2011. 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.

Report of the Directors

Continued

Employee Share Schemes

LSL has two employee benefit trusts. The first was established in 2006 prior to LSL's flotation on the London Stock Exchange and LSL appointed Capita Trustees Limited (Trustees) to operate the LSL Property Services plc Employee Share Scheme (Trust). The Trustees of this Trust operate both the LSL Property Services plc Employee Share Incentive Plan (Buy As You Earn/BAYE) and the Save As You Earn (SAYE) 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.

The second employee benefit trust was established in November 2011 (the 2011 EBT), as part of the acquisition of Marsh & Parsons. While the beneficiaries of the 2011 EBT are the LSL employees, the 2011 EBT acquired the Growth Shares as part of the transaction and it is intended that in due course members of the current and future management team of Marsh & Parsons will apply for Growth Shares, as part of a package of measures designed to incentivise all of the current and future management of Marsh & Parsons. The 2011 EBT does not currently hold any LSL shares.

Charitable & Political Donations

LSL Group companies in total made a number of charitable donations throughout the year totalling £21,000 (2010: £7,886). Further information about the Group's charitable initiatives is contained within the CSR at pages 56 and 57 of this Report. Through various charitable initiatives across the Group, employees have also raised funds directly, including £12,288 via the Workplace Giving initiative which was set up in 2010.

Creditors & Supplier Payment Policy

LSL's normal terms are to make payment in accordance with suppliers' terms of trade or within 45 days (2010: 45 days) from the receipt of services or invoices subject to satisfactory performance by the supplier. At 31st December 2011, 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 page 51 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 10 to 25. 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 22. Details of the Group's borrowing facilities are set out in note 21 of the Financial Statements. Note 29 of 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 pages 24 and 25 of this Report.

As explained in note 29 of 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 £75.0m facility which is committed for a period up to March 2014. As stated in note 19 of the Financial Statements as at 31st December 2011 the Group had available £40.1m 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.

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 achieved in prior years.

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 this Report.

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 2011, 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 Meeting which accompanies this Report specifies deadlines for appointing a proxy in relation to resolutions to be passed at the AGM. Where the Chairman 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 1.21% (2009: 1.33%) 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 34 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 subsidiary company following a takeover bid. The majority of the income derived through the provision of Surveying and Valuation Services and the Asset Management income streams are driven by specific contracts. Any termination of such contracts on the change of control of the relevant subsidiary company will have a significant impact on the revenue of those income streams.

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 any 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.

Post Balance Sheet Event

In February 2012 the Group (through its subsidiary LSLi) acquired 51% of the share capital of Davis Tate for a cash consideration of £1.5m. The existing senior management team of Davis Tate will continue to be with the business. The Group also has a "call option" and selling shareholders have a "put option" on the remaining 49% which are exercisable in the future and the consideration to be paid for this will be based on a multiple of EBITDA in future years.

Directors' Responsibility Statement

Each of the Directors listed on page 26 and 27 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.

Substantial Shareholdings

As at 31st December 2011 and as at 28th February 2012, the shareholders set out below have notified LSL of their interest under DTR 5:

		31st December 2011		28th February 2012	
Institution	Nature of holding	Number of 0.2p Ordinary Shares	% of issued shares	Number of 0.2p Ordinary Shares	% of issued shares
Harris L.P	Beneficial	**19,305,505**	**18.53%**	20,238,460	19.43%
Blackrock	Beneficial	**5,198,423**	**4.99%**	5,212,627	5.00%
Kames Capital	Beneficial	**6,881,372**	**6.60%**	7,594,672	7.29%
Individual (excluding Executive Directors)					
Dean Fielding (including D Fielding Limited)	Registered Holder	**5,230,000**	**5.02%**	3,130,000	3.01%

Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary
1st March 2012

Corporate Governance Report

UK Corporate Governance Code (June 2010) (Code)

The Board is committed to the highest standards of corporate governance and 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 2011, LSL complied with the provisions of the Code in all respects.

The Board

The Board has nine members and it comprises the Chairman, four Executive Directors and four Non Executive Directors.

Three of the Non Executive Directors, Mark Morris, Mark Pain and Helen Buck are all considered to be independent. However, due to Paul Latham's previous role within LSL as the Deputy CEO (2004 to 2010), 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. Helen Buck was appointed to the Board as a Non Executive Director in December 2011.

The Directors are listed with their biographies under LSL Board at pages 26 and 27 of this Report.

There is a clear division of responsibilities between the Chairman and the Group Chief Executive Officer. The Chairman's key responsibilities are leadership of the Board and ensuring its effectiveness on all aspects of its role. The Chairman sets the Board's agenda, ensuring that adequate time is available for discussion of all agenda items, and in particular strategic issues. He also promotes a culture of openness and debate by facilitating the effective contribution of the Non Executive Directors in particular, and ensuring constructive relations between the Executive and Non Executive Directors.

The Group Chief Executive Officer's key responsibility is the running of the business and his 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, sales and marketing, customer and employee matters, 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, a non executive director of Zetar plc and a trustee of Cancer Research UK.

During the year the Directors continuously review and are encouraged to provide feedback on the effectiveness of the Board. Further, they undertake an annual evaluation of the performance of the Board which includes an evaluation of the Board, its Committees and of individual Directors (including diversity and in particular gender) to ensure that the Directors remain individually and collectively effective.

The evaluation process in 2011 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. As a result, the Board is spending more time on key strategic opportunities as well as monitoring performance and governance matters.

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 receives 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. Further, the Chairman regularly reviews and agrees any training and development needs with each of the Directors.

During 2011 the Board held ten scheduled meetings (including an annual strategy meeting) plus three additional meetings to consider the acquisition of Marsh & Parsons. Each of the Directors was able to allocate sufficient time to LSL to discharge their responsibilities effectively and the attendance of each of the Directors at the Board meetings (as a Director or a Committee member) is set out below.

During 2012 the Board is scheduled to meet ten times, including the annual strategy meeting, and additional meetings will be held as required.

During 2011 the Non Executive Directors collectively met three times without the Executive Directors being present (including once without the Chairman being present) and it is the intention that this will be repeated in 2012.

Board and Committee Attendance 2011

Director	Board (including annual strategy meeting)	Audit Committee	Remuneration Committee	Nominations Committee
Helen Buck*	1	–	–	–
Steve Cooke	13	–	–	–
Simon Embley	13	–	–	–
Paul Latham	13	–	–	–
Roger Matthews	13	4	2	3
Mark Morris	11	4	2	3
David Newnes	13	–	–	–
Mark Pain	13	3	2	3
Alison Traversoni	13	–	–	–

* Helen Buck was appointed to the Board as a Non Executive Director on 1st December 2011.

LSL's Articles of Association require that 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 preceeding AGMs, will retire by rotation and may seek re-election. The Board can appoint a Director outside of the general meeting but anyone so appointed must be elected by an ordinary resolution at the next general meeting. Notwithstanding these provisions, all of the Directors are (in accordance with best practice) retiring at the AGM, and, being eligible, are intending to stand for re-election or election at the meeting.

The Board is primarily responsible for decisions on Group strategy, including approval of the Group's strategy, annual business plans and 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 and any items not included within this policy (such as responsibility for implementing the Board's strategy and managing the business) are delegated to the management teams.

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 investment. 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 51 to 57 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. These arrangements are reviewed annually as part of the Board's evaluation process referred to above.

Under the Companies Act 2006, a director must avoid a situation where he/she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interest. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts where appropriate and where the articles of association contain a provision to this effect, as LSL's Articles do.

Accordingly, the Board has adopted procedures for the Directors to report any potential or actual conflict to the Board for their authorisation where appropriate. Each Director is aware of the requirement to seek approval of the Board for any new conflict situations, as they may arise. The process of reviewing conflicts disclosed, and authorisations given, is repeated annually. Any conflicts or potential conflicts considered by the Board and any authorisations given are recorded in the Board minutes and in a register of Director's conflicts which is maintained by the Company Secretary.

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 2011, the Board reviewed the Terms of Reference for each of the Committees to ensure continued compliance with the Code. In addition, the Terms of Reference of the Nominations Committee was amended with effect from 1st January 2012 to take into account the requirements of the Financial Reporting Council Feedback Statement on Gender Diversity and Boards, which is applicable to reporting years commencing on or after 1st October 2012. The Board considered it best practice to adopt the changes earlier. 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 2011. 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 three times during 2010.

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

- to make recommendations to the Board (for it to put to the shareholders at a general meeting) on the appointment, re-appointment, or removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- 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;

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements; 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. Areas of particular focus during the year have been: the review of goodwill and other intangibles for potential impairment; the appropriateness of provision for PI claims; and the accounting for the acquisition of Marsh & Parsons.

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. Under the terms of the Policy the following categories of fee need pre-approval of the Audit Committee:

1. Any fee for specific non audit services which exceed £25,000;
2. Any fee which has a contingent element; and
3. Where the total of the fees for non-audit services in any particular year exceeds the audit fee for the year.

The Policy does not include a list of pre-approved categories and in developing its Policy, the Audit Committee took into account the ethical standards and Financial Reporting Council guidance on Audit Committees.

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 2011 appears at note 9 of the Financial Statements. The non-audit fees amount to £349,000 compared with audit fees (including those covering the review of the half yearly report) of £240,000. This is outside the basic provisions of the Policy. The non audit fees relate to the acquisition of Marsh & Parsons (tax due diligence, structure advice, and acting as the sponsor in relation to the circular to shareholders) and taxation services. The Committee considered that Ernst & Young LLP were best placed to carry out these services, and the potential impact of these services on the independence or objectivity of the external auditor; and approved this work in advance of it being carried out.

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 2011.

The duties of the Nominations Committee are governed by its Terms of Reference, which were updated on 1st January 2012, 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, its diversity, including gender, and in light of this evaluation, 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.

As part of its discussions, the Nominations Committee considered the composition of the Board and the balance of skills and experience required to optimise shareholder value. These discussions included diversity, and in particular gender issues. During 2011, the Committee nominated Helen Buck for appointment as a Non Executive Director. The recommendation for the appointment of Helen Buck took into account her experience in retail and marketing. The Committee did not utilise the services of any external search consultancy or open advertising in recommending the appointment of Helen Buck, as she was already known to the Group and she fully met the skills and experience specification agreed by the Board.

Following the appointment of Helen, amongst the Non Executive Directors LSL now has expertise in surveying, financial services, the residential housing sector, retail and marketing, operations, business services, entrepreneurial private and public companies and finance. Further, the Board composition now includes two female Directors, making up 22% of the Board and demonstrating LSL's continued commitment to the promotion of equality and diversity (including gender) across the Group.

During 2011, LSL undertook a survey of female members of the management team to seek their views regarding gender diversity within LSL, which concluded that the Group is sufficiently diverse and positive to its female employees.

Remuneration Committee

During 2011 the Remuneration Committee was chaired by Mark Pain and its other members were Roger Matthews and Mark Morris. The Committee met twice 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 42 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.

During 2011 the Remuneration Committee appointed New Bridge Street (NBS) and Deloitte LLP to provide independent advice on matters relating to senior executive remuneration. NBS provided no other advice to LSL during the year.

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 governance, strategy and performance matters 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 offered the opportunity to attend and are available to meet with all shareholders and any shareholder representative groups 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. The system of internal controls is subject to an ongoing process of change and improvement and has been designed in accordance with the guidance of the Turnbull Committee on Internal Controls to identify, evaluate and manage significant risks faced by LSL. The system aims to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. Internal control facilitates the effectiveness and efficiency of operations, helps ensure the reliability of internal and external reporting and assist compliance with laws and regulations. The internal controls are also in place to safeguard shareholder investment and LSL's assets.

In the current difficult economic environment the Board is even more conscious of the necessity to focus on risk management and to ensure that the internal controls are relevant and fit for purpose. In order to discharge this responsibility, the Board has established the procedures necessary to apply the Code, including clear operating procedures, lines of responsibility and delegated authority. LSL's risk management and internal control procedures and framework have continually evolved and since LSL was listed on the London Stock Exchange in 2006 and are regularly reviewed by the Board and the Audit Committee and were in place up to the date of this Report.

LSL's risk management and internal control framework is made up of the following parts:

1. Monitoring
2. Information and Communication
3. Control Activities
4. Risk Assessment
5. Control Environment

In particular, the Group has in place internal control and risk management systems in relation to LSL's financial reporting process and the process for the 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.

Further, 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.

During 2011 the Executive Directors have continually identified, evaluated and managed the principal 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 also kept under review by the Audit Committee and has been reviewed by the Board during 2011 as part of an annual review which considered the effectiveness of the risk management arrangements and internal control systems. This review covered all material controls, including financial, operation and compliance controls. In addition, LSL's Internal Audit team 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.

The principal risks and uncertainties facing LSL together with details of key mitigation initiatives is set out in the Report of the Directors at pages 24 and 25.

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 33 of this Report.

Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary
1st March 2012

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. This part of 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 part of the 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 39 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.

During 2011 the Remuneration Committee appointed New Bridge Street (NBS) and Deloitte LLP to provide independent advice on matters relating to senior executive remuneration. NBS 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 optimise shareholder value. 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.

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 2012, 2011, and 2010 were as follows:

Director	Role	Salary as at 1st January 2012	Salary as at 1st January 2011	Salary as at 1st January 2010
Steve Cooke	Group Finance Director	£220,000	£220,000	£220,000*
Simon Embley	Group Chief Executive Officer	£250,000	£250,000	£250,000
David Newnes	Executive Director, Estate Agency	£140,000	£140,000	£140,000*
Alison Traversoni	Executive Director, Surveying	£140,000	£140,000	£140,000*

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

Following a review of base salary levels at the end of 2011, the Committee has decided not to recommend an increase in base salary levels for 2012. This is primarily due to the ongoing challenging conditions in the housing market and internal relativities. However, the base salary levels for each of the Executive Directors (which were set in 2010) remains well below midmarket levels for similarly sized listed companies.

Benefits are comprised of a car allowance/company car and private healthcare and in respect of Simon Embley, a taxable relocation allowance of £11,250.

Pension

The Executive Directors are members of a money purchase pension scheme. LSL matches Directors' contributions of up to 5% of base salary. Details of actual LSL contributions for 2011 are presented in the table of Directors' Remuneration on page 47.

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 2011, the structure of the annual bonus remained broadly similar to 2010 with 80% of the bonus calculated on sliding scale performance targets based on the budgeted Underlying Group Operating Profit (after the payment of any bonuses) and the remaining 20% based on challenging strategic targets. Details of annual bonus amounts payable to Executive Directors for the year ended 31st December 2011 are presented in the table of Directors' Remuneration on page 46.

For 2012, the structure of the annual bonus scheme will be the same as 2011 with the same split between performance and strategic targets.

Long Term 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 LSL above the share price at the date of grant. Awards comprise 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. While awards were made in 2010 and 2011, no awards are being proposed for 2012.

2011 JSOP Awards

The vesting of JSOP awards granted in 2011 are conditional upon LSL's adjusted earnings per share (EPS) performance meeting the following absolute performance targets over a period of three financial years starting with the financial year in which the JSOP award is granted together with relative total shareholder return conditions (TSR), also measured over three years.

Directors' Remuneration Report

Continued

The introduction of the TSR underpin followed a review of the EPS performance targets attached to the 2010 awards and was after consultation with the Committee's advisers. The Committee concluded that while the EPS targets remain appropriate, a second performance target based on TSR should also be applied. Therefore, in addition to the following EPS growth targets, 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.

	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 JSOP awards which were made in 2011 were 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 an LTIP award in any financial year cannot together exceed 200% of base salary in normal circumstances. For 2012, the Committee has not recommended the grant of any JSOP awards because it is recommending the grant of awards under the LTIP, which is described below.

Long Term Incentive Plan (excluding Company Share Ownership Plan) (LTIP)

For 2012, the Committee is recommending the granting of awards pursuant to the LTIP which was introduced upon flotation in 2006 and to date has not 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.

For 2012, the Remuneration Committee has recommended the grant of LTIP awards with performance targets made up of a combination of relative TSR and Adjusted Basic Earnings Per Share and each part subject to a tiered approach as follows:

a. 30% Relative TSR

35% of this part of an award will vest for relative TSR equal to the median of the constituents of the FTSE 250 index (excluding investment) trusts increasing pro rata so that 100% of this part of an award will vest for relative TSR equal to the upper quartile.

b. 70% Adjusted EPS per annum

25% of this part of an award will vest for Adjusted Basic Earnings Per Share target of 8% increasing pro rata so that 100% of this part of an award will vest for Adjusted Basic Earnings Per Share target of 12% growth. A sliding scale will operate in between.

Company Share Ownership Plan (CSOP)

The Group operates a CSOP (an equity-settled share-based remuneration scheme) for certain employees, which is operated by way of an addendum to the rules of the LTIP. 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 condition of 10% growth in LSL's Adjusted Basic EPS over a period of three financial years starting with the financial year in which the CSOP award is granted are met. No CSOP options were granted to any Directors during 2011.

Deferred Bonus Plan (DBP)

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

Shareholding Guidelines

Following a review of best and market practice during 2010, the Committee introduced a set of share ownership guidelines which the Board has adopted. Under the terms of the guidelines, all Executive Directors are 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' Remuneration on page 47.

Executive Directors' Service Contracts

Executive Directors' service contracts, which do not contain expiry dates, provide that compensation provisions for termination without notice will only extend to nine 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 LSL (months)
Steve Cooke	4th June 2010	9
Simon Embley	15th July 2004	9
David Newnes	1st June 2010	9
Alison Traversoni	1st June 2010	9

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 Non Executive Directors and Chairman are not eligible to participate in incentive arrangements or receive pension provision.

Director	Date Original Term Commenced	Date Current Term Commenced	Expected Expiry Date of Current Term
Helen Buck	1st December 2011		31st November 2014
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

Directors' Remuneration Report

Continued

The remuneration of the Non Executive Directors is a matter for the Chairman and Executive Directors and the remuneration of the Chairman is a matter for the Committee. Fees for both Non Executive Directors and the 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 for the Non Executive Directors is as follows:

Non Executive Director	2011	2010
Helen Buck	**£40,000**	–
Paul Latham[1]	**£37,000**	£37,000
Roger Matthews	**£100,000**	£100,000
Mark Morris[2]	**£45,000**	£45,000
Mark Pain[3]	**£43,000**	£43,000

1 Paul Latham is also paid an additional £5,000 per annum consultancy fee in respect of services provided to e.surv Chartered Surveyors.
2 Mark Morris' fee includes additional sums for his role as Senior Independent Director (£2,000) and Chair of the Audit Committee (£5,000).
3 Mark Pain's fee includes an additional sum for his role as Chair of the Remuneration Committee (£5,000).

Audited Information

Directors' Remuneration

The Remuneration of the Directors for 2011 were as follows:

Director	Directors salaries/fees £	Car allowance £	Benefits in kind[4] £	Annual bonus £	Total 2011 £	Total 2010 £
Chairman						
Roger Matthews	100,000	–	–	–	**100,000**	100,000
Executive Directors						
Steve Cooke	220,000	10,000	1,683	22,000	**253,683**	244,058
Simon Embley	250,000	10,000	12,247	24,000	**296,247**	505,216
David Newnes[1]	140,000	8,500	623	14,000	**163,123**	166,613
Alison Traversoni[2]	140,000	–	8,044	28,000	**176,044**	165,296
Paul Latham[3]	–	–	–	–	**–**	74,667
Non Executive Directors						
Paul Latham[3]	42,000	–	–	–	**42,000**	20,417
Mark Morris	45,000	–	–	–	**45,000**	40,000
Mark Pain	43,000	–	–	–	**43,000**	35,000
Helen Buck[5]	3,333	–	–	–	**3,333**	–
TOTAL	983,333	28,500	22,597	88,000	**1,122,430**	1,439,051

1 Appointed to the Board on 1st June 2010.
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. Fee includes £5,000 paid in respect of consultancy services to e.surv Chartered Surveyors.
4 Benefits in kind, which excludes pension provision, is comprised of private medical cover and company car and in respect of Simon Embley, a taxable relocation allowance of £11,250.
5 Appointed to the Board on 1st December 2011.

No termination payments or payments in lieu of notice were paid to those Directors who stepped down from the Board during 2010. There were no resignations from the Board in 2011.

Pension Contributions

Details of LSL's contributions to a money purchase scheme for each Executive Director during the year is as follows:

Name	2011 £	2010 £
Steve Cooke	**11,000**	5,500
Simon Embley	**12,500**	12,500
Paul Latham*	**–**	3,438
David Newnes	**7,000**	4,083
Alison Traversoni	**7,000**	4,813
Total	**37,500**	30,334

* To 1st July 2010.

Incentive Awards

As at 31st December 2011, Executive Directors' interests under the JSOP awards were as follows:

2010 JSOP Grants

	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 right (SAR) 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.

2011 JSOP Grants

	Date of grant	Share price on grant (pence)	**As at 1st January 2011**	Awards granted*	Awards vested	**As at 31st December 2011**	Exercise/Release Period
Steve Cooke	31st March 2011	2.45	**–**	89,613	–	**89,613**	31st March 2014 to 31st March 2021
Simon Embley	31st March 2011	2.45	**–**	203,665	–	**203,665**	31st March 2014 to 31st March 2021
David Newnes	31st March 2011	2.45	**–**	57,026	–	**57,026**	31st March 2014 to 31st March 2021
Alison Traversoni	31st March 2011	2.45	**–**	57,026	–	**57,026**	31st March 2014 to 31st March 2021

* In respect of the above JSOP awards granted in 2011, 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 (an interest) and a share appreciation right (SAR) entitles individuals to any growth in the value of LSL's share price from £2.45 up 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 2011 are set out in the policy section of this Directors' Remuneration Report on page 42.

The Ordinary Share mid-market price ranged from 212.50p to 307.00p and averaged 256.23p during 2010. The price on 31st December 2011 was 238.75p compared to 265.00p on 1st January 2011.

Directors' Remuneration Report

Continued

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 2011**	Awards granted	Awards lapsed	Awards exercised	Awards vested	**As at 31st December 2011**	Exercise Period
Steve Cooke	CSOP	24th August 2010	248.75p	252p	**–**	11,870	–	–	–	**11,870**	24th August 2010 to 24th August 2020
	SAYE	5th April 2011	245p	257p	**3,511**	–	–	–	–	**3,511**	5th April 2011 to 5th April 2014
Simon Embley	CSOP	11th June 2010	237.5p	240p	**–**	12,500	–	–	–	**12,500**	11th June 2010 to 1st June 2020
	SAYE	1st May 2008	110p	115p	**8,311**	–	–	8,311	–	**–**	1st May 2008 to 1st May 2011
	SAYE	5th April 2011	245p	257p	**3,511**	–	–	–	–	**3,511**	5th April 2011 to 5th April 2014
David Newnes	CSOP	11th June 2010	237.5p	240p	**–**	12,500	–	–	–	**12,500**	11th June 2010 to 11th June 2020
	SAYE	5th April 2011	245p	257p	**3,511**	–	–	–	–	**3,511**	5th April 2011 to 5th April 2014
Alison Traversoni	CSOP	11th June 2010	237.5p	240p	**–**	12,500	–	–	–	**12,500**	11th June 2010 to 11th June 2020
	SAYE	1st May 2008	110p	115p	**8,311**	–	–	8,311	–	**–**	1st May 2008 to 1st May 2011
	SAYE	5th April 2011	245p	257p	**3,511**	–	–	–	–	**3,511**	5th April 2011 to 5th April 2014

The aggregate of gains made by Directors on the exercise of the options in the year was £27,000 (2010: £nil). At the date of exercise, the Company's share price was 280p.

Performance targets attached to the CSOP awards are set out in the policy section of this Directors' Remuneration Report on page 42.

Unaudited Information

Directors' 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 2011	% of Issued share capital	Shares at 31st December 2011	% of Issued share capital
Helen Buck	**–**	–	**–**	–
Steve Cooke	**–**	–	**40,000**	0.04%
Simon Embley	**9,930,500**	9.53%	**10,050,500**	9.65%
Paul Latham[1]	**3,893,750**	3.74%	**3,902,061**	3.75%
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]	**607,827**	0.58%	**616,849**	0.59%

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's BAYE/SIP (at 31st December 2011), this amounted to 4,391 (2010: 3,680). The shares were purchased by the Trust at the prevailing market value and are held for up to five years.

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. Other than the acquisition of 105 shares by the LSL BAYE/SIP Trust on behalf of Alison Traversoni amounting to a total of 616,954 shares, there have been no other changes in the interests set out above between 31st December 2011 and the date of this Report.

Directors' Remuneration Report

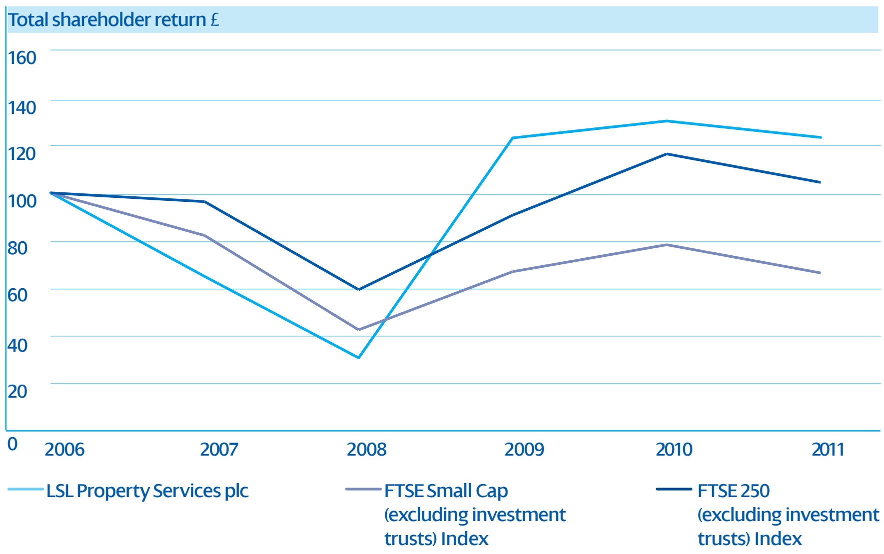
Continued

Performance Graph

This graph shows the value, by the end of December 2011, of £100 invested in LSL compared with the value of £100 invested in both the FTSE Small Cap (excluding investment trusts) Index and the FTSE 250 (excluding investment trusts) Index. The FTSE 250 Index has been chosen for consistency with prior years and the FTSE Small Cap Index because LSL is a constituent of the FTSE Small Cap Index.

The mid-market price of LSL shares in the year ranged from 212.50p to 307.00p and averaged 256.23p during 2011.

The price on 31st December 2011 was 238.75p compared to 265.00p on 1st January 2011.



Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary
1st March 2012

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 consider 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, Environmental and Community Investment 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 Group's 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 recognises 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 believes 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 ensures 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.

Corporate Social Responsibility

Continued

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 continued into 2011 with e.surv Chartered Surveyors' employees completing 31 apprenticeships and 21 stand alone NVQ's. There are 60 members of staff on apprenticeship programmes, many of whom are nearing completion. 2011 saw a dedicated trainer recruited to head up e.surv Chartered Surveyors' Training Academy which supports their Apprenticeship and NVQ programmes.

Further, during 2011, e.surv Chartered Surveyors achieved reaccreditation of the Investors In People award for its Head Office location in Kettering, and once again successfully achieved the Sunday Times Best Companies "One to Watch" status for 2012.

3. Communication

a. Employees:

LSL ensures that employees are kept informed of Group affairs via information distributed by post, email, handbooks or the various intranet sites. Group employees are encouraged to discuss strategic, operational and business issues within their teams and with their management. The Board values employee feedback and employee opinion surveys now operate across all parts of the Group businesses. In addition in 2011, LSL conducted a gender diversity survey, the details of which are summarised below in section 4. Finally, on strategic matters, LSL recognises and consults Unite.

b. Customers:

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

a. Gender Diversity:

Following the release of Lord Davies' report on Gender Diversity, the Board commissioned an employee gender diversity survey which was conducted in October 2011. This survey sought the views of senior female employees across the Group and in summary the survey concluded as follows:

- respondents felt confident that they had been promoted based on their performance and achievement;
- respondents disagreed that there were barriers to encourage women's participation in positions of authority within the Group; and
- respondents confirmed that the Group is sufficiently diverse and positive towards females.

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 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 individual suffers harassment or intimidation.

During 2011, a number of talented female LSL employees were entered into the Property Awards for Women 2011 and LSL employees secured four of the 15 awards in the following categories:

- PA of the Year
- Outstanding Commitment to Excellence
- Property Manager of the Year (Large Agency)
- Lettings Negotiator of the Year (Large Agency)

b. Disability:

LSL's objective is that where appropriate, upon employment, reasonable adjustments will be 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.

5. 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.

	2011	2010	2009
Total employees as at 31st December	**4,831**	4,490	3,287
Total employee turnover percentage (%)*	**24.8**	28.5	19.3

* Data excludes forced leavers.

Breakdown by Gender	2011	2010	2009
Male	**2,065**	1,838	1,389
Female	**2,748**	2,652	1,898

6. 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:

a. 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 including distance learning, regional workshops and an annual conference.

b. 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 2011, the Group training expenditure was:

Division	Expenditure 2011	Expenditure 2010
Surveying and Valuation Services	**£133,567**	£109,980
Estate Agency and Related Services	**£1,129,230**	£963,531
Total Expenditure	**£1,262,797**	£1,183,491

This includes in-house training costs of £611,127 (2010: £336,665).

7. 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.

Corporate Social Responsibility

Continued

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 Steve Cooke, the Group Finance Director, has overall responsibility for this. 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.

8. Environmental Issues

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

LSL's "green" priorities which were set in 2010 have been developed and 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
- Avoiding printing
- Remote meetings

During 2011 and going forward into 2012, we will continue to promote our environmental awareness campaign which was put in place in 2010. Further, environmentally sensitive disposal arrangements have been put in place for the destruction of office waste, such as paper and toners. e.surv Chartered Surveyor participated in the "Shred-Pro" shredding and recycling programme and saved 63.9 trees in doing so.

Across the Group recycling schemes are in place with Iron Mountain, which delivered the following benefits in 2011:

- 110 cubic metre landfill reduction
- 912 trees saved
- 48,673 kilos of recycled paper produced

A significant development this year has been the launch of a waste management programme within parts of the Residential Sales and Lettings branches through the service provided by Green Star (part of the Biffa Group). The programme aims to:

1. develop and implement a recycling strategy throughout the LSL Group to meet its CSR objectives;
2. deliver a detailed plan to divert waste away from landfill; and
3. deliver a financial cost saving.

By the end of 2011, all Your Move branches have recycling facilities in place and as at September 2011, 42% of all waste from these branches was recycled. Roll out to the remaining branches will now occur over the next 24 months.

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:

2011 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 2011 work completed at 197 branches with over 340 lamps replaced with low energy bulbs). Within the Surveying Division energy consumption measured in CO_2 tonnes reduced by 3% in 2011. This reduction was achieved by continuing initiatives commenced in 2010, which includes switching printers and PCs 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.
Promotion of the installation of timer plugs on all appliances where appropriate.	✔	In place at Surveying Division Head Office and processing sites. Plans in place to introduce to other Head Office sites.
Continued promotion of LSL environmental logo.	✔	The "Be Green" logo has been designed and communicated to all Group companies for use on all marketing material.
Continued 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 in preference to posting letters.	✔	Estate Agency branches email property particulars and other communications to customers instead of posting.
Work flow management system developed.	✔	Continued development of the system introduced into the Surveying Division in 2010 which is estimated to have saved over 1,500 reams per annum.
Improved choice of low emission cars on company car fleet.	✔	We encourage company car users to select energy efficient cars, and offer a range of hybrid and efficient dynamics diesel models on the company car list. Average CO_2 emissions for the fleet fell from 148.7 g/km in 2010 to 140.3 g/km in 2011. The carbon footprint of the company continues to fall as a result.
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.

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.

Corporate Social Responsibility

Continued

9. Social and Community Investment (including Social and Ethical Issues)
LSL's social and community investment objective is to establish a common and coherent approach among Group businesses and to support investment in the communities in which they operate. Through LSL's community investment objective, it encourages each Group Company to be sensitive to the local community's cultural, social and economic needs. This objective demonstrates LSL's commitment to operate responsibly wherever it operates and to engage with stakeholders to manage the social, economic and environmental impact of Group activities.

LSL's business has a direct impact on the local communities in which it operates and the community investment objective recognises that good relations with local communities is fundamental to LSL's sustained success. Working in partnership with communities over a sustained period of time is the most effective way to achieve real results and lasting change.

LSL supports its businesses in achieving its objectives by encouraging Group businesses to:

1. make donations both to local and national charities;
2. support and organise fundraising events including supporting charities and local community initiatives selected by Group companies; and
3. support employees in their personal fundraising ambitions.

Further details of some specific charitable initiatives are set out below.

10. 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 £12,000 a year (2010: 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.

In addition, in December 2011 Intercounty was awarded the Cecil Jackson Cole award for Social and Corporate Responsibility at the Sunday Times Estate Agent of the Year awards recognising the work they have been doing with Shelter during 2011 and 2012. The award helps to raise the profile of the issues related to homelessness and raise more money for the cause. Part of Intercounty's campaign included a sponsored sleep rough when some of the staff led by Greg Young, its MD, undertook a 24 hour street collection outside three of its branches in aid of Shelter.

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 (nominated in 2010). Annual national fundraising events also support initiatives such as Children in Need and Jeans for Genes. In addition, Barnwoods has nominated Maggie's Cancer Care Centre in Cheltenham, which is part of a national initiative.

COMBATING THE CAUSES OF
HOMELESSNESS
ESTATE AGENCY FOUNDATION

LSL's Estate Agency Division supports the Estate Agency Foundation

e.surv Chartered Surveyors on a sponsored cycle

Intercounty participated in a sponsored sleep rough for Shelter

Financial Statements

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Independent Auditors' 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 2011 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 33. 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 Directors' Responsibilities Statement set out on page 29, 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 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 [(APB'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 2011 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 35 to 41 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 2011 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
1st March 2012

Group Income Statement

for the year ended 31st December 2011

	Note	2011 £'000	2010 £'000
Revenue	3	**218,381**	206,607
Operating expenses:			
Employee and subcontractor costs	12	**(124,786)**	(115,763)
Establishment costs		**(15,886)**	(14,891)
Depreciation on property, plant and equipment	15	**(2,581)**	(1,748)
Other		**(45,734)**	(43,960)
		(188,987)	(176,362)
Rental income		**1,044**	1,690
Group's share of profit after tax in joint ventures		**679**	–
Group operating profit before exceptional costs, amortisation and share-based payments		**31,117**	31,935
Share-based payments	12	**(787)**	(298)
Amortisation of intangible assets	14	**(8,472)**	(8,077)
Exceptional (cost)/profit	7	**(2,214)**	12,189
Gain on sale of available-for-sale financial assets		**–**	3,923
Group operating profit	4	**19,644**	39,672
Dividend income		**–**	516
Finance income	5	**4**	5
Finance costs	6	**(1,874)**	(2,228)
Exceptional finance costs	7	**(182)**	(2,007)
Net financial costs		**(2,052)**	(3,714)
Profit before tax	8	**17,592**	35,958
Taxation			
– related to exceptional costs		**570**	4,911
– others		**(4,927)**	(6,334)
	13	**(4,357)**	(1,423)
Profit for the year		**13,235**	34,535
Attributable to			
– Owners of the parent		**13,217**	34,500
– Non-controlling interest		**18**	35
Earnings per share expressed in pence per share:			
Basic	10	**12.9**	33.6
Diluted	10	**12.9**	33.4
Adjusted – basic	10	**21.0**	21.0
Adjusted – diluted	10	**21.0**	20.9

Group Statement of Comprehensive Income

for the year ended 31st December 2011

	Note	2011 £'000	2010 £'000
Profit for the year		**13,235**	34,535
Recycling of unrealised gains reserve		–	(3,900)
Recycling of cash flow hedge		–	87
Income tax effect	13	–	(24)
		–	63
Other comprehensive income for the year, net of tax		–	(3,837)
Total comprehensive income for the year, net of tax		**13,235**	30,698
Attributable to			
– Owners of the parent		**13,217**	30,663
– Non-controlling interest		**18**	35

Group Balance Sheet

for the year ended 31st December 2011

	Note	2011 £'000	2010 £'000
Non-current assets			
Goodwill	14	**116,452**	74,742
Other intangible assets	14	**21,042**	17,613
Property, plant and equipment	15	**17,491**	13,850
Financial assets	16	**347**	1,097
Investments accounted for using the equity method	17	**1,768**	–
Total non-current assets		**157,100**	107,302
Current assets			
Trade and other receivables	18	**28,681**	25,136
Cash and cash equivalents	19	**435**	338
Total current assets		**29,116**	25,474
Total assets		**186,216**	132,776
Current liabilities			
Financial liabilities	21	**(2,246)**	(92)
Trade and other payables	20	**(46,603)**	(45,085)
Current tax liabilities		**(3,372)**	(258)
Provisions for liabilities	22	**(706)**	(584)
Total current liabilities		**(52,927)**	(46,019)
Non-current liabilities			
Financial liabilities	21	**(46,782)**	(5,155)
Deferred tax liability	13	**(4,772)**	(2,183)
Provisions for liabilities	22	**(9,352)**	(11,309)
Total non-current liabilities		**(60,906)**	(18,647)
Net assets		**72,383**	68,110
Equity			
Share capital	24	**208**	208
Share premium account	25	**5,629**	5,629
Share-based payment reserve	25	**912**	1,014
Treasury shares	25	**(2,747)**	(3,139)
Retained earnings		**68,328**	64,363
Equity attributable to owners of parent		**72,330**	68,075
Non-controlling interests		**53**	35
Total equity		**72,383**	68,110

The Financial Statements were approved by the Board on 1st March 2012 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 2011

	Note	31st December 2011 £'000	31st December 2011 £'000	31st December 2010 £'000	31st December 2010 £'000
Cash generated from operating activities					
Profit before tax			**17,592**		35,958
Adjustments to reconcile profit before tax to net cash from operating activities					
Negative goodwill	7	**–**		(29,825)	
Exceptional operating costs (excluding negative goodwill and share-based payments)		**2,214**		17,636	
Gain on sale of available-for-sale financial asset		**–**		(3,923)	
Amortisation of intangible assets	14	**8,472**		8,077	
Dividend income		**–**		(516)	
Finance income	5	**(4)**		(5)	
Finance costs	6	**1,874**		2,228	
Exceptional finance costs	7	**182**		2,007	
Share-based payments	12	**787**		298	
			13,525		(4,023)
Group operating profit before amortisation and share-based payments			**31,117**		31,935
Depreciation	15	**2,581**		1,748	
Share of results of joint ventures		**(679)**		–	
Loss/(gain) on sale of property, plant and equipment	8	**8**		(17)	
			1,910		1,731
(Increase)/decrease in trade and other receivables		**(2,054)**		4,679	
Decrease in trade and other payables and provisions		**(5,359)**		(2,675)	
			(7,413)		2,004
Cash generated from operations pre-exceptional costs			**25,614**		35,670
Exceptional operating costs paid		**(1,315)**		(17,636)	
Exceptional finance costs paid		**–**		(924)	(18,560)
Cash generated from operations			**24,299**		17,110
Interest paid		**(1,422)**		(1,957)	
Tax paid		**(3,235)**		(3,485)	
			(4,657)		(5,442)
Net cash generated from operating activities			**19,642**		11,668
Cash flows from investing activities					
Cash acquired on purchase of subsidiary undertaking	27	**5,707**		25,946	
Purchase of subsidiary undertakings		**(46,826)**		(3,742)	
Investment in joint venture		**(671)**		–	
Dividends received from joint venture		**332**		516	
Interest received	5	**4**		5	
Purchase of property, plant and equipment	15	**(3,243)**		(4,982)	
Proceeds from sale of property, plant and equipment		**–**		738	
Purchase of available-for-sale financial assets		**–**		(195)	
Proceeds from sale of available-for-sale financial asset		**1,962**		1,961	
Net cash generated from/(expended on) investing activities			**(42,735)**		20,247
Cash flows from financing activities					
Proceeds/(repayment) of loans		**32,939**		(23,692)	
Purchase of treasury shares (net of consideration received on reissue of treasury shares)		**(804)**		(597)	
Dividends paid		**(8,945)**		(8,146)	
Net cash generated from (used in) financing activities			**23,190**		(32,435)
Net increase/(decrease) in cash and cash equivalents			**97**		(520)
Cash and cash equivalents at the beginning of the year			**338**		858
Cash and cash equivalents at the end of the year	19		**435**		338

Group Statement of Changes in Equity

for the year ended 31st December 2011

Year ended 31st December 2011

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Treasury shares £'000	Retained earnings £'000	Total equity £'000	Minority interest £'000	Total £'000
At 1st January 2011	208	5,629	1,014	(3,139)	64,363	68,075	35	68,110
Profit for the year	–	–	–	–	13,217	13,217	18	13,235
Total comprehensive income	208	5,629	1,014	(3,139)	77,580	81,292	53	81,345
Purchase of treasury shares	–	–	–	(1,762)	–	(1,762)	–	(1,762)
Reissuance of treasury shares	–	–	(889)	2,154	(307)	958	–	958
Share-based payments	–	–	787	–	–	787	–	787
Dividend payment	–	–	–	–	(8,945)	(8,945)	–	(8,945)
At 31st December 2011	208	5,629	912	(2,747)	68,328	72,330	53	72,383

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

Notes to the Group Financial Statements

for the year ended 31st December 2011

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 2011 were authorised for issue by the Board of the Directors on 1st March 2012 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 International Financial Reporting Standards (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 going concern basis and 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 2011. The Group's Financial Statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

New standards and interpretations

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

- IAS 32 Amendments to IAS 32 Classification of Rights Issue
- IAS 24 Related Party Disclosures (Revised)
- Improvements to International Financial Reporting Standards 2010
- IFRIC 14 Amendments to IFRIC 14 – Prepayments of a minimum funding requirement
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged items (Amendment)

Judgements and estimates

The preparation of financial information in conformity with IFRS as adopted by the 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.

Valuations in acquisitions

The measurement of intangible assets other than goodwill on a business combination involves the estimation of future cash flows and other inputs relevant to the valuation model being applied.

Impairment of intangible assets

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).

Assessment of the useful life of an intangible asset

The consideration of the relevant factors when determining the useful life of an intangible asset requires judgement. Similarly there is also judgement applied when assessing that an intangible asset has an indefinite useful life.

Professional indemnity claim

Significant judgement is required when provisioning for professional indemnity claims. Details of key assumptions in these areas are disclosed in notes 21 and 22 of these Financial Statements.

2. Accounting policies continued

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; it (i) 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 represents 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 represents 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.

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.

Interest in joint ventures
The Group has a number of contractual arrangements with other parties which represent joint ventures. These take the form of arrangements to share control over other entities. Where the joint venture is established through an interest in a company, the Group recognises its interest in the entity's assets and liabilities using the equity method of accounting. Under the equity method, the interest in the joint venture is carried in the balance sheet at cost plus post-acquisition changes in the Group's share of its net assets, less distributions received and less any impairment in value of individual investments. The Group Income Statement reflects the share of the jointly controlled entity's results after tax.

Any goodwill arising on the acquisition of a jointly controlled entity is included in the carrying amount of the jointly controlled entity and is not amortised. To the extent that the net fair value of the entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised and added to the Group's share of the entity's profit or loss in the period in which the investment is acquired.

Financial statements of the jointly controlled entities are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies used into line with those of the Group; to take into account fair values assigned at the date of acquisition and to reflect impairment losses where appropriate. Adjustments are also made in the Group's financial statements to eliminate the Group's share of unrealised gains and losses on transactions between the Group and its jointly controlled entities. The Group ceases to use the equity method on the date from which it no longer has joint control over or significant influence in, the joint venture.

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. If contingent consideration is linked to a service condition then expected payments are recognised in the profit or loss over the earn-out period.

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.

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.

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.

Goodwill

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 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 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.

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.

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.

2. Accounting policies continued

Intangible assets continued

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 are 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
Lettings contracts	– fifteen 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

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, without incurring significant cost. All brands recognised have been in existence for a number of years, and are not considered to be at risk of obsolescence from technical, technological or commercial change. Whilst operating in competitive markets they have demonstrated that they can continue to operate in the face of such competition and that there is expected to remain an underlying market demand for the services offered. The lives of these brands are not dependent on the useful lives of other assets of the entity.

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 asset's 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 and 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 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.

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 other comprehensive income or equity, if it relates to items that are charged or credited in the current or prior periods to other comprehensive income or equity respectively. Otherwise income tax is recognised in the income statement.

2. Accounting policies continued

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 (including market and non-vesting 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 (Trust) 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.

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. 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 derecognised 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 derecognised 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 derecognised 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.

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.

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.

Notes to the Group Financial Statements continued

for the year ended 31st December 2011

2. Accounting policies continued

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 derecognised when they are assessed as uncollectable.

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.

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 sublet 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.

Home Information Packs

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

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 following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1st January 2011 and have not been early adopted:

International Accounting Standards (IAS/IFRSs)		Effective date*
IFRS 9	Financial Instruments: Classification and Measurement	1st January 2015
Amendments to IFRS 7	Disclosures – Transfers of Financial Assets	1st July 2011
Amendments to IAS 12	Deferred Tax: Recovery of Underlying Assets	1st January 2012
IFRS 10	Consolidated Financial Statements	1st January 2013
IFRS 11	Joint Arrangements	1st January 2013
IFRS 12	Disclosure of Interests in Other Entities	1st January 2013
IFRS 13	Fair Value Measurement	1st January 2013
IAS 27 (Revised)	Separate Financial Statements	1st January 2013
IAS 28 (Revised)	Investments in Associates and Joint Ventures	1st January 2013
Amendment to IAS 1	Presentation of Items of Other Comprehensive Income	1st July 2012
IAS 19 (Revised)	Employee Benefits	1st January 2013

* 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 Services and the provision of Surveying and Valuation Services on residential property. All the revenue arises in the United Kingdom.

Revenue disclosed in the income statement is analysed as follows:

	2011 £'000	2010 £'000
Revenue from services	**218,381**	206,607
Revenue	**218,381**	206,607
Rental income	**1,044**	1,690
Dividend income	**–**	516
Finance income	**4**	5
Total revenue	**219,429**	208,818

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 segment provides services related to the sale and letting of housing. It operates 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 results of the Financial Services segment, which does not meet the quantitative criteria for separate reporting under IFRS, have been aggregated with those of Estate Agency and Related Services.
- The Surveying and Valuation Services segment provides a professional survey service of domestic properties to various lending corporations and individual customers.

Each segment has various products and services and the revenue from these products and services are disclosed on pages 14 and 16 under Business Review.

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.

Operating segments

The following table presents revenue and profit information regarding the Group's operating segments for the financial year ended 31st December 2011 and financial year ended 31st December 2010 respectively.

Year ended 31st December 2011

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Income statement information				
Segmental revenue	141,811	76,570	–	**218,381**
Segmental result:				
– before exceptional costs, amortisation and share-based payments	10,280	23,722	(2,885)	**31,117**
– after exceptional costs, amortisation and share-based payments	6,049	16,753	(3,158)	**19,644**
Finance income				**4**
Finance costs				**(1,874)**
Exceptional finance costs				**(182)**
Profit before tax				**17,592**
Taxation				**(4,357)**
Profit for the year				**13,235**

Notes to the Group Financial Statements continued

for the year ended 31st December 2011

4. Segment analysis of revenue and operating profit continued

Year ended 31st December 2011

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Balance sheet information				
Segment assets – intangible	125,327	12,167	–	**137,494**
Segment assets – other	36,212	9,891	2,619	**48,722**
Total segment assets	161,539	22,058	2,619	**186,216**
Total segment liabilities	(45,556)	(21,632)	(46,645)	**(113,833)**
Net assets/(liabilities)	**115,983**	**426**	**(44,026)**	**72,383**
Other segment items				
Capital expenditure	2,869	374	–	**3,243**
Depreciation	(2,340)	(203)	(38)	**(2,581)**
Amortisation of intangible assets	(1,837)	(6,635)	–	**(8,472)**
Share of results of joint venture	679	–	–	**679**
Professional indemnity claim provision	–	(2,771)	–	**(2,771)**
Onerous leases provision	500	–	–	**500**
Share based payment	(333)	(181)	(273)	**(787)**
Impairment of brand	–	(153)	–	**(153)**
Impairment of trade receivables	(699)	33	–	**(666)**

Unallocated net liabilities comprise certain property, plant and equipment (£69,000), financial assets (£347,000), investments in joint ventures (£1,768,000), cash and bank balances (£435,000), other taxes and liabilities (£393,000), other creditors (£93,000), accruals (£1,832,000), financial liabilities (£34,918,000), deferred and current tax liabilities (£8,144,000) and interest rate swap (£1,265,000).

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	80,935	–	**206,607**
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**

Year ended 31st December 2010

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	**Total £'000**
Balance sheet information				
Segment assets – intangible	55,786	18,956		**74,742**
Segment assets – other	45,784	10,710	1,540	**58,034**
Total segment assets	101,570	29,666	1,540	**132,776**
Total 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) and interest rate swap (£1,083,000).

5. Finance income

	2011 £'000	2010 £'000
Interest receivable on funds invested	**4**	5

6. Finance costs

	2011 £'000	2010 £'000
Interest on revolving credit facility	**1,422**	1,630
Interest on loan notes	**82**	–
Unwinding of discount on professional indemnity provision	**266**	230
Unwinding of discount on contingent consideration	**104**	41
HIPs financing fees	**–**	327
	1,874	2,228

Notes to the Group Financial Statements continued
for the year ended 31st December 2011

7. Exceptional items

	2011 £'000	2010 £'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 business reorganisation	**(266)**	(756)
Other		
Acquisition related costs	**(1,629)**	(96)
Others	–	(133)
Impairment of brand	**(153)**	–
Contingent consideration in acquisitions linked to employment	**(166)**	–
Provision for professional indemnity claims	–	(2,796)
Total operating exceptional (costs)/income	**(2,214)**	12,189
Finance costs		
Banking and legal fees incurred for extension of facility	–	(924)
Movement in fair value of interest rate swap	**(182)**	(1,083)
	(182)	(2,007)
Net exceptional (cost)/profit	**(2,396)**	10,182

8. Profit before tax

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

	2011 £'000	2010 £'000
Auditors' remuneration (note 9)	**589**	297
Operating lease rentals:		
Land and buildings	**9,817**	9,518
Plant and machinery	**3,214**	1,417
Loss/(gain) on sale of property, plant and equipment	**8**	(17)

9. Auditors' remuneration

The remuneration of the auditors is further analysed as follows:

	2011 £'000	2010 £'000
Audit of the Financial Statements	**40**	35
Other fees to auditors:		
– local statutory audits for subsidiaries	**186**	125
– taxation services	**94**	121
– corporate finance fees	**255**	–
– other services pursuant to legislation	**14**	14
– other services	–	2
	589	297

Fees paid for corporate finance services relates to fees for acting as reporting accountant and sponsor for the acquisition of Marsh & Parsons Limited.

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	2011 Per share amount *p*	Profit after tax £'000	Weighted average number of shares	2010 Per share amount *p*
Basic EPS	**13,217**	**102,889,561**	**12.9**	34,500	102,777,043	33.6
Effect of dilutive share options	**–**	**1,829**	**–**	–	418,857	–
Diluted EPS	**13,217**	**102,891,390**	**12.9**	34,500	103,195,900	33.4

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:

	2011 £'000	2010 £'000
Group operating profit before exceptional costs, share-based payments and amortisation (excluding non-controlling interest):	**31,099**	31,900
Net finance costs (excluding exceptional costs and unwinding of discount on contingent consideration)	**(1,766)**	(1,707)
Normalised taxation	**(7,773)**	(8,654)
Adjusted profit after tax* before exceptional costs, share-based payments and amortisation	**21,560**	21,539

* 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. Effective tax rate considered to calculate normalised taxation in 2011 is 26.5% (2010: 28%).

Adjusted basic and diluted EPS

	Adjusted profit after tax[1] £'000	Weighted average number of shares	2011 Per share amount *p*	Adjusted profit after tax[1] £'000	Weighted average number of shares	2010 Per share amount *p*
Adjusted Basic EPS	**21,560**	**102,889,561**	**21.0**	21,539	102,777,043	21.0
Effect of dilutive share options	**–**	**1,829**	**–**	–	418,857	–
Adjusted diluted EPS	**21,560**	**102,891,390**	**21.0**	21,539	103,195,900	20.9

11. Dividends paid and proposed

	2011 £'000	2010 £'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
2010 final: 5.9p	**6,065**	–
2011 interim: 2.8p	**2,880**	–
	8,945	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 (2010: 5.9p)	**6,070**	6,064

Notes to the Group Financial Statements continued

for the year ended 31st December 2011

12. Directors and employees

Remuneration of directors

	2011 £'000	2010 £'000
Directors' remuneration (short term benefits)*	**1,122**	1,439
Contributions to money purchase pensions schemes (post-employment benefits)	**37**	34
Share-based payments	**208**	60
	1,367	1,533

* included within this amount is accrued bonuses of £88,000 (2010: £510,000).

The number of Directors who were members of Group money purchase pension schemes during the year totalled 4 (2010: 4).

Employee numbers and costs

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

	2011 £'000	2010 £'000
Wages and salaries	**107,598**	98,697
Social security costs	**10,885**	10,175
Pension costs	**2,111**	2,143
Total employee costs	**120,594**	111,015
Subcontractor costs	**4,192**	4,748
Total employee and subcontractor costs*	**124,786**	115,763
Share-based payment expense (see below)	**787**	298

* The total employee and subcontractor costs exclude employees redundancy costs of £266,000 (2010: £8,486,000), which have been shown under Exceptional costs (note 7).

The monthly staff numbers (including Directors) during the year averaged 3,930 (2010: 3,649).

	2011	2010
Estate Agency and Related Services	**3,083**	2,834
Surveying and Valuation Services	**847**	815
	3,930	3,649

Share-based payments

Long Term Incentive Plan

The Group operates an 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.

	2011		2010	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**–**	**–**	–	23,101
Vested during the year	**–**	**–**	–	(23,101)
Outstanding at 31st December	**–**	**–**	**–**	**–**

There were 23,101 options exercisable at the end of the year (2010: 23,101). The weighted average remaining contractual life is nil years (2010: nil years).

Joint Share Ownership Plan (JSOP)

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 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 basic EPS performance meeting the following absolute performance targets over a period of three 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.

The vesting of JSOP awards granted in 2011 is conditional upon both the following criteria being met:

- LSL's adjusted EPS performance over the three financial years starting with the financial year in which the JSOP award is granted being 10% p.a. or more; and
- LSL's total shareholders' return must exceed that of the FTSE 250 index (excluding investment trusts) over the three year performance period.

	2011		2010	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**3.20**	**382,104**	–	–
Granted during the year	**3.20**	**840,897**	3.20	382,104
Outstanding at 31st December	**3.20**	**1,223,001**	3.20	382,104

There were nil options exercisable at the end of the year (2010: nil).

The weighted average fair value of options granted during the year was £0.996 (2010: £0.75). The weighted average remaining contractual life is 2.0 years (2010: 2.5 years).

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 condition of 10% growth in LSL's adjusted basic EPS over a period of three financial years starting with the financial year in which the CSOP award is granted are met.

	2011		2010	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**2.40**	**481,870**	–	–
Granted during the year	**2.50**	**327,140**	2.40	481,870
Outstanding at 31st December	**2.44**	**809,010**	2.40	481,870

There were nil options exercisable at the end of the year (2010: nil).

The weighted average fair value of options granted during the year was £1.13 (2010: £0.95). The weighted average remaining contractual life is 1.75 years (2010: 2.5 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. In March 2011, the Group announced a new SAYE scheme effective from April 2011. All 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% for the 2007 and 2008 schemes, and at the daily average market price for the 2011 scheme. 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.

12. Directors and employees continued

2007 Scheme

	2011		2010	
	Weighted average exercise Price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	–	–	1.74	268,800
Lapsed during the year due to employees' withdrawal	–	–		(21,951)
Exercised during the year	–	–	1.74	(246,849)
Outstanding at 31st December	–	–	–	–

The weighted average remaining contractual life was nil years (2010: nil years). The weighted average share price of the options exercised during the year was £nil per share. There were nil options exercisable at the end of the year (2010: nil).

2008 Scheme

	2011		2010	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	1.155	764,977	1.155	800,852
Granted during the year	1.155	40,922		
Lapsed during the year due to employees' withdrawal	–	–	1.155	(25,641)
Exercised during the year	1.155	(805,899)	1.155	(10,234)
Outstanding at 31st December	–	–	1.155	764,977

The weighted average remaining contractual life was nil years (2010: 0.23 years). There were nil options exercisable at the end of the year (2010: nil). The weighted average share price of the options exercised during the year was £2.78 per share.

2011 Scheme

	2011	
	Weighted average exercise price £	Number
Outstanding at 1st January	–	–
Granted during the year	2.57	680,554
Vested during the year	–	–
Outstanding at 31st December	2.57	680,554

The weighted average fair value of options granted during the year was £1.13 (2010: £nil) and the weighted average remaining contractual life was 2.25 years. There were nil options exercisable at the end of the year (2010: nil).

Equity-settled

	2011			2010		
	CSOP	**JSOP**	**SAYE 2011**	CSOP	JSOP	SAYE 2008
Option pricing model used	**Black Scholes**	**Black Scholes**	**Black Scholes**	Black Scholes	Black Scholes	Black Scholes
Weighted average share price at grant date (£)	**2.50**	**2.50**	**2.50**	2.71	2.71	1.34
Exercise price (£)	**2.50**	**3.20**	**2.57**	2.40	3.20	1.155
Expected life of options (years)	**3 years**	**3 years**	**3 years**	3 years	3 years	3 years
Expected volatility	**80%**	**80%**	**80%**	80%	80%	42%
Expected dividend growth rate	**3.90%**	**3.90%**	**3.90%**	2.15%	2.15%	2.15%
Risk free interest rate	**3.50%**	**3.50%**	**3.50%**	3.35%	3.35%	5.25%

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

	2011 £'000	2010 £'000
Share-based payment charged during the year	**787**	298

A charge of £273,000 (2010: £61,000) 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 historical share price. 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

As stated in note 21, 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. In 2010, the Group acquired the shares in the subsidiary for a total consideration of £328,000 of which £143,000 was paid in 2010. The remaining £185,000 was outstanding at 31st December 2011 (2010: £185,000) and is payable in March 2013. There was no expense charged to the income statement in 2011 and 2010.

13. Taxation

(a) Tax on profit on ordinary activities

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

		2011 £'000	2010 £'000
UK corporation tax	– current year	**5,383**	1,280
	– adjustment in respect of prior years	**160**	281
		5,543	1,561
Deferred tax:			
Origination and reversal of temporary differences		**(764)**	(966)
Impact of rate change on deferred tax		**–**	(80)
Adjustment in respect of prior year		**(422)**	908
Total deferred tax credit		**(1,186)**	(138)
Total tax charge in the income statement		**4,357**	1,423

Income tax charged directly to equity is £nil (2010: credited £24,000) which relates to deferred tax on the net loss on the cash flow hedge.

In March 2011 the UK Government announced proposals to reduce the main rate of corporation tax to 23% over three years with effect from 1st April 2011. As of 31st December 2011 only the initial reduction to 25% had been enacted. Accordingly this is the rate at which deferred tax has been provided. If the subsequent reductions in the tax rate to 23% had been substantively enacted at 31st December 2011 the deferred tax liability would have reduced by £504,000.

Notes to the Group Financial Statements continued

for the year ended 31st December 2011

13. Taxation continued

(b) Factors affecting tax charge for the year

The tax assessed in the profit and loss account is lower (2010: lower) than the standard UK corporation tax rate, because of the following factors:

	2011 £'000	2010 £'000
Profit on ordinary activities before tax	**17,592**	35,958
Tax calculated at UK standard rate of corporation tax rate of 26.5% (2010: 28%)	**4,662**	10,068
Non taxable negative goodwill on acquisition	**(24)**	(8,351)
Non taxable income	**–**	(145)
Non taxable income from joint ventures	**(180)**	–
Non taxable profit on disposal of available-for-sale financial asset	**–**	(1,098)
Benefit of deferred tax asset not previously recognised	**75**	(998)
Disallowable expenses	**622**	796
Share-based payment relief	**141**	74
Temporary differences on non-qualifying properties no longer recognised	**(380)**	–
Impact of rate change on deferred tax	**(390)**	(80)
Others	**94**	(32)
	4,620	234
Prior period adjustments – current tax	**159**	281
Prior period adjustment – deferred tax	**(422)**	908
Total taxation charge	**4,357**	1,423

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

	2011 £'000	2010 £'000
Unrecognised deferred tax asset relating to:		
Property, plant and equipment temporary differences	**10**	11
Other temporary differences	**–**	82
Losses	**5,693**	3,509
	5,703	3,602

£nil (2010: £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:

	2011 £'000	2010 £'000
Net deferred tax liability/(asset) at 1st January	**2,183**	(621)
Deferred tax recognised in other comprehensive income	**–**	24
Deferred tax liability arising on business combinations	**3,775**	2,918
Deferred tax credit in income statement for the year (note 13a)	**(1,186)**	(138)
Net deferred tax liability at 31st December	**4,772**	2,183

Analysed as:

	2011 £'000	2010 £'000
Accelerated capital allowances	**651**	684
Deferred tax liability on separately identifiable intangible assets on business combinations	**4,726**	2,298
Deferred tax on share options	**(63)**	(322)
Deferred tax on interest rate swap	**(316)**	(292)
Other short term temporary differences	**(226)**	(185)
	4,772	2,183

Deferred tax credit in income statement relates to the following:

	2011 £'000	2010 £'000
Intangible assets recognised on business combinations	**822**	595
Accelerated capital allowance	**568**	604
Deferred tax on share options	**(259)**	(49)
Movement in deferred tax recognised on losses	**–**	(886)
Other temporary differences	**55**	(126)
	1,186	138

At the end of either year there was no unrecognised deferred tax liability for taxes that would be payable on the unremitted earnings of the Group's subsidiaries.

14. Intangible assets

Goodwill

	2011 £'000	2010 £'000
Cost		
At 1st January	**74,742**	66,472
Arising on acquisitions during the year	**41,710**	7,914
Adjustment in respect of change in contingent consideration	**–**	356
At 31st December	**116,452**	74,742

	2011 £'000	2010 £'000
Carrying amount of goodwill by operating unit		
Estate Agency and Related Services companies		
Marsh & Parsons	**40,307**	–
Your Move	**39,078**	38,691
Reeds Rains	**15,279**	15,243
LSLi	**6,015**	5,285
AMF	**2,604**	2,206
First Complete	**3,998**	4,146
Templeton LPA	**336**	336
Others	**348**	348
	107,965	66,255
Surveying and Valuation Services companies		
e.surv Chartered Surveyors	**8,487**	6,677
Chancellors Associates	**–**	1,810
	8,487	8,487
	116,452	74,742

Notes to the Group Financial Statements continued

for the year ended 31st December 2011

14. Intangible assets continued

Goodwill continued

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:

	2011 £'000	2010 £'000
Estate Agency and Related Services companies		
Marsh & Parsons	**11,724**	–
Your Move	**2,510**	2,510
Reeds Rains	**1,241**	1,241
LSLi	**596**	596
AMF	**180**	180
	16,251	4,527
Surveying and Valuation Services companies		
e.surv Chartered Surveyors	**1,281**	1,281
Chancellors Associates	**–**	153
	1,281	1,434
	17,532	5,961

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
  - Marsh & Parsons
  - Your Move (including its share of cash flows from LSL CCS)
  - Reeds Rains
  - LSLi, which includes
    - ICIEA*
    - Zenith Properties*
    - David Frost Estate Agency*
    - JNP Estate Agents*
    - GFEA*
    - Philip Green Lettings*
  - AMF
  - Templeton LPA
  - First Complete
- Surveying and Valuation Services companies
  - e.surv Chartered Surveyors

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

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 five year plan. The discount rate applied to cash flow projections is 10.7% (2010: 11.5%) and cash flows beyond the three year plan are extrapolated using a 0% (2010: 0%) growth rate even though there is evidence of a gain in market share in 2011.

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 three year plan. The discount rate applied to the cash flow projections is 10.7% (2010: 11.5%). The growth rate used to extrapolate the cash flows of the Surveying and Valuation Services companies beyond the three year plan is 0% (2010: 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:

- Discount rates
- Market share and market recovery
- Growth rate used in the budget period

Discount rates reflect management's estimate of the post-tax Weighted Average Cost of Capital (WACC) of the Group and this is grossed up to arrive at a pre-tax discount rate using a tax rate of 26.5%. 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 similar levels over the budget period. There has been growth in the market share of the Estate Agency companies organically (due to various market share growth initiatives). For impairment test purposes, management has not considered any further market share growth beyond 2011.

Growth rate estimates are based on external market data to the extent available, past experience and management estimates.

During the year the business of Chancellors Associates was hived up into e.surv Chartered Surveyors, and as a result the goodwill was transferred to e.surv Chartered Surveyors and remaining brand value of £153,000 was written off. Other than this there had been no impairment in respect of the carrying amount of goodwill or brand (indefinite useful life asset) 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 recoverable amount to be below the carrying value. Despite the unprecedented market conditions, the principal Estate Agency and Related Services companies, Your Move and Reeds Rains have been profitable in 2011 (without considering the impact of the HEAL branches which were hived up to Your Move, Reeds Rains and ICIEA).

Other intangible assets

As at 31st December 2011

	Brand Names £'000	Customer Contracts £'000	Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Other* £'000	Total £'000
Cost							
At 1st January 2011	5,999	47,274	5,612	2,044	5,323	1,127	67,379
Arising on acquisition during the year	11,724	–	–	202	128	–	12,054
At 31st December 2011	17,723	47,274	5,612	2,246	5,451	1,127	79,433
Aggregate amortisation and impairment							
At 1st January 2011	38	36,542	4,841	2,044	5,323	978	49,766
Impairment	153	–	–	–	–	–	153
Charge for the year	–	7,541	771	58	59	43	8,472
At 31st December 2011	191	44,083	5,612	2,102	5,382	1,021	58,391
Carrying amount							
At 31st December 2011	17,532	3,191	–	144	69	106	21,042

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

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

14. Intangible assets continued

Other intangible assets continued

The brand value relates to the following:

- Your Move, a network of estate agencies and to e.surv Chartered Surveyors, 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;
- ICIEA, a network of estate agencies which were acquired by the Group in February 2007;
- David Frost 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;
- AMF (trading as Pink Home Loans) was acquired in December 2010; and
- Marsh & Parsons, a network of estate agencies was acquired in November 2011.

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.

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.

£2.4m of the balance in respect of customer contracts relates to one contract, which will be fully amortised in the next financial year.

15. Property, plant and equipment

As at 31st December 2011

	Freehold land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost					
At 1st January 2011	7,878	3,580	33	18,423	29,914
Acquisitions during the year	–	2,219	243	525	2,987
Additions	–	8	5	3,230	3,243
Disposals	–	(10)	–	(529)	(539)
At 31st December 2011	7,878	5,797	281	21,649	35,605
Depreciation and impairment					
At 1st January 2011	150	3,415	22	12,477	16,064
Charge for the year	150	91	18	2,322	2,581
Disposals	–	(10)	–	(521)	(531)
At 31st December 2011	300	3,496	40	14,278	18,114
Carrying amount					
At 31st December 2011	7,578	2,301	241	7,371	17,491

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

16. Financial assets

Available-for-sale financial assets

	2011 £'000	2010 £'000
Unquoted shares carried at cost	**1,442**	497
Less: Reclassified as investments (see note below)	**(750)**	–
Acquired during the year	**–**	945
	692	1,442
Impairment	**(345)**	(345)
	347	1,097

In 2011 the Directors have reclassified investment in TM Group (UK) Limited which had a carrying value of £750,000 at 31st December 2010 from financial assets to investments in joint ventures as it satisfied the definition of a joint venture.

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.

17. Investments

	2011 £'000	2010 £'000
Investment in joint ventures	**1,768**	–

The Group has a 33.33% interest in TM Group (UK) Limited, a jointly controlled entity whose principal activity is to provide property searches. In July 2011, the Group also acquired a 33.33% interest in Cybele Solutions Holdings Limited (trading as Legal Marketing Services (LMS)) for a total consideration of £671,000. The principal activity of LMS is to provide panel management of conveyancing services.

17. Investments continued

The share of the assets, liabilities, income and expenses of the jointly controlled entities at 31st December and for the years then ended are as follows:

	2011 £'000	2010 £'000
Share of the joint ventures' balance sheets:		
Non-current assets	978	–
Current assets	3,189	–
Current liabilities	(2,008)	–
Non-current liabilities	(391)	–
Share of net assets	**1,768**	–

	2011 £'000	2010 £'000
Share of the joint ventures' results:		
Revenue	13,857	–
Operating expenses	(12,936)	–
Operating profit	**921**	–
Finance income	12	–
Finance costs	(3)	–
Profit before tax	**930**	–
Taxation	(251)	
Profit after tax	**679**	–

18. Trade and other receivables

	2011 £'000	2010 £'000
Current		
Trade receivables	20,492	17,337
Prepayments and accrued income	8,189	7,799
	28,681	25,136

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

As at 31st December 2011, trade receivables at a nominal value of £1,394,000 (2010: £533,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2011 £'000	2010 £'000
At 1st January	533	752
Acquisitions during the year	403	–
Charge for the year	666	–
Amounts written off	(208)	(165)
Unused amounts reversed	–	(54)
At 31st December	1,394	533

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
2011	**20,492**	**17,096**	**2,784**	**612**
2010	17,337	13,440	2,603	1,294

19. Cash and cash equivalents

	2011 £'000	2010 £'000
Short term deposits	**435**	338

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 £0.4m (2010: £0.3m). At 31st December 2011, the Group had available £40.1m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2010: £73.5m).

20. Trade and other payables

	2011 £'000	2010 £'000
Current		
Trade payables	**8,112**	8,895
Other taxes and social security payable	**9,491**	8,993
Other payables	**577**	1,016
Accruals	**28,423**	26,181
	46,603	45,085

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.

21. Financial liabilities

	2011 £'000	2010 £'000
Current		
2% unsecured loan notes	**1,496**	–
Other unsecured loans	**750**	–
Deferred consideration	**–**	92
	2,246	92
Non-current		
Secured bank loans – Revolving Credit Facility (RCF)	**34,918**	1,509
Other unsecured loans	**–**	750
12% unsecured loan notes	**8,660**	–
Deferred consideration	**724**	600
Contingent consideration	**1,215**	1,213
Derivatives carried at fair value	**1,265**	1,083
	46,782	5,155

2% unsecured loan notes (2% LN)

The 2% LN were issued as part satisfaction of the consideration for acquisition of Marsh & Parsons Limited in November 2011. These loan notes carry an interest rate of 2% and are redeemable at par value at any time after 24th November 2012 at the option of either the Group or the loan note holder.

Other unsecured loan

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.

Secured bank loans – Revolving Credit Facility

The secured bank loans totalling £34.9m (2010: £1.5m) 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 (2010: £75m). The banking facility was renewed in 2010 for a further period until March 2014.

21. Financial liabilities continued

Interest and fees payable on the revolving credit facility amounted to £1.4m (2010: £1.6m). The interest rate applicable to the facility is LIBOR plus a margin rate of 1.75% (2010: LIBOR plus 2.0%). The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

12% unsecured loan notes (12% LN)
The 12% LN with a face value of £6,146,000 (fair value of £8,660,000) were issued as part satisfaction of the consideration for acquisition of Marsh & Parsons Limited in November 2011. These loan notes carry a coupon of 12% which is compounded every year on 1st January and rolled up to redemption. These loan notes are redeemable at par value plus rolled up interest at any time after 31st March 2016 at the option of the loan note holder. However, if that option is not exercised by the loan note holder by 31st March 2020 then these are redeemable on 31st March 2020.

Deferred consideration
The total deferred consideration is as below:

	2011 £'000	2010 £'000
Acquisition of Barnwoods shares	**190**	190
Deferred consideration relating to Marsh & Parsons acquisition	**334**	–
Templeton deferred consideration	**200**	–
Acquisition of AMF	**–**	410
	724	600

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 £334,000 relates to the Marsh & Parsons acquisition in November 2011. This is payable at any time between 31st March 2016 and 31st March 2020 at the option of management of Marsh & Parsons Limited.

Deferred consideration of £200,000 is payable on acquisition of Templeton LPA. This is payable in January 2013 and no interest is payable on this.

Deferred consideration of £nil (2010: £410,000) relates to consideration that is payable for the acquisition of AMF (including BDS).

Contingent consideration
£1,149,000 (2010: £1,213,000) of contingent consideration is payable to third parties in relation to the acquisition of certain subsidiaries in 2007 and 2010. This is payable between three and five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years. In 2011, the contingent consideration has been recalculated based on the latest management's expectation using a discount rate of 7% (2010: 7%).

£66,000 (2010: £nil) of contingent consideration relates to the 'Growth Shares' issued to management of Marsh & Parsons subsequent to acquisition as an incentive to grow the Marsh & Parsons business. Holders of Growth Shares will have the option to require LSL to buy their Growth Shares at any time between 31st March 2016 and 1st April 2020, at their discretion, at a price determined by a multiple of EBITDA in the previous financial year. The payment of the consideration is contingent on the holder of the Growth Share being continuously employed by the relevant company and consequently the expected value of the Growth Shares is charged to the income statement over the earn-out period.

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 29). These are carried at fair value.

22. Provisions for liabilities

	2011			2010		
	Professional indemnity claim provision £'000	**Onerous leases £'000**	**Total £'000**	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000
Balance at 1st January	**10,901**	**992**	**11,893**	7,542	1,643	9,185
Acquisition during the year	**–**	**–**	**–**	–	184	184
Amount utilised	**(4,031)**	**(243)**	**(4,274)**	(2,735)	–	(2,735)
Amount released	**–**	**(334)**	**(334)**	–	(835)	(835)
Unwinding of discount	**266**	**–**	**266**	230	–	230
Provided in financial year	**2,505**	**2**	**2,507**	5,864	–	5,864
Balance at 31st December	**9,641**	**417**	**10,058**	10,901	992	11,893
Current	**512**	**194**	**706**	584	–	584
Non-current	**9,129**	**223**	**9,352**	10,317	992	11,309
	9,641	**417**	**10,058**	10,901	992	11,893

The PI claim provision relates to ongoing and expected future legal claims relating to valuation services and is the Directors' best estimate of the likely outcome of such claims, taking account of the incidence of claims and the size of the loss that may be borne by the claimant after taking account of actions that can be taken to mitigate losses. 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.

23. 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 22). Future minimum rentals payable under these operating leases are as follows:

	2011			2010		
	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	**8,814**	**2,099**	**10,913**	8,704	1,998	10,702
After one year but not more than five years	**20,078**	**2,147**	**22,225**	21,455	1,593	23,048
After five years	**8,931**	**–**	**8,931**	7,355	–	7,355
	37,823	**4,246**	**42,069**	37,514	3,591	41,105

The Group had annual committed 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:

	2011 Land and buildings £'000	2010 Land and buildings £'000
Not later than one year	**946**	1,360
After one year but not more than five years	**1,002**	1,638
After five years	**445**	647
	2,393	3,645

24. Share capital

	2011		2010	
	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

25. 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 2011 the Group held 1,269,389 (2010: 1,381,907) of its own shares at an average cost of £2.28 (2010: £2.27). The market value of the shares at 31st December 2011 was £2,843,000 (31st December 2010: £3,455,000). The nominal value of each share is 0.2p.

26. 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.

Total contributions to the defined contribution schemes in the year were £2.1m (2010: £2.1m). There was an outstanding amount of £293,000 in respect of pensions as at 31st December 2011 (2010: £157,000).

27. Acquisitions during the year

Year ended 31st December 2011

The Group acquired the following businesses during the year:

a. Marsh & Parsons Limited

On 23rd November 2011, the Group, through its newly incorporated subsidiary Marsh & Parsons Holdings Limited, completed the acquisition of the entire share capital of Marsh & Parsons Limited for the consideration of £55.9m, which after considering cash acquired of £5.7m is an enterprise value of £50.2m. Marsh & Parsons is a leading London estate agency operating a premium brand in the mid-segment of the prime London property market with 14 offices in Central and South West London.

Due to the proximity of the timing of the transaction to the year-end the fair value of the identifiable assets, except for cash and cash equivalents, and liabilities of Marsh & Parsons as at the date of acquisition have been determined on a provisional basis as below:

	Provisional fair value recognised on acquisition £'000
Intangible assets	12,054
Property, plant and equipment	2,962
Trade and other receivables	3,453
Cash and cash equivalents	5,707
Trade and other payables	(4,014)
Current tax liabilities	(806)
Deferred tax liabilities	(3,775)
Total identifiable net assets acquired	**15,581**
Purchase consideration	55,888
Goodwill	40,307
Purchase consideration discharged by:	
Cash	45,398
Issue of 12% unsecured loan notes measured at fair value	8,660
Issue of 2% unsecured loan notes	1,496
Deferred consideration	334
	55,888

	£'000
Analysis of cash flow on acquisition	
Transaction costs (included in cash flows from operating activities)	(1,629)
Net cash acquired with the subsidiary (included in cash flows from investing activities)	5,707
Purchase consideration discharged in cash (included in cash flows from investing activities)	(45,398)
Net cash outflow on acquisition	**(41,320)**

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

The goodwill of £40.3m for Marsh & Parsons comprises certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the high quality, dynamic and experienced management team with an outstanding record of delivering strong and profitable growth against the backdrop of challenging market conditions, the expected value of synergies and the potential to significantly grow the business.

In addition to the consideration of £55.9m, management of Marsh & Parsons were issued 'Growth Shares' which entitle them to require LSL to buy their Growth Shares at any time between 31st March 2016 and 1st April 2020, at their discretion, at a price determined by a multiple of EBITDA in the previous financial year. In the current year £66,000 has been expensed in the income statement.

b. Lettings acquisition by LSLi

During the year LSLi (through its subsidiaries) acquired the following lettings business:

- Assets of the lettings business of Reynolds (Wimbledon) Limited acquired on 1st March 2011 for a cash consideration of £160,000;
- Assets of the lettings business of Goddard Management Limited trading as A120 Lettings acquired on 30th September 2011 for a cash consideration of £188,250;
- Lettings business of Front Door Property Management Limited for a cash consideration of £207,000 in September 2011; and
- Lettings business of Warners Letting Agency Limited for a cash consideration of £200,000 in December 2011.

27. Acquisitions during the year continued

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

	Fair value recognised on acquisition £'000
Property, plant and equipment	25
Total identifiable net assets acquired	**25**
Purchase consideration (discharged by cash)	755
Goodwill arising on acquisition	730

The goodwill of £0.7m for the above acquisitions 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 and the potential to grow the business.

c. Lettings acquisition by Your Move and Reeds Rains

During the year, Your Move and Reeds Rains acquired the following lettings businesses of Wilsons, Letexpress, Destination London and a franchisee of Reeds Rains for a total cash consideration of £423,000. There were no separately identifiable net assets and all the consideration was towards goodwill.

From the date of acquisition to 31st December 2011, the acquisitions in aggregate have contributed to £3.1m of revenue and £0.5m profit before tax of the Group. If all of these combinations had taken place at the beginning of the year, the consolidated revenue would have been higher by £24.6m and the consolidated profit before tax would have been higher by £6.0m.

Of the total goodwill arising on all acquisitions, an amount of £349,000 is expected to be deductible for tax purposes.

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)

	£'000
Analysis of cash flow on acquisition	
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.

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

	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 advisers, appointed representative network and an assembled workforce. Goodwill is allocated entirely to the 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:

a. 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;
b. 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
c. lettings business of Philip Green Estate Agents for a cash consideration of £360,000 in June 2010. Goodwill on this is included as part of LSLi.

27. 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.

28. Client monies

As at 31st December 2011, client monies held by subsidiaries in separate bank accounts amounted to £55,647,000 (2010: £35,007,000). 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.

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

It is the Group's policy that trading in derivatives shall not be undertaken, apart from the interest rate swap agreements mentioned above.

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.

The majority of external Group borrowings are variable interest based and 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.

In 2009 the Group entered into interest rate swap agreements to fix interest rates on £25m of the Group's bank borrowings. The interest rate swap agreements fix the loan interest rate to approximately 2.9% until April/May 2014.

Although the interest rate swaps neither protect 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 2011, after taking into account the effect of interest rate swaps, approximately 72% of the Group's revolving credit facility is at a fixed rate of interest (2010: 100%).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings which is not covered by the fixed interest rate swap. 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 before tax £'000
2011	**+100**	**(99)**
	-100	**99**
2010	+100	–
	-100	–

As mentioned above the Group also has interest rate swap agreements which are accounted as 'fair value through profit and loss' with changes in the fair value charged or credited in the income statement. The fair value of the swap instrument is liable to fluctuate to short term movements in interest rate expectation.

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 has net current liabilities due to the operating model where debtors are collected earlier than payments to creditors, allowing the cash to be used elsewhere in the business such as to reduce the amount drawn down on the revolving credit facility and to make acquisitions. However, requirement to pay creditors is managed through future cash generation and if required from the revolving credit facility.

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.

The table below summarises the maturity profile of the Group's financial liabilities at 31st December 2011 based on contractual undiscounted payments:

Year ended 31st December 2011

	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	–	393	2,672	46,216	–	**49,281**
Other unsecured loan	–	750	–	–	–	**750**
Trade and other payables	–	8,112	–	–	–	**8,112**
Contingent consideration	–	–	–	1,215	–	**1,215**
Deferred consideration	–	–	–	724	–	**724**
Interest rate swap (gross outflow)	–	182	547	992	–	**1,721**
	–	**9,437**	**3,219**	**49,147**	**–**	**61,803**

Notes to the Group Financial Statements continued

for the year ended 31st December 2011

29. Financial instruments – risk management continued

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**

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 2011

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	>5 years £'000	Total £'000
Inflows	–	48	144	264	–	**456**
Outflows	–	(182)	(547)	(992)	–	**(1,721)**
Net	–	(134)	(403)	(728)	–	**(1,265)**

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)**

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. Certain loan notes issued on acquisition of Marsh & Parsons are excluded as they are unsecured, are also not relevant to calculating the Group's banking covenant and £8.7m of the loan notes are due for repayment only after the expiry of the existing banking facility.

The Group has a current ratio of net debt (excluding loan notes) to operating profit of 1.24 (2010: 0.15:1), net debt (excluding loan notes) of £38.4m (2010: net debt of £4.9m) and operating profit before exceptional costs, amortisation and share-based payment charge of £31.1m (2010: profit of £31.9m). 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.

	2011 £'000	2010 £'000
Interest bearing loans and borrowings (including loan notes)	**49,028**	5,247
Less: 2% and 12% unsecured loan notes	**(10,156)**	–
Less: cash and short term deposit	**(435)**	(338)
Net debt (excluding loan notes)	**38,437**	4,909

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 2011 is as follows:

Fixed rate	Within 1 year £'000	1–2 years £'000	2–3 years £'000	Total £'000
Revolving credit facility*	–	–	(25,000)	(25,000)

Floating rate	Within 1 year £'000	1–2 years £'000	2–3 years £'000	Total £'000
Cash and cash equivalents	435	–	–	435
Revolving credit facility	–	–	(9,918)	(9,918)

* Includes the effect of interest rate swap

The effective interest rate and the actual interest rate charged on the loans in 2011 is as follows:

	Effective rate	Actual rate
Revolving credit facility	9.9%	2.7%
2% unsecured loan notes	2.0%	2.0%
12% unsecured loan notes	3.65%	12.0%

The effective interest rate on the revolving credit facility during the year is high due to commitment fees payable on undrawn amounts earlier in the year. The effective rate on 12% unsecured loan notes is low due to the loan notes being recorded at fair value on initial issue in 2011.

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*	–	–	–	1,509	–	–	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

* Includes the effect of interest rate swap

Notes to the Group Financial Statements continued

for the year ended 31st December 2011

29. Financial instruments – risk management continued

The effective interest rate and the actual interest rate charged on the loans in 2010 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 the committed undrawn borrowing facility.

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 Statement:

	2011		2010	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Financial assets				
Cash and cash equivalents	**435**	**435**	328	328
Available-for-sale financial assets	**347**	**n/a***	1,097	n/a*
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	**(34,918)**	**(34,918)**	(1,509)	(1,509)
Fixed rate borrowings	**–**	**–**	–	–
Derivative financial liabilities – interest rate swaps	**(1,265)**	**(1,265)**	(1,083)	(1,083)
Contingent consideration	**(1,215)**	**(1,215)**	(1,213)	(1,213)
Deferred consideration	**(724)**	**(724)**	(692)	(692)
2% unsecured loan notes	**(1,496)**	**(1,483)**	–	–
12% unsecured loan notes	**(8,660)**	**(8,660)**	–	–

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.

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

Fair value hierarchy

As at 31st December 2011, 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

	2011 £'000	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Interest rate swap	**1,265**	**–**	**1,265**	**–**

Liabilities measured at fair value

	2010 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Interest rate swap	1,083	–	1,083	–

30. Analysis of net debt (excluding loan notes)

	2011 £'000	2010 £'000
Interest bearing loans and borrowings		
– Current	**2,246**	92
– Non-current	**46,782**	5,155
	49,028	5,247
Less: 2% unsecured loan notes	**(1,496)**	–
Less: 12% unsecured loan notes	**(8,660)**	–
Less: cash and short term deposits	**(435)**	(338)
Net debt at the end of the year	**38,437**	4,909

During the year, the Group has borrowed £33.4m (2010: repaid £23.6m) 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 (2010: £75m). In 2010 the banking facility was renewed and is repayable when funds permit or by March 2014.

31. Related party transactions

Key management personnel

In 2010, the Group acquired 4.95% shares from the employees of Barnwoods (of whom one 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 (2010: £285) 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.

Transactions with Cybele Solutions Holdings Limited and its subsidiaries

	2011 £'000	2010 £'000
Sales	**438**	–
Purchases	**(29)**	–
Year-end creditor balance	**(6)**	–

32. Capital commitments

	2011 £'000	2010 £'000
Capital expenditure contracted for but not provided	**51**	496

Notes to the Group Financial Statements continued

for the year ended 31st December 2011

33. Principal subsidiary and joint venture 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 Services
e.surv Chartered Surveyors*	ordinary shares	100%	Surveying and Valuation Services
Marsh & Parsons	ordinary shares	100%	Estate Agency
Marsh & Parsons Holdings Limited*	'A' ordinary shares	100%	Holding Company of Marsh & Parsons
	'B' ordinary shares	0%	
	'C' ordinary shares	0%	
First Complete*	ordinary shares	100%	Financial Services
LSL Corporate Client Department*	ordinary shares	100%	Asset Management
St Trinity*	ordinary shares	100%	Asset Management
Reeds Rains*	ordinary shares	100%	Estate Agency and Related Services
Linear Mortgage Network	ordinary shares	76%	Financial Services
Chancellors Associates	ordinary shares	100%	Surveying and Valuation Services
LSLi*	ordinary shares	75%	Holding Company
ICIEA	ordinary shares	87.5%	Estate Agency and Related Services
Barnwoods*	ordinary shares	100%	Surveying and Valuation Services
David Frost Estate Agents	ordinary 'A' shares	100%	Estate Agency and Related Services
	ordinary 'B' shares		
	non cumulative redeemable preference shares		
JNP Estate Agents	ordinary shares	80%	Estate Agency and Related Activities
	ordinary 'B' shares		
	ordinary 'C' shares		
Albany Insurance Company (Guernsey) Limited*	ordinary shares	100%	Captive insurer
AMF*	ordinary shares	100%	Financial Services
	preference shares	100%	
Cybele Solutions Holdings Limited#	ordinary 'A' Shares	33.33%	Conveyancing
TM Group (UK) Limited#	ordinary shares	33.33%	Property searches

* Held directly by the Company.
# Joint Ventures.

Statement of Directors' Responsibilities in Relation to the Parent Company Financial Statements

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

Independent Auditors' 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 2011 which comprise the Parent 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 29, 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 (APB'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 2011
- 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 2011.

Stuart Watson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
1st March 2012

Parent Company Balance Sheet

as at 31st December 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Intangible fixed assets	2	**(204)**	(3,162)
Tangible fixed assets	3	**70**	107
Investments	4	**160,952**	114,034
		160,818	110,979
Current assets			
Debtors	5	**28,269**	27,243
Creditors: amounts falling due within one year	6	**(79,785)**	(80,288)
Net current liabilities		**(51,516)**	(53,045)
Total assets less current liabilities		**109,302**	57,934
Creditors: amounts falling due after one year	7	**(48,378)**	(18,889)
Net assets		**60,924**	39,045
Capital and reserves			
Called up share capital	10	**208**	208
Share premium account	11	**5,629**	5,629
Share-based payment reserve	11	**912**	1,014
Treasury shares	11	**(2,747)**	(3,139)
Hedging loss	11	**–**	–
Profit and loss account	11	**56,922**	35,333
Shareholders' funds		**60,924**	39,045

The Financial Statements were approved by the Board on 1st March 2012 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 2011

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 2011. 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 from 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.

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 derecognised 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 derecognised 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.

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. Further details on the interest rate swap are included in note 29 of the Group Financial Statements.

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 five years
Computer equipment	– over three 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.

Negative goodwill
Negative goodwill relates to the excess of the fair value of assets acquired over their purchase price at the date of acquisition. The excess negative goodwill is written back to the profit and loss account in line with the usage of the assets.

Notes to the Parent Company Financial Statements
continued
for the year ended 31st December 2011

2. Intangible fixed assets
As at 31st December 2011

	Negative goodwill £'000
Cost or valuation	
At 1st January 2011	(23,453)
Additions	–
At 31st December 2011	(23,453)
Amortisation	
At 1st January 2011	20,291
Credit during the year	2,958
At 31st December 2011	23,249
Carrying amount	
At 31st December 2011	(204)
At 1st January 2011	(3,162)

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 is being amortised to match the usage of the assets acquired (mainly cash outflow).

3. Tangible fixed assets
As at 31st December 2011

	Leasehold improvements £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
At 1st January 2011	49	91	140
Additions	–	–	–
At 31st December 2011	49	91	140
Depreciation			
At 1st January 2011	4	29	33
Charge for the year	10	28	38
At 31st December 2011	14	57	70
Carrying amount			
At 31st December 2011	35	35	70
At 1st January 2011	45	62	107

4. Investments

	2011 £'000	2010 £'000
Subsidiary undertakings	**159,335**	113,089
Other investments	**195**	195
Investments in joint ventures	**1,422**	750
	160,952	114,034

Subsidiary undertakings:

Details of the subsidiaries held directly and indirectly by the Company are shown in note 33 to the Group Financial Statements.

	2011 £'000	2010 £'000
At 1st January	**113,089**	109,157
Additions	**45,733**	3,700
Adjustment for contingent consideration	**–**	–
Adjustments for share-based payment	**513**	232
At 31st December	**159,335**	113,089

In 2011, an adjustment of £513,000 (2010: increase of £232,000) on investment in subsidiaries for the share-based payment, representing the financial effects of awards by the Company of options over its equity shares to employees of subsidiary undertakings.

Other investments

	2011 £'000	2010 £'000
At cost		
At 1st January	**195**	–
Additions	**–**	195
At 31st December	**195**	195

Other investments represent investment in equity shares of private limited companies.

Investments in joint ventures

	2011 £'000	2010 £'000
At cost		
At 1st January	**750**	–
Additions	**672**	750
At 31st December	**1,422**	750

Details of the joint ventures held by the Company are shown in note 33 to the Group Financial Statements.

5. Debtors

	2011 £'000	2010 £'000
Deferred tax asset (note 8)	**323**	293
Corporation tax recoverable	**764**	764
Group relief receivable	**9,445**	8,081
Prepayments	**2**	24
Amounts owed by Group undertakings	**17,735**	18,081
	28,269	27,243

Notes to the Parent Company Financial Statements
continued
for the year ended 31st December 2011

6. Creditors: amounts falling due within one year

	2011 £'000	2010 £'000
Other taxes and social security payable	**393**	310
Accruals	**1,899**	1,140
Contingent consideration	**145**	125
Deferred consideration	**334**	491
Amounts owed to Group undertakings	**77,014**	78,222
	79,785	80,288

Contingent consideration
£145,000 (2010: £125,000) of contingent consideration is payable to third parties in relation to the acquisition of its subsidiaries in 2007 and 2011. This is payable between three and five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years. In 2011, the contingent consideration has been recalculated based on the latest management's expectation using a discount rate of 7% (2010: 7%).

Deferred consideration
Deferred consideration of £334,000 relates to the Marsh & Parsons acquisition in November 2011. This is payable at any time between 31st March 2016 and 31st March 2020 at the option of management of Marsh & Parsons Limited. No interest is payable on this.

7. Creditors: amounts falling due after one year

	2011 £'000	2010 £'000
Loans (note 9)	**47,113**	17,806
Derivative financial liability – interest rate swap	**1,265**	1,083
Accruals	**–**	–
	48,378	18,889

8. Deferred tax asset

	2011 £'000	2010 £'000
Deferred tax asset at 1st January	**293**	40
Deferred tax debited to equity	**–**	(24)
Deferred tax credit in profit and loss account for the year	**30**	277
Deferred tax asset at 31st December	**323**	293

Deferred tax asset is in relation to a short term timing difference. This relates predominately to the interest rate swap.

In March 2011 the UK Government announced proposals to reduce the main rate of corporation tax to 23% over three years with effect from 1st April 2011. As of 31st December 2011 only the initial reduction to 25% had been enacted. Accordingly this is the rate at which deferred tax has been provided. If the subsequent reductions in the tax rate to 23% had been substantively enacted at 31st December 2011 the deferred tax asset would have reduced by £26,000.

9. Loans

	2011 £'000	2010 £'000
Amounts falling due		
In more than two years but not more than five years	**47,113**	17,806

Secured bank loans – Revolving Credit Facility
The secured bank loans totalling £47.1m (2010: £17.8m) are secured by a debenture over the Group's assets excluding the following subsidiaries: Lending Solutions, Homefast Property Services Limited, Linear Mortgage Network, Linear Financial Services, Templeton LPA, AMF, BDS, property-careers.com Limited, 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 (2010: £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 1.75% (2010: 2%). 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

	2011		2010	
	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 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)
Reassurance of treasury shares	–	–	(1,297)	673	–	1,071	447
Recycling of cash flow hedge through profit and loss account (net of tax)	–	–	–	–	63	–	63
Dividend paid	–	–	–	–	–	(8,146)	(8,146)
Profit for the year	–	–	–	–	–	14,451	14,451
Balance at 1st January 2011	**208**	**5,629**	**1,014**	**(3,139)**	**–**	**35,333**	**39,045**
Share-based payments	–	–	787	–	–	–	787
Purchase of treasury shares	–	–	–	(1,762)	–	–	(1,762)
Reissuance of treasury shares	–	–	(889)	2,154	–	(307)	958
Dividend paid	–	–	–	–	–	(8,945)	(8,945)
Profit for the year	–	–	–	–	–	30,841	30,841
Balance at 31st December 2011	**208**	**5,629**	**912**	**(2,747)**	**–**	**56,922**	**60,924**

For a description of the reserves refer to note 25 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 a 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 £30,841,000 (2010: profit of £14,451,000).

Remuneration paid to Directors of the Company is disclosed in note 12 of the Group Financial Statements.

The Company paid £40,000 (2010: £35,000) to its auditors in respect of the audit of the financial statements of the Company.

Fees paid to the auditors and their associates for non-audit services to the Company itself are not disclosed in the individual accounts of LSL Property Services plc because Group Financial Statements are prepared which are required to disclose such fees on a consolidated basis. These are disclosed in note 13 of the Group Financial Statements.

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.

13. Pensions costs and commitments continued

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 £54,324 (2010: £32,443). There were no outstanding amounts in respect of pensions as at 31st December 2011 (2010: £nil).

14. Capital commitments

The Company had no capital commitments as at 31st December 2011 (2010: 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				
2011	–	–	**256**	–
2010	–	–	310	–
Linear Financial Services				
2011	–	–	**277**	–
2010	–	–	272	–
LSLi				
2011	–	–	**5,785**	–
2010	–	–	5,655	–
ICIEA				
2011	–	–	**63**	–
2010	–	–	17	–
Barnwoods				
2011	–	–	–	**3,410**
2010	–	–	–	421
JNP Estate Agents				
2011	–	–	**61**	–
2010	–	–	231	–

Other Information

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Definitions

"2011 EBT" employee benefit trust established in November 2011 as part of the acquisition of Marsh & Parsons
"Adjusted Basic Earnings Per Share" is defined at note 10 of the Financial Statements
"AGM" Annual General Meeting
"AMF" and **"Advance Mortgage Funding"** are trading names of Advance Mortgage Funding Limited
"Asset Management" refers to LSL's repossessions asset management and property management for multi property landlords services
"Barnwoods" trading name Barnwoods Limited
"BDS" and **"BDS Mortgage Group"** are trading names of BDS Mortgage Group Limited
"Board" the Board of Directors of LSL
"Committees" refers to LSL's Nominations Committee, the Audit Committee and the Remuneration Committee
"Company" or "Parent Company" LSL Property Services plc
"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" and **"Cheltenham & Gloucester"** are trading styles of Cheltenham & Gloucester plc
"Chancellors Associates" trading name of Chancellors Associates Limited
"Chairman" Roger Matthews
"Code" UK Code of Corporate Governance by the Financial Reporting Council (June 2010)
"Company Secretary" Sapna B FitzGerald
"CSOP" company share ownership plan
"CSR" corporate social responsibility
"Davis Tate" trading name of Davis Tate Limited
"Director" an Executive Director or Non Executive Director of LSL
"DBP" deferred bonus plan
"EBITDA" earnings, before interest, taxes, depreciation and amortisation
"Ekins" surveying and valuation business previously operated by Barclays Bank plc
"EPC" energy performance certificate
"EPS" earnings per share
"ESG" environmental, social and governance
"Estate Agency Division" includes LSL's Residential Sales, Lettings, Financial Services, LPA fixed charge receiver and Asset Management businesses
"Estate Agency and Related Services" refers to LSL's Estate Agency Division
"e.surv Chartered Surveyors" or **"e.surv"** trading names of e.surv Limited
"Executive Director" refers to Steve Cooke, Simon Embley, David Newnes and Alison Traversoni
"Executive Director, Estate Agency" David Newnes
"Executive Director, Surveying" Alison Traversoni
"First Complete" trading name of First Complete Limited
"Financial Services" refers to LSL's financial services (including mortgage and protection brokerage and the operation of intermediary networks
"Financial Statements" financial statements contained in this Report
"Foxtons" trading name of Foxtons Limited
"Frosts" trading name of David Frost Estate Agents Limited
"Group" LSL Property Services plc and its subsidiaries
"Group CEO" Simon Embley
"Group Finance Director" Steve Cooke
"Growth Shares" the B1, B2 and C classes of ordinary shares (each £0.001) in Marsh & Parsons (Holdings) Limited
"Goodfellows" and **"Goodfellows Estate Agents"** are trading names of GFEA Limited
"Hamptons International" trading name of Hamptons International Limited
"HEAL" Halifax Estate Agencies Limited
"HEAL Business" HEAL branches and St Trinity Asset Management (formerly HEAL Corporate Services)
"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
"IFRS" International Financial Reporting Standards
"Intercounty" trading name of ICIEA Limited
"IPO" initial public offering
"JNP" trading name of JNP Estate Agents Limited
"JSOP" joint share ownership plan
"Legal Marketing Services" and **"LMS"** are trading names of Legal Marketing Services Limited
"Lettings" refers to LSL's residential property lettings and property management services
"Letsure" trading name of Letsure Limited
"Linear" and **"Linear Financial Services"** are trading names of Linear Mortgage Network Limited and Linear Financial Services Limited
"Lloyds Banking Group" Lloyds TSB Bank plc group of companies
"LMS Direct Conveyancing" trading name of LMS Direct Conveyancing 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 Department” trading name of LSL Corporate Client Services Limited
“LTIP” long term investment plan
“Marsh & Parsons” trading name of Marsh & Parsons Limited
“Marsh & Parsons Management Shareholders” Peter Rollings and Liza-Jane Kelly
“MBO” management buy-out
“NBS” New Bridge Street Limited
“Net Debt” defined as financial liabilities less cash and cash equivalents
“Non Executive Director” refers to Helen Buck, 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” trading name of Openwork Holdings Limited
“Ordinary Shares” 0.2p ordinary shares in LSL
“PI” professional indemnity
“Pink Home Loans” or **“Pink”** are trading names for Advance Mortgage Funding Limited and BDS Mortgage Group Limited
“Philip Green” and **“Philip Green Estate Agents”** are trading names of Intercounty
“PropertyCare+” e.surv’s private surveying service delivered direct to private house purchasers
“RCF” revolving credit facility
“Reeds Rains” trading name of Reeds Rains Limited
“Registered Office” Newcastle House, Albany Court, Newcastle Business Park, NE4 7YB
“Report” and **“Annual Report”** refer to LSL’s annual report and accounts 2011
“Residential Sales” refers to LSL’s services for residential property sales
“RICS” Royal Institution of Chartered Surveyors
“Santander” trading name of Banco Santander S.A.
“SAYE” save-as-you-earn
“Senior Independent Director” Mark Morris
“Shareholders” shareholders of LSL
“Sherry FitzGerald” is the trading name of Sherry FitzGerald Limited
“SIP” share incentive plan
“St Trinity Asset Management” and **“St Trinity”** are trading names of St Trinity Limited
“Surveying Division” includes LSL’s surveying and valuation businesses
“Surveying and Valuation Services” refers to LSL’s Surveying Division
“Templeton” trading name of Templeton LPA Limited
“The Bridge” LSL’s call centre operation based in Southampton
“The Mortgage Alliance” or **“TMA”** are trading names of First Complete’s mortgage club
“Trust” LSL Property Services plc Employee Benefit Trust established in 2006 and referred to on page 32 of this Report
“Trustees” Capita Trustee Limited who have been appointed to operate the Trust
“TSR” total shareholder return
“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
“Vanstons” trading name of Vanstons Limited
“Your Move” trading name of your-move.co.uk Limited

Shareholder 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
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Telephone: 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open 8:30am-5:30pm, Monday-Friday)
Overseas Telephone: +44 20 8639 3399
Website: www.capitaregistrars.co.uk
Email: shareholder.services@capitaregistrars.com

If you move, please do not forget to let the Registrars know your new address

Calendar of events

Preliminary Results Released 1st March 2012
AGM Proxy Form Deadline 2.00pm 17th April 2012
AGM 2.00pm 19th 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 and unless a Shareholder requests otherwise, LSL communicates with its Shareholders by publishing information (including statutory documents, such as the Annual Report & Accounts and the Notice of Meeting) (Shareholder Communications) 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.

Any Shareholders wishing to receive paper copies of the Shareholder Communications should advise Capita Registrars (details above).

LSL Property Services plc

www.lslps.co.uk

Registered in England
(Company Number 5114014)
Registered Office:
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Albany Court
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