LSL Property Services plc

Annual Report and Accounts

Year ended 31st December 2013

LSL Property Services plc Annual Report and Accounts Year ended 31st December 2013 www.lslps.co.uk

e.surv

Your Move

Reeds Rains

Marsh & Parsons

Pink

Linear

St Trinity

First Complete

LSLCCD

Land and New Homes

LSLi

Templeton LPA

LSL Property Services plc is a leading provider of residential property services to two key customer groups. Services to consumers include estate agency, lettings, surveying, conveyancing 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.

Directors' Report and Business Review

Contents

Forward Looking Statements

This Report may contain forward looking statements with respect to certain plans and current 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 including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates, inflation, deflation, the impact of competition, changes in customer preferences, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the UK. As a result LSL's actual future condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward looking statements. Nothing in this Report should be construed as a profit forecast. Information about the management of the Principal Risks and Uncertainties facing LSL is set out within the Strategic Report on pages 26 and 27.

LSL Property Services plc
Annual Report and Accounts 2013

Highlights

Strong second half Group performance in a recovering market

Group

£258.6m

Group Revenue up 6%

2012: £243.8m

£37.1m

Group Underlying Operating Profit up 6%

2012: £35.1m

14.3%

Group Underlying Operating Margin down 0.1%

2012: 14.4%

£17.1m

Profit Before Tax up 155%

2012: £6.7m

25.3p

Adjusted Basic Earnings Per Share up 6%

2012: 23.8p

10.5p

Full Year Dividend Per Share up 11%

2012: 9.5p

Estate Agency and Related Services

£29.1m

Underlying Operating Profit up 19%

2012: £24.4m

Surveying and Valuation Services

£13.1m

Underlying Operating Profit down 6%

2012: £13.9m

	2013	2012	% Change
Group revenue £m	258.6	243.8	+6
Group Underlying Operating Profit[1] £m	37.1	35.1	+6
Group Underlying Operating Margin %	14.3	14.4	-0.1
Profit before tax £m	17.1	6.7	+155
Underlying profit before tax[1] £m	33.9	32.5	+4
Basic Earnings Per Share – pence	13.6	6.8	+100
Adjusted Basic Earnings Per Share – pence	25.3	23.8	+6
Cash inflow from operations before PI and exceptional costs £m	42.4	41.4	+2
Net Bank Debt[3] at 31st December £m	26.3	26.6	-1
Final proposed dividend per share – pence	7.2	6.4	+13
Full year dividend per share – pence	10.5	9.5	+11

Like-for-like[2] Group revenue £m	258.6	238.3	+8
Like-for-like Group Underlying Operating Profit[1,2] £m	37.1	32.6	+14
Like-for-like operating profit margin[2] %	14.3	13.7	+0.6

[1] Underlying Operating Profit and underlying profit before tax is before exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments – refer to Note 10 for the calculation

[2] Like-for-like excludes the impact of the insourcing of a contract by a major Surveying client in June 2012 as announced in the Interim Results in July 2012

[3] Refer to Note 30 for the calculation

- Excellent progress in the Estate Agency Division
- Considerable improvement in the performance of the Surveying Division during the second half of the year
- Significant investment in capacity across both the Estate Agency and Surveying Divisions to provide a platform for further growth in 2014
- Exceptional Professional Indemnity (PI) charge confirmed, as announced in November 2013, with costs currently tracking as expected
- Strong operational cash flow, balance sheet and dividend growth
- Confidence in delivering growth and benefits from operational gearing in an improving market

LSL Today

LSL has established leading positions in its market segments

Estate Agency Division – Estate Agency and Related Services

Residential Sales and Lettings

- Second largest estate agency network in the UK.[1]
- Strong established high street brands with 533 branches (2012: 533).
- Exposure to prime Central London property market with Marsh & Parsons.
- 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 133 branches across Your Move, Reeds Rains, Davis Tate and Intercounty (2012: 136).
- Members of The Property Ombudsman (TPO) Redress Scheme, which operates a residential sales and lettings code of practice.

[1] The LSL Estate Agency Network is made up of wholly owned and franchised branches. The market position is based on LSL's own calculations and assessment of branch numbers using publicly available data.

[2] Source: Nielsen November 2013.

Your Move
The largest single brand UK estate agency with 293 branches operating throughout the UK (2012: 293). Your Move has the most visited UK estate agency website[2].
www.your-move.co.uk

LSLi
LSLi is the holding company for seven estate agency brands with a combined network of 51 branches (2012: 50).
www.lsli.co.uk

Reed Rains
A predominantly northern based network of 171 branches (2012: 175).
www.reedsrains.co.uk

Marsh & Parsons
Leading London premium brand estate agency operating in the Central, West and South West London property markets out of 18 branches (2012: 15).
www.marshandparsons.co.uk

Asset Management

- Market leader.
- 9,800 repossessions in 2013 (2012: 10,800).
- Utilises network of up to 4,244 (2012: 4,200) estate agency branches.

LSL Corporate Client Department
LSL CCD 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 was created in 2010 following the acquisition of HEAL Corporate Services (as part of the Halifax business acquisition).
www.sttrinityassetmanagement.co.uk

Templeton LPA
Law of Property Act fixed charge receiver.
www.templetonlpa.co.uk

LSL is one of the UK's leading residential property services groups operating throughout the residential property services value chain – Residential Sales, Lettings, Asset Management, Financial Services and Surveying and Valuation Services. It provides a broad range of services to a range of customers including lenders, buyers and sellers of residential properties, tenants and landlords.

Financial Services

- Specialising in brokerage of mortgage and protection products – LSL's combined appointed representative network is the fourth largest in the UK.[3]
- Multi brand including Your Move, Reeds Rains, Linear Mortgage Network, The Mortgage Alliance, First Complete and Pink Home Loans.
- Across the various brands the Group has 682 appointed representatives (2012: 652) and 1,311 advisors (2012: 1,113).
- Total value of mortgage applications arranged in 2013 was £10.9bn (2012: £7.1bn).

[3] Source: Which Network – Network Performance Figures for 2013 showing the combined numbers for First Complete (6th) and Pink (9th).

First Complete

Directly authorised by the FCA, operating a mortgage brokerage business and mortgage intermediary network. First Complete acts as principal for most of the estate agency businesses within LSL's Estate Agency Division, enabling their employed financial consultants to offer Financial Services to customers of the branch networks.

www.firstcomplete.co.uk

Pink Home Loans

Directly authorised by the FCA, operating a mortgage network, providing products and services to financial intermediaries since 1990, joining the LSL Group in 2010.

www.think-pink.co.uk

The Mortgage Alliance

The Mortgage Alliance (which also trades as TMA) is a trading style for a mortgage club which distributes mortgages and financial services products to directly authorised mortgage intermediaries.

www.themortgagealliance.com

Linear Mortgage Network

An appointed representative of Pink Home Loans and Openwork, Linear Mortgage Network provides financial services including mortgages, re-mortgages and life assurance through a network of financial consultants based remotely and in the branches of estate agents.

www.linearfs.com

Surveying Division

Surveying and Valuation Services

- Market leading provider.
- 396,000 jobs completed in 2013 (2012: 408,000 including 24,000 relating to the contract which was insourced in June 2012).
- 386 employed qualified surveyors at 31st December 2013 (2012: 378).

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

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

Milestones

2009
Santander contract expansion.

2010
Acquisition of the HEAL Business – 206 estate agency branches rebranded Your Move, Reed Rains and Intercounty and asset management business now trading as St Trinity Asset Management.

Acquisition of Templeton LPA Receiver, Home of Choice (business and assets acquired by First Complete), Goodfellows and Pink Home Loans.

Launch of private survey initiatives with RICS HomeBuyers Report.

2012
Commencement of renewed Barclays Bank plc contract.

Acquisition of Davis Tate.

Acquisition of Lauristons.

LSL increased its shareholding in Zoopla which merged with DMGT property portal businesses during 2012.

2013
Acquisition of Lawlors Property Services.

2011
Investment in Legal Marketing Services and LMS Direct Conveyancing.

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

Launch of PropertyCare+.

Chairman's Statement

Introduction

After five years during which transaction volumes have been depressed at less than half of normal historical levels, the market has started to recover in 2013 with consistent growth since the second quarter.

I am pleased to report that against this improving backdrop the Group has made good progress, reporting Group Underlying Operating Profit of £37.1m for the year. Group Revenue and Group Underlying Operating Profit both increased by 6% compared to 2012 while on a like-for-like basis[4], Group revenue increased by 8% and Group Underlying Operating Profit by 14% even after significant investment in capacity for further growth.

The Estate Agency Division has delivered a strong performance, particularly in the second half of the year. Residential Sales income increased by 11% and Financial Services income by 13%. Lettings income grew largely organically by 8% in a market which continued to demonstrate strong growth. The Surveying Division delivered an excellent second half performance during which it also invested heavily to alleviate the capacity constraints which are impacting the whole sector.

The business is extremely cash generative at the operational level and has a strong balance sheet. I am delighted to report an increase in our proposed final dividend of 13% to 7.2 pence per share (2012: 6.4 pence). This will result in the total dividend for the year increasing by 11% to 10.5 pence per share (2012: 9.5 pence), recognising our confidence in the future growth prospects of the business.

The high level of year on year growth in the second half year in both the Surveying and Estate Agency Divisions and the significant increase in the Residential Sales pipeline at the end of the year provides evidence of a recovering housing market. This, together with the investment in capacity during the year, leaves the Group well placed to deliver growth in 2014.

Financial Results

Group revenue increased by 6% to £258.6m (2012: £243.8m) and Group Underlying Operating Profit increased by 6% to £37.1m (2012: £35.1m). Group Underlying Operating Margin was 14.3% (2012: 14.4%). On a like-for-like[4] basis, Group revenue increased by 8% to £258.6m (2012: £238.3m) and Group Underlying Operating Profit increased by 14% to £37.1m (2012: £32.6m), with like-for-like Group Underlying Operating Profit Margin increasing from 13.7% in 2012 to 14.3%.

£258.6m

Group Revenue up 6%
2012: £243.8m

£37.1m

Group Underlying Operating Profit up 6%
2012: £35.1m

25.3p

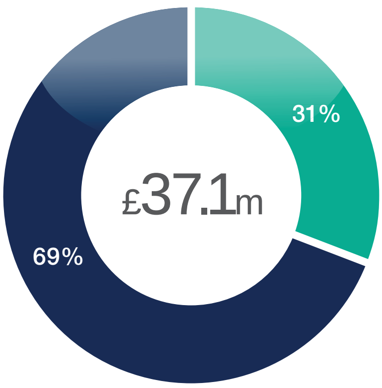
Adjusted Basic Earnings Per Share up 6%
2012: 23.8p

10.5p

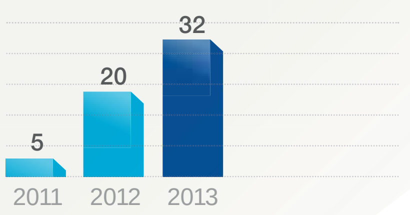
Full Year Dividend Per Share up 11%
2012: 9.5p

Chairman's Statement continued.

Full Year 2013 Operating Profit



Profit per branch (£'000s)



The Estate Agency Division increased Underlying Operating Profit by 19% to £29.1m (2012: £24.4m). This performance was delivered in a market where house purchase approvals increased by 21% to 736,000[5] (2012: 610,000). However, most of the market growth occurred in the second half of the year and part of the benefit of the fourth quarter market growth was reflected in the strength of the closing pipeline. There was strong revenue growth in Residential Sales Income, Financial Services and Lettings. Marsh & Parsons continued its expansion strategy with three new branch openings and made good progress in a Central London market where stock levels remained low. In line with previous trends, repossession volumes fell by 15% to 28,900[6] in the year (2012: 33,900) which impacted revenue and profit, although the Asset Management business once again increased market share.

The Surveying Division faced a decline in market transaction levels in the first quarter followed by significant growth for the rest of the year. Turnover declined in 2013 as a result of the insourcing of a major contract in 2012, as previously noted. There has been a significant investment programme to add capacity through a new graduate recruitment programme though the additional resource was generally not productive in 2013 as the new surveyors were still undergoing training. Total mortgage approvals increased by 12% to 1.29m[5] (2012: 1.16m), including a 16% increase in remortgages to 393,000 (2012: 340,000). Surveying Division revenue decreased by 3% and Underlying Operating Profit was £13.1m (2012: £13.9m) with Underlying Operating Margin of 21.7% (2012: 22.4%). On a like-for-like[4] basis, Surveying revenue increased by 7%, Underlying Operating Profit increased by 15% to £13.1m (2012: £11.4m) and Underlying Operating Margin increased to 21.7% (2012: 20.0%).

We have increased our PI provisions relating to the 2004-2008 high risk period by £12m as indicated in our Interim Management Statement in November 2013. This is disappointing and reflects the fact that the reduction in the rate of claims that we had expected during the year, and assumed in setting the previous level of provision, has not yet materialised. Since November 2013, the rate of new claims and cost per claim has been consistent with the assumptions behind the new provision. The additional provision represents the Group's current best estimate of likely claims costs but the process of resolving open claims and estimating future claims is on-going. The provision required is highly sensitive to the run rates of new claims and the costs per claim for both new and existing claims.

Profit before tax, amortisation, share based payments, contingent consideration and exceptional costs increased by 4% to £33.9m (2012: £32.5m). Exceptional operating costs of £13.0m (2012: £17.7m) included PI Costs of £12.0m (2012: £17.3m) noted above. There was also a non-cash charge of £2.8m (2012: £4.4m) relating to employment related contingent consideration in acquisitions and amortisation of intangible assets during the year was £0.4m (2012: £3.5m). Profit before tax increased to £17.1m (2012: £6.7m) and profit after tax was £14.0m (2012: £7.0m). On an adjusted basis earnings per share, increased by 6% to 25.3p (2012: 23.8p).

Cash generated from operations net of capital expenditure was £19.0m (2012: £26.9m). Operating cash flow included PI cash settlements of £14.4m (2012: £7.7m), which increased as a result of the large rise in the number of claims received and because of an increase in negotiated settlements with some lender claimants. Capital expenditure increased to £7.9m (2012: £5.7m) through investment in a number of new IT systems, including a common platform for our Financial Services businesses and the development of enhanced lettings systems in Marsh & Parsons, Your Move and Reeds Rains.

Net Bank Debt at 31st December 2013 was £26.3m compared to £26.6m at 31st December 2012 after investing £4.6m in acquisitions (2012: £3.9m), the purchase of treasury shares via LSL's Employee Benefit Trust and additional shares in Zoopla. Net Bank Debt did not decline significantly in the year primarily because of the increase in PI cash settlement costs. It is anticipated that cash settlement costs will run at a similar level during 2014 and then decline.

Net assets increased to £99.3m at 31st December 2013 (2012: £76.1m), including a £22.5m valuation uplift following a review of the fair value of the investment in Zoopla.

[4] Like-for-like excludes the impact of the insourcing of a contract by a major Surveying client in June 2012 as announced in the Interim Results in July 2012.
[5] Bank of England
[6] Council of Mortgage Lenders

Dividend

As a result of the strong growth in underlying Group profitability, the improving market conditions and the Board's positive view of future prospects for the business, an increase in the final dividend of 13% to 7.2p per share (2012: 6.4p) will be proposed to Shareholders at the forthcoming AGM, increasing the total dividend for 2013 by 11% to 10.5p per share (2012: 9.5p per share). The proposed dividend payment is slightly over the upper limit of 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 26th March 2014 with a record date of 28th March 2014 and a payment date of 29th April 2014. Shareholders have the opportunity to elect to reinvest their cash dividend and purchase existing shares in LSL through a dividend reinvestment plan.

Divisional performance

Estate Agency Division

2013 has been a year of excellent progress combined with major investment in the Estate Agency Division. Profit per owned branch, excluding Marsh & Parsons, increased to £32k (2012: £21k) compared to the medium term target of £30k to £50k which the Board set in 2011 when profit per owned branch was £5k. All key income streams in the Division other than Asset Management have grown strongly and operating margin increased to 14.7% (2012: 13.5%).

Residential Sales income, excluding Marsh & Parsons, increased by 10% to £64.1m (2012: £58.1m) mainly driven by improved mix and good progress increasing average fee. The rate of income growth has accelerated during the year in line with the improvement in the market. Our Lettings business has continued to perform well, despite some counter cyclical reduction in the rate of lettings market growth. Lettings income, excluding Marsh & Parsons, increased by 9% to £39.2m (2012: £35.8m).

Marsh & Parsons made good progress in a challenging Central London market where stock levels remained flat all year. Total revenue increased by 10% to £29.9m (2012: £27.3m) with Residential Sales growth of 14% and Lettings growth of 6%. Operating profit was £6.7m (2012: £7.2m) including the cost of opening new branches and of putting in place infrastructure to support the on-going branch opening programme.

Financial Services income delivered through our Estate Agency Division branches and Financial Services intermediary networks increased by 13% during 2013 to £35.8m (2012: £31.8m). Growth was held back slightly by an exceptionally strong comparative where insurance business was accelerated into quarter four 2012 ahead of gender pricing changes in December 2012. Activity levels are growing in line with the improving market. The Group arranged total mortgage lending of £10.9bn in 2013 (2012: £7.1bn).

Asset Management delivered a solid result in a counter cyclical market. Revenue declined by 9% to £14.3m (2012: £15.6m) in a market where repossession volumes reduced by 15% to 28,900 (2012: 33,900) and have now fallen for four years running by a total of 41%. The business is continuing to target new property management contracts, although the tender processes are relatively slow so revenue improvement from this source will be geared to the medium term.

Surveying Division

Following a major contract insourcing in 2012 and mortgage transaction volumes contracting by 11% in the first quarter, the Surveying Division began to build new capacity once the early signs of market recovery appeared after Easter. Like-for-like volume growth was 3% for the year which combined with some early signs of fee improvement resulted in revenue growth of 7%.

Performance improved considerably during the year as the market began to grow. While revenue in the first half fell by 2% year on year in like-for-like terms, it increased by 15% year on year in the second half. Revenue from the provision of surveying services for private buyers continued to grow during the year, although we began to prioritise resource away from this area to the provision of valuation services to lender clients from the middle of the year. Despite incurring the costs of recruiting graduates into the new surveyor training scheme, there was a sharp increase in second half operating profit, helped by short term under capacity in the market leading to an easing of the pricing environment. Full year operating margin increased to 21.7% against a like-for-like comparative of 20.0%.

Developments

During 2013, we have continued to invest in the business with headcount in the Estate Agency businesses increasing by 487. In Surveying we launched a new graduate surveyor recruitment and training programme and hired 43 new graduates during the year bringing the total number of surveyors to 429. These new graduates take at least 12 months to train and so will not become fully productive until midway through 2014. This increase in headcount provides a good platform for delivering further revenue growth in both Estate Agency and Surveying with more investment planned for 2014 especially in the Surveying Division where there remains a significant capacity shortfall across the sector.

During the year, Marsh & Parsons opened three new branches in South Kensington, Bishops Park and Marylebone, all of which are performing well. The business is committed to an opening programme of three to four branches a year which will result in doubling the number of branches over the next five years.

The Group has continued to make selective acquisitions and in September we acquired Lawlors, which is an Essex based agent with three branches offering residential sales and lettings services and have also added five lettings businesses across the Estate Agency Division.

Zoopla has continued to perform very strongly and in November 2013 LSL increased its shareholding in Zoopla by 0.12% at a cost of £0.8m to bring our total shareholding to 4.91%. The Board has reviewed the fair value of this shareholding and, using a value equal to the price paid per share in November 2013, we have increased the value of our holding to £35.1m (2012: £11.8m). In February 2014, DMGT, the largest shareholder in Zoopla, announced that the board of Zoopla is exploring various strategic options for the business.

Chairman's Statement continued.

Board and Corporate Governance

During the year, the Nominations Committee and the Board considered at length the composition of the Board, which resulted in a number of changes, namely the appointment of Ian Crabb as Group Chief Executive Officer in September, when Simon Embley, the former Group Chief Executive Officer stepped into the role of Deputy Chairman.

Simon's new responsibilities took into account the Board's desire to affect a smooth handover to Ian and to allow Simon to support Ian on the execution of LSL's existing strategy to continue delivering shareholder value as the market recovers. The Directors feel that the changes reflect the Board's desire to implement an orderly succession to a new Group Chief Executive Officer whilst retaining Simon's significant knowledge of the residential property market and, in particular, maintaining key client and industry relations. Further, the recommendation for the appointment of Ian took into account his experience in growing entrepreneurial businesses in both 'business to business' and 'business to consumer' markets. I welcome Ian to the Board and I am delighted to report that the management transition is going extremely well.

In addition, in early January 2014, we appointed Bill Shannon as an independent Non Executive Director and Chairman of the Remuneration Committee, and at the same date Mark Pain stepped down from the Board as an independent Non Executive Director. Bill has significant PLC board experience in strategy, operations, finance and governance in consumer, financial services, residential and commercial property sectors. I am confident that Bill will add significant value to LSL's business during its next phase of development and growth.

The Board is committed to high levels of corporate governance. In respect of 2013, the Board has conducted an annual review of its effectiveness and that of its Committees, taking into account the balance of skills, experience, independence and knowledge of our businesses and we concluded that the Board and its Committees are effective and are able to discharge their respective duties and responsibilities appropriately.

During 2013 and into 2014, the Board continues to recognise the benefits of diversity in the boardroom, including gender diversity. The current Board composition includes one female Director, Helen Buck, who is an independent Non Executive Director. Whilst we remain of the view that the setting of targets for the number of female directors on the Board is not necessary and that we will continue to appoint on merit, I will continue to ensure that our searches for new directors take into account diversity, including gender.

LSL remains committed to promoting diversity throughout the Group and in 2013 we continued to build on the gender reviews conducted during the previous two years. Further details of the study and its conclusions are set out in our Corporate Social Responsibility Report.

As Chairman, with the responsibility for leadership of the Board, I personally review its effectiveness on all aspects of its role and encourage feedback.

Ian Crabb Group CEO

People

The Group expanded significantly during 2013 through investment to build capacity and through a number of small bolt-on acquisitions. In total the number of Group employees increased by 545 (11%) to 5,299 (2012: 4,754). I would like to extend a very warm welcome to all of our new colleagues and wish them well in their careers with LSL.

We are pleased that market conditions are improving but our markets are extremely competitive and our success is ultimately dependent on the customer service provided by colleagues in all parts of the business. We have had a successful year in 2013 and I would like to thank all of our employees for their hard work and commitment which has contributed to this result.

Current trading and outlook

Market volumes have now grown year on year for ten consecutive months. Feedback from lenders is that despite the recent changes to the 'Funding for Lending' Scheme that market transaction levels will continue to improve. The positive view from lenders, combined with recent encouraging news on unemployment and GDP growth, support the Board's positive view of the market for 2014.

The Group remains committed to its strategy of driving organic growth in all parts of the business in order to capitalise fully on the improved market conditions and of evaluating selective acquisitions. Significant investment was made during 2013 to provide a platform for future growth and we will continue to invest in 2014 in both Estate Agency and Surveying.

The Group has started the year strongly and is well placed to deliver significant growth in 2014.

The Group has a robust balance sheet with relatively low levels of gearing and is extremely cash generative at the operational level. The business is well positioned to benefit from the organic growth and operational gearing potential in a recovering market, which combined with the possibility of bolt on acquisitions, will increase shareholder value.

Roger Matthews
Chairman
6th March 2014

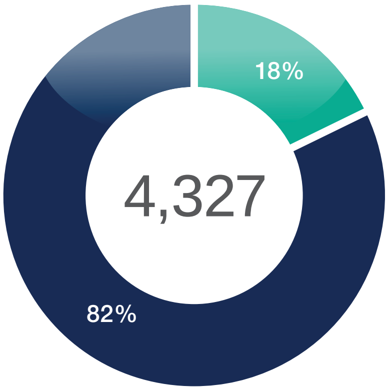
Strategic Report

In this section

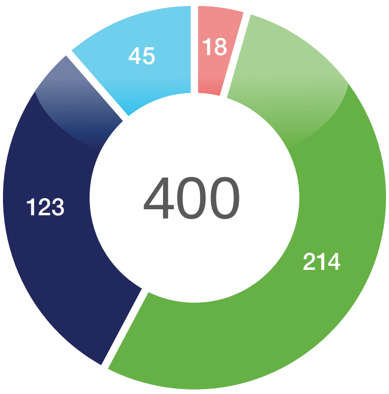
Strategy

LSL is committed to delivering long term shareholder value by building market leading positions in the residential property services market through organic growth, selective acquisitions and the delivery of high quality service and appropriate financial outcomes to consumers.

Full Year 2013 Average FTE



Estate Agency Branches



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

- 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); and
- Surveying and Valuation Services (retain key lender clients, grow capacity and continue to develop the provision of surveying services to private clients).

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 Residential Sales transaction volumes and investing further in Lettings services.

Plan to grow LSL's share of the prime Central London Residential Sales and Lettings markets by supporting Marsh & Parsons' growth plans.

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. This will include both acquisitions of new estate agency brands similar to the acquisition of Lawlors in 2013 and the acquisition of lettings businesses.

Asset Management
Grow market share by providing innovative solutions and strong service delivery to a broader selection of clients.

Mortgage and Protection services
Build broker networks for the provision of mortgage and protection products and realise synergies and costs savings to make the networks more efficient.

Use the networks to strengthen relationships with key lender clients and to provide high quality service and good financial outcomes for consumers.

Surveying and Valuation Services

Drive market share through continued development of excellent service delivery and strong relationships with lenders in order to remain their partner of choice. Increase capacity through the training of new graduates as well as recruitment of qualified surveyors. Continue to leverage LSL's size of operation and continue to build the Group's technology solutions to drive operational efficiencies.

Be renowned for quality and excellence in service delivery and provide ongoing strategic and operational added value to lenders and corporate clients. In this regard LSL actively supports the work of the RICS in raising consumer awareness of the benefit of surveys and improving standards.

Deliver organic growth by continuing to develop the market for the provision of private surveying services delivered direct to private house purchasers after prioritising delivery of valuation services to lender clients during times of constrained capacity.

Acquisitions
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. There will continue to be a particular focus on Estate Agency acquisitions to build market share in Residential Sales and Lettings services.

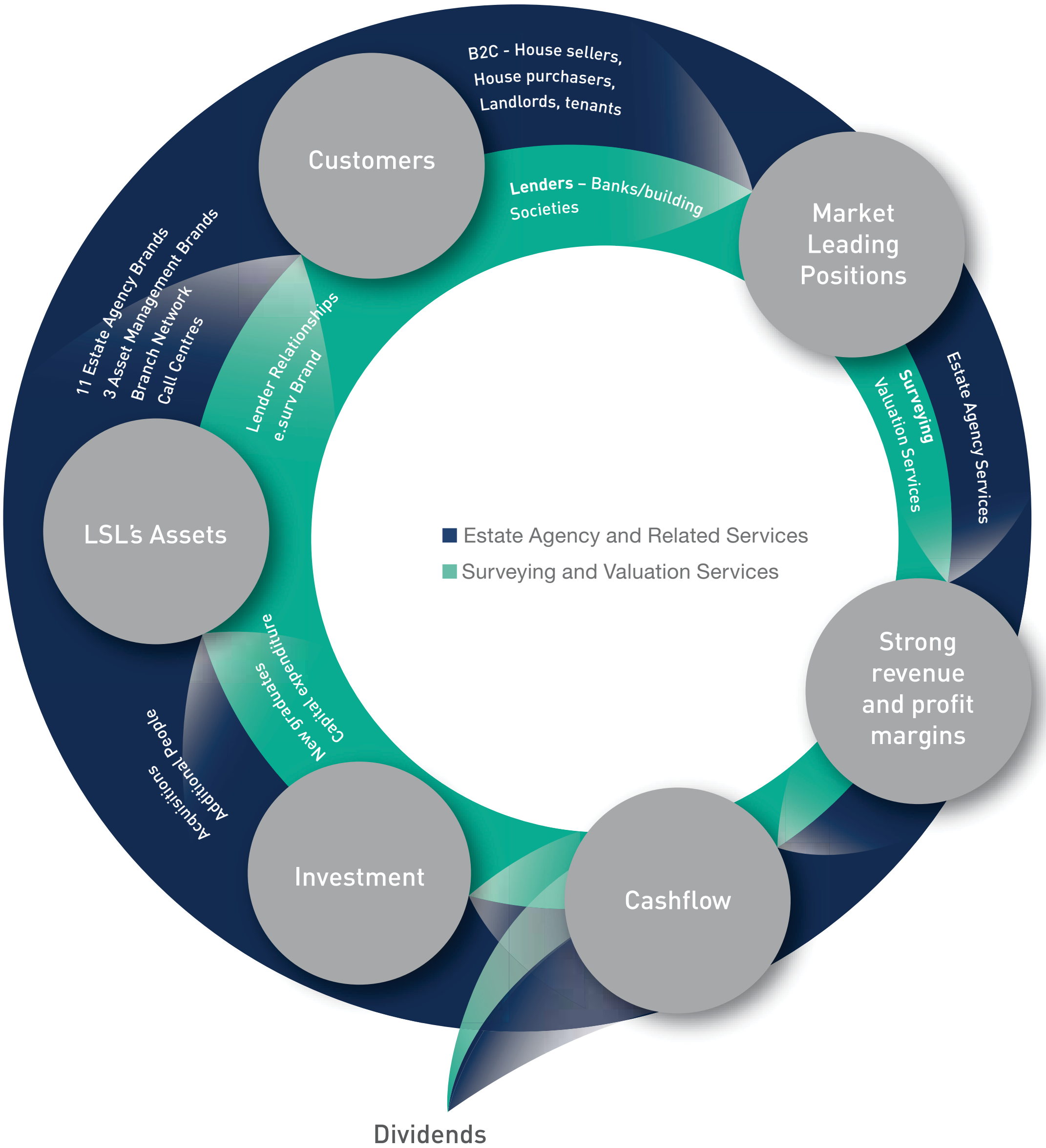
4,313

Estate Agency and Related Services headcount up 13%

986

Surveying headcount up 6%

Business Model



LSL's business model is how LSL puts its strategy into action. The execution of the strategy results in market leading positions in the Group's business segments which produces a virtuous circle of strong revenues, profitability and cash flow which allows significant reinvestment in the business in order to further enhance LSL's market positions while also paying out a significant proportion of earnings as a dividend to Shareholders.

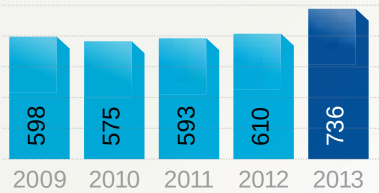
- LSL has **market leading positions** in residential surveying, mortgage valuations, Asset Management and in Estate Agency.
- LSL serves **retail customers** in Estate Agency, such as house sellers and buyers, landlords and tenants.
- LSL serves **business customers** in Surveying and Asset Management, such as Banks and Building societies, and benefits from long term relationships and contracts.
- The growth and reputation of LSL is dependent on providing **exceptional service and appropriate financial outcomes** to its customers.
- The business model has demonstrated **resilience** to changes in the residential property market due to its market positions in Lettings and Asset Management.
- The model benefits from **scale advantages** which include superior productivity in the Surveying business as a result of shortened drive times and the ability to focus our agency branches on customer service by building hubs and call centres to provide instructions to the branches and to handle certain administrative tasks centrally.
- LSL, through this business model, has delivered **shareholder value** despite the weakness of the residential property market over the past five years.
- The business has low capital requirements and is **highly cash generative**.
- LSL allocates the strong cash generation between paying **dividends** to Shareholders, **reinvesting** in the business to drive future organic growth and in making selective, value adding **acquisitions**.

Markets

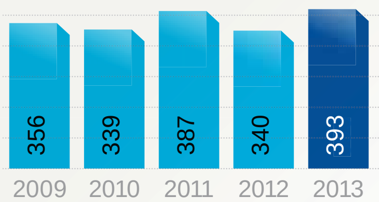
LSL operates across the residential property services value chain

Market Transaction Data

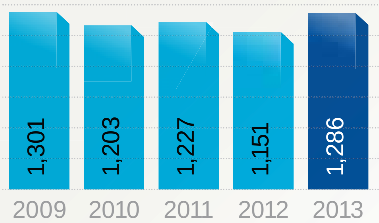
Total Mortgage Approvals for House Purchase[7]
'000



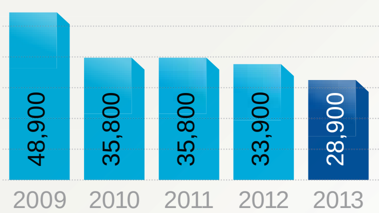
Remortgage Volumes[7]
'000



Total Mortgage Approvals[7]
'000



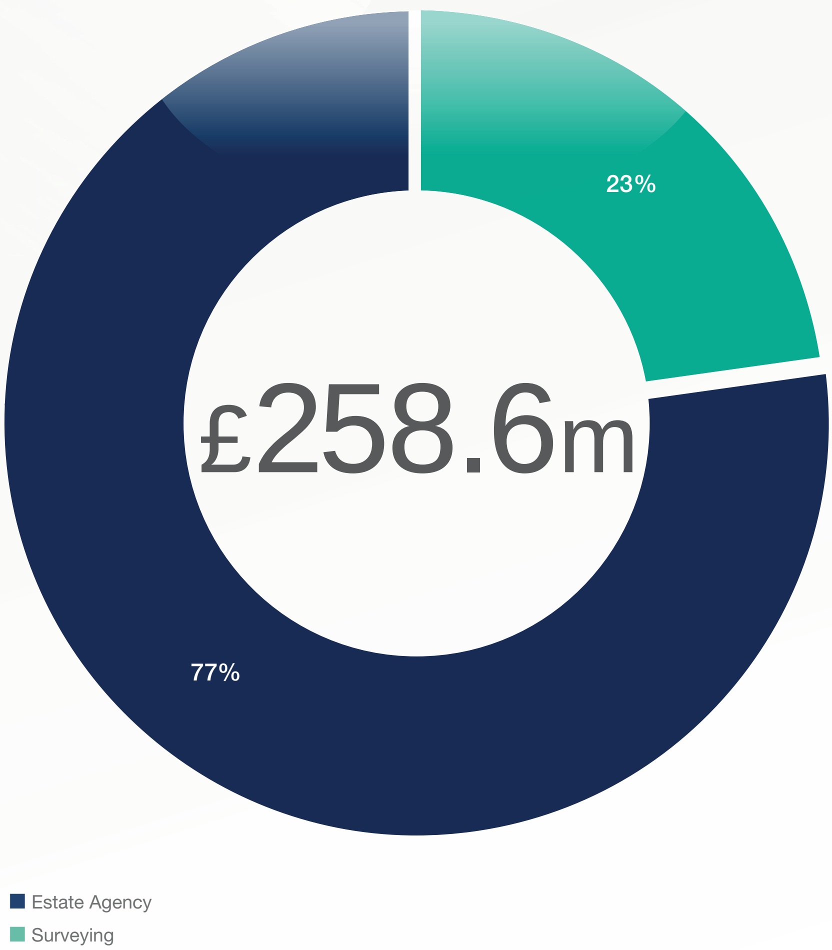
Repossesion Volumes[8]
'000



[7] Source: Bank of England for "House Purchase Approvals", "Remortgage Approvals" and "Total Mortgage Approvals" 2013.

[8] Source: Council of Mortgage Lenders arrears and repossessions data relating to properties taken into possession by first-charge mortgage lenders for 2012.

Full Year 2013 Revenue



Our market can be categorised into two principal segments:

Estate Agency and Related Services

Estate Agency and Related Services

76.6%

of Group revenue in 2013 (2012: 74.5%)

The Estate Agency and Related Services segment (the Estate Agency Division) includes Residential Sales and Lettings and the related markets of Asset Management (including repossessions asset management services for lenders and property management for multi-property landlords) and Financial Services – predominantly mortgage and protection brokerage with revenue earned directly by the Estate Agency brands and through the operation of intermediary networks.

Residential Sales and Lettings

51.1%

of Group revenue in 2013 (2012: 49.3%)

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

In 2013 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. Mortgage approvals for house purchase rose by 20.6% during the year to 736,000 (2012: 610,000).

Mortgage and Protection

13.9%

of Group revenue in 2013 (2012: 13.0%)

- Broking services for mortgages.
- Broking services for protection products.

Asset Management

5.5%

of Group revenue in 2013 (2012: 6.4%)

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

Repossession volumes fell by 14.7% to 28,900 in 2013 (2012: 33,900)[8] which was unsurprising as the housing market recovered and various economic indicators showed signs of improvement.

Other Income

6.1%

of Group revenue in 2013 (2012: 5.8%)

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

Surveying and Valuation Services

Surveying and Valuation Services

23.4%

of Group revenue in 2013 (2012: 25.5%)

The Surveying and Valuation Services segment (the Surveying Division) includes:

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

In 2013 Total Mortgage Approvals were 1,286,000 (2012: 1,151,000)[7] including House Purchase Approvals of 736,000 (2012: 610,000)[7]. These volumes are roughly half normalised levels.

Remortgage volumes of 393,000 were up by 15.5% compared to 2012 (340,000)[7]. Total mortgage approvals increased by 11.8% to 1,286,000 (2012: 1,151,000)[7]. The historic normalised level of total transactions for the period from 2002 to 2007 was circa 3.6m per annum.

Business Review
Estate Agency Division

The Estate Agency Division delivered excellent profit growth

+11%
Exchange Income[5]
2012: +46%

+8%
Lettings Income[5]
2012: +23%

+13%
Financial Services Income[5]
2012: +15%

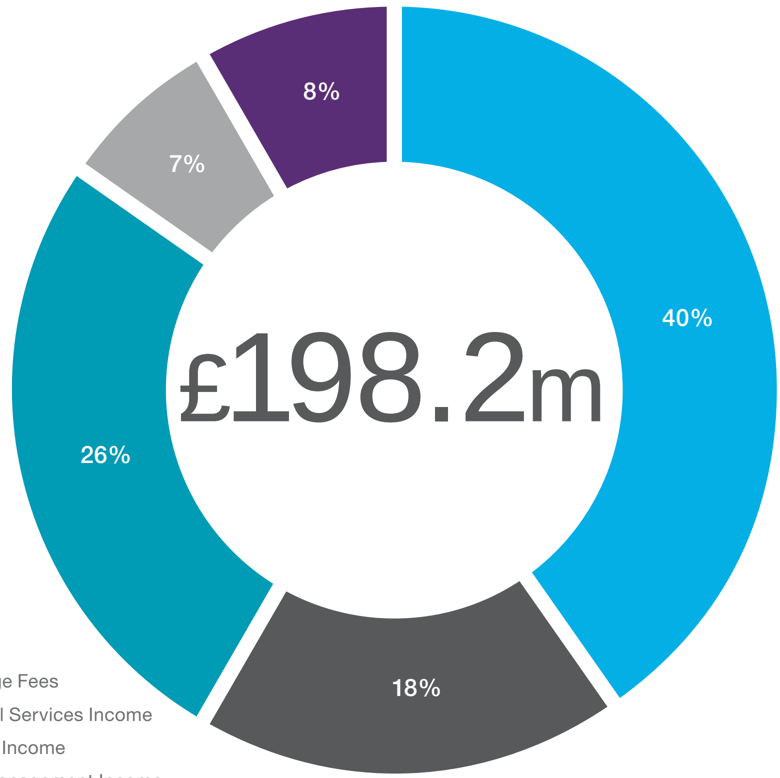
+7%
Fee per exchange[2]
2012: +4%

14.7%
Underlying Operating Margin
2012: 13.5%

Financial	2013 £m	2012 £m	% change
Residential Sales exchange income	80.0	72.0	11.0
Lettings income	52.2	48.0	8.5
Asset Management income	14.3	15.6	(8.5)
Financial Services income	35.8	31.8	12.8
Other income[1]	15.9	14.1	17.9
Total income	198.2	181.6	9.1
Operating expenditure	(169.1)	(157.2)	7.5
Underlying Operating Profit	29.1	24.4	19.2
KPIs			
Exchange units[2]	27,129	26,255	3.3
Underlying Operating Margin (%)	14.7	13.5	1.2
Fee per unit[2]	2,831	2,654	6.7
House purchases (000's)[3]	736	610	20.6
Repossessions[4]	28,900	33,900	(14.7)

[1] 'Other income' includes franchising income, conveyancing services, EPCs, Home Reports, utilities and other products and services to clients of the branch network.
[2] Exchange units and fee per exchange are on a like-for-like basis (excluding branch openings and closures).
[3] Source: Bank of England for "House Purchase Approvals" 2013.
[4] Source: Council of Mortgage Lenders arrears and repossessions data relating to properties taken into possession by first-charge mortgage lenders for 2013.
[5] 2011 to 2012 Exchange Income, Lettings Income and Financial Services Income growth excludes impact of Marsh & Parsons.

Estate Agency Revenue Split



Exchange Fees
Financial Services Income
Lettings Income
Asset Management Income
Other Income

Estate Agency Division Performance

After five years where transaction volumes have been depressed at less than half the normal historic levels, 2013 has been a year of transition for the Estate Agency Division with strong performance in key income lines together with investment in capacity to support further growth. After continued market contraction in the first quarter of the year there was strong transaction growth every month since April 2013. The number of mortgage approvals for house purchases for the full year increased by 21% to 736,000 (2012: 610,000)[6] which compares to historic normalised levels of 1.2m. Allowing for the lag between mortgage approval and completion, it is estimated that the number of mortgage completions in the year, which is the key driver for LSL's Residential Sales income, increased by 14% to 687,000 (2012: 603,000)[6].

LSL has a balanced Estate Agency model and over the last six years has significantly built its exposure to counter-cyclical and non-cyclical income streams such as Lettings and Asset Management Income. These income streams have grown at a compound annual rate of 32% over the period, increasing from £12.8m in 2007 to £66.5m in 2013. Given the change in the economic cycle in 2013, the Group expects to see a reduction in this growth rate during the next period in the cycle when housing transactions are expected to grow significantly. The Estate Agency Division delivered an excellent performance in 2013 with total income growing by 9% to £198.2m (2012: £181.6m). The benefit of operational gearing can be seen as 28% of the increase in revenue fell through to Underlying Operating Profit even after substantial investment to support future growth. Underlying Operating Profit increased by 19% to £29.1m (2012: £24.4m).

Investment in the Estate Agency Division during 2013 included the recruitment of an additional 487 heads, as well as the opening of three new Marsh & Parsons branches. This will allow the Estate Agency Division to capitalise on market growth in 2014 and beyond.

Estate Agency Division Branches

Your Move, Reeds Rains and the seven LSLi brands all continued to perform well during the year. Residential Sales income increased by 11% to £80.0m (2012: £72.0m) due mainly to an improvement in the average fee which increased by 12% to £2,908 (2012: £2,596) driven partly by improved mix. This change in mix has created a platform for making progress on both market share and fee growth moving into 2014.

Marsh & Parsons

Marsh & Parsons delivered a solid performance in a challenging Central London market. Although, there has been a favourable pricing environment during 2013, there has been a scarcity of stock particularly in Central London in which Marsh & Parsons operates. This has created pressure on both volume growth as well as commission percentages. Against this backdrop, Marsh & Parsons' revenue increased by 10% to £29.9m (2012: £27.3m) and operating profit was £6.7m (2012: £7.2m).

Operating profit reduced year on year because of an increase in the cost base driven by investment in new branch openings as well as a new head office to give the business the capacity to expand going forward. During 2013, three branches were opened in South Kensington, Fulham and Marylebone which are performing well. The Group is targeting three to four new branch openings in 2014.

Financial Services

Total Financial Services income delivered through the Estate Agency Division's branches and intermediary networks of First Complete, Pink Home Loans and Linear Mortgage Network increased by 13% during 2013 to £35.8m (2012: £31.8m). Revenue has grown by a compound annual growth rate of 24% since 2010 as a result of significant organic growth including the successful roll out of Financial Services to all branches and the acquisition of new intermediary networks. In total the Group arranged mortgage lending of £10.9bn during 2013 (2012: £7.1bn) giving the Group an important position as a mortgage distributor for lender clients as well as a growing revenue and profit stream.

Counter-Cyclical Income

Early 2013 was a turning point in the current economic cycle. Unsurprisingly with the improvement in the residential market, the Lettings market and LSL Lettings income will not continue to grow at the same rates as those experienced in recent years. However, the Group is continuing to invest in acquiring lettings businesses and has recruited additional Lettings consultants during the year. Total Lettings income grew by 8% year on year. This growth rate fell slightly during the year from 9% in the first half to 8% in the second half year.

The Group had previously set a target in a flat housing market of increasing Lettings income to the same level as Residential Sales income. As Residential Sales income grows strongly in this part of the cycle the ratio of Lettings Income to Residential Sales income would be expected to reduce and in 2013, the ratio decreased to 65% (2012: 67%).

With the improvements in the economy, repossession volumes fell by a further 15% to 28,900 in 2012 (2013: 33,900)[7]. The market has now declined for each of the last four years from 48,900 in 2009. The Directors are pleased that during this period LSL's market share in Asset Management has increased and did so again in 2013. However, the decline in the size of the market as well as continued fee pressure has resulted in a 9% reduction in revenue to £14.3m (2012: £15.6m). Despite this contraction, LSL's Asset Management business is well positioned to capitalise on an increase in repossession volumes which may occur once interest rates start to rise.

In order to offset the decline in repossession volumes, the Asset Management business has started to develop its corporate property management offering.

[5] 2011 to 2012 Exchange Income, Lettings Income and Financial Services Income growth excludes impact of Marsh & Parsons.

Business Review – Estate Agency Division continued.

The Group now benefits from total counter-cyclical income from Lettings and Asset Management of £66.5m compared to £63.7m in 2012 which represents 34% of the Estate Agency Division's revenue and 26% of Group revenue.

Developments

As well as investing in headcount to increase capacity LSL also started a programme of investment in new front end systems in Your Move, Reeds Rains and the LSLi brands during 2013. LSL provides excellent service to its customers and this has been underpinned by high quality systems. In 2013 the Group began a project to design and implement next generation front end lettings systems and this is expected to complete in 2014.

LSL Land & New Homes was created in 2010. Following substantial investment, growth has been significant in 2013. Services now include Land and sales and acquisition, planning advice, conveyancing, professional photography, audio tours, EPCs, RICS surveys, desktop valuations, new homes sale, PX and assisted move, sales management, sale by tender, and Financial Services. LSL's 'Part Exchange Hub' is the only one to hold ISO certification (ISO 9001: 2008). Further investment has been made at the start of 2014 and manpower will double with particular emphasis on a growing specialist land team. LSL Land & New Homes conducts business with many of the top 25 national developers but also offers a one stop solution for the medium to small builders who are starting to return to the market.

In addition LSL is in the process of rolling out a new common platform across our Financial Services intermediary networks, trading as Pink Home Loans, First Complete and Linear Mortgage Network which will improve customer service, support the ongoing provision of appropriate financial outcomes to consumers and increase operational efficiency.

The Mortgage Market Review will be implemented on 26th April 2014. The FCA's aim for the MMR is to deliver a 'sustainable market for all participants and is flexible for consumers'. LSL has made substantial investment and taken significant steps in readiness for the new requirements including selection and investment in new software and training of the employed and network Financial Services staff as required.

As noted earlier, Marsh & Parsons has continued with its branch opening programme. Marsh & Parsons has invested in a new head office and also in a new lettings system to provide a strong platform to support significant future growth.

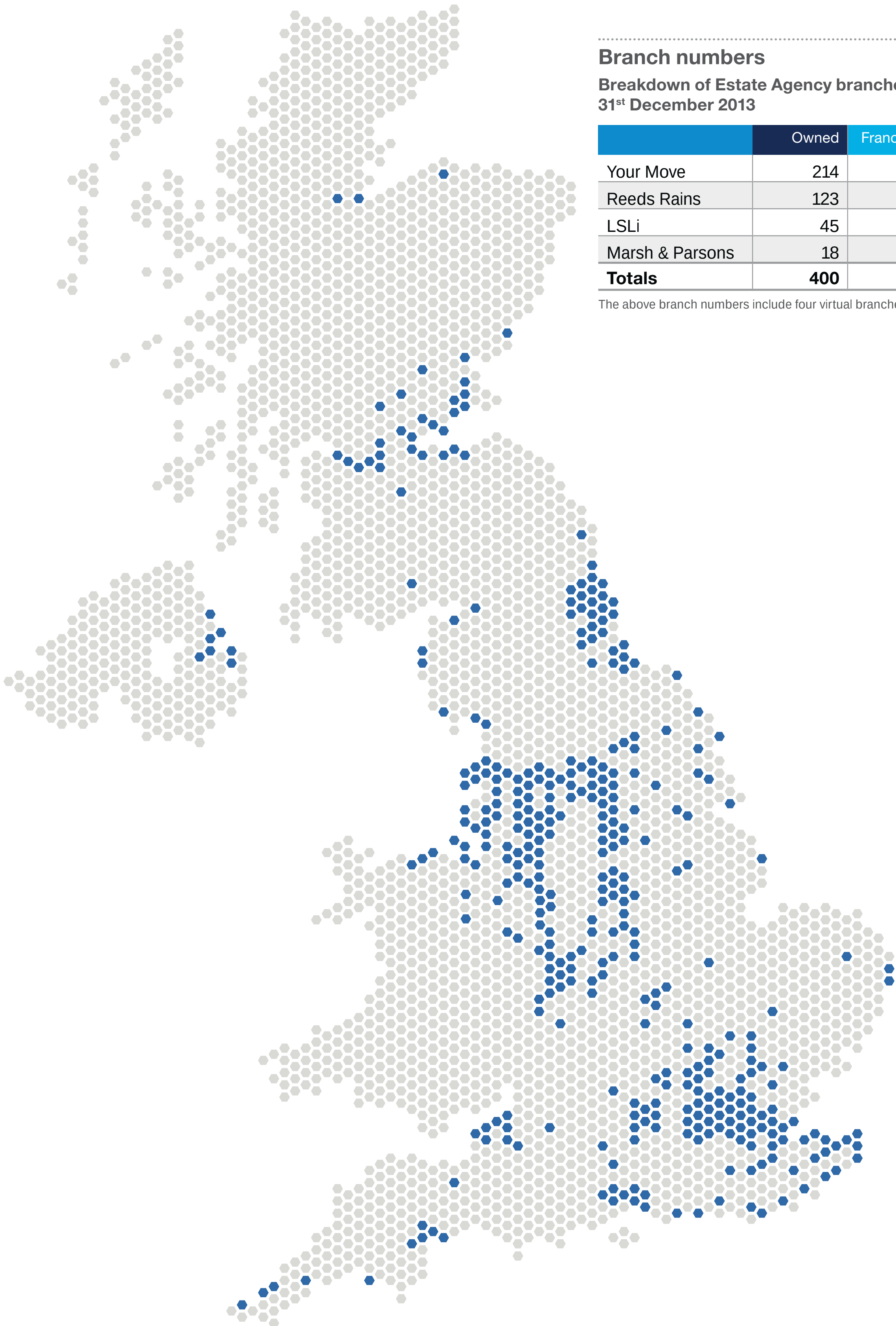
During 2013, the Group has continued to make selective acquisitions and has added to the Estate Agency Division in the South East through the acquisitions of Lawlors and five lettings businesses.

In 2014 LSL will continue with the same strategy focusing on driving organic growth in Residential Sales, Lettings and Financial Services and rolling out new branches in Marsh & Parsons. The Group will also continue to evaluate selective estate agency acquisitions funded from LSL's cash flow.

Regulation

First Complete and Pink Home Loans (the trading name of Advance Mortgage Funding) are both directly authorised by the Financial Conduct Authority in relation to the sale of mortgage, pure protection and general insurance products. Your Move, Reeds Rains Financial Services and Reeds Rains along with the LSLi subsidiaries are all appointed representatives of First Complete, while Linear Mortgage Network is an appointed representative of Advance Mortgage Funding for mortgage and insurance business and also an appointed representative of Openwork (for investment business). During 2013, Reeds Rains was also an appointed representative of Letsure Limited for the sale of rent indemnity insurance. This appointment ceased on 31st December 2013, and with effect from the 1st January 2014, Reeds Rains is authorised for the sale of rent indemnity insurance under its existing appointed representative arrangement with First Complete.

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



Branch numbers

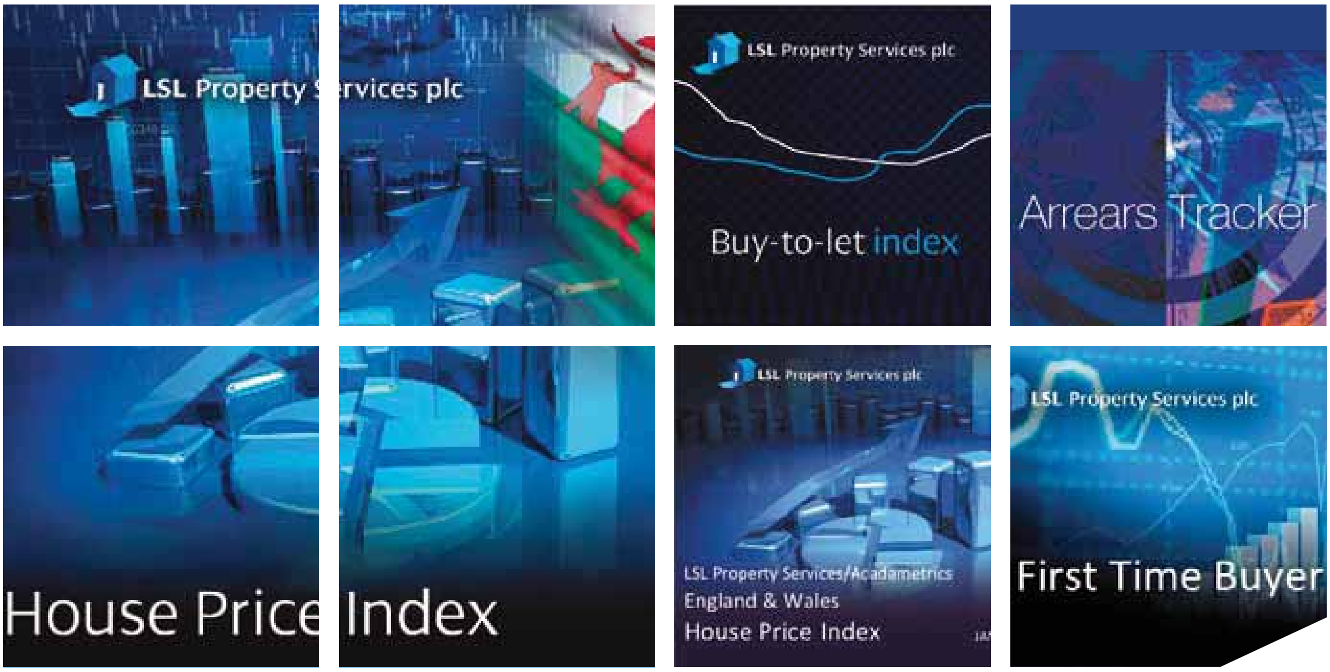
Breakdown of Estate Agency branches as at 31st December 2013

	Owned	Franchised	Totals
Your Move	214	79	293
Reeds Rains	123	48	171
LSLi	45	6	51
Marsh & Parsons	18	–	18
Totals	**400**	**133**	**533**

The above branch numbers include four virtual branches

Business Review – Estate Agency Division continued.

Market intelligence



LSL issues a number of market indices and reports on Residential Sales, Lettings and Financial Services including a 'First Time Buyer Monitor' and market sentiment surveys. These are made available to journalists ensuring that LSL and its brands are regularly quoted across national and regional media. These indices have also been quoted in Parliamentary debates and are used by relevant regulatory bodies, such as the Bank of England, to contribute to their market review and evaluation exercises. Set out here are details of the indices relevant to the Estate Agency Division.

LSL Property Services/Acadata 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, derived from Land Registry house price data – seasonally and mix adjusted by property type – as opposed to valuation estimates or asking prices. It also uses the price of every single relevant transaction, as opposed to prices based upon samples. There is also a separate House Price Index for Scotland.

LSL Buy to Let Index

Monthly analysis of approximately 20,000 rental properties and tenancies in England and Wales to determine rents, arrears, yields and voids. Figures for the whole country are inferred by scaling up from LSL's market share.

LSL First Time Buyer Monitor

This monthly analysis uses the extensive data collected from first time buyers registering as buyers and also first time buyers arranging their mortgage with LSL's Estate Agency Division to update the Council of Mortgage Lenders' (CML) first time buyer data. LSL loan to value data is applied to CML price purchase data to calculate deposit and affordability information. Sentiment and salary data are derived from a survey conducted by LSL.

Templeton Tenant Arrears Tracker

This quarterly analysis is based on LSL and English Housing Survey data and reports on the level of tenant arrears.

LSL Landlord Sentiment Survey

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

Further information and copies of the latest reports can be found at: **www.lslps.co.uk/news**

Awards 2013 and 2014

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

LSL Land & New Homes

Estate Agency of the Year Awards 2013, sponsored by the Sunday Times:

- Best New Homes – Silver Award

Negotiator Awards 2013:

- Land and New Homes Specialist of the Year – Bronze Award

LSL Corporate Client Department

Mortgage Finance Gazette Awards 2013:

- Customer Service / TCF Award – Non Lenders – Highly Commended

St Trinity

St Trinity once again secured an extension to its ISO 9001:2008 in December 2013 with a 100% pass and no non conformities.

Your Move

Estate Agency of the Year Awards 2013, sponsored by the Sunday Times:

- Best Financial Services – Bronze Award
- Best Innovation – Bronze Award

Lettings Agency of the Year Awards 2013, sponsored by the Sunday Times:

- Best Website – Silver Award

Negotiator Awards 2013:

- Best Website – Bronze Award

Estate and Lettings Agent Awards 2013:

- Best Large Chain (Sales) – Silver Award
- People Awards – Highly Commended – Senior Branch Manager, Your Move Plymouth

Reeds Rains

Estate Agency of the Year Awards 2013, sponsored by the Sunday Times:

- Best Financial Services – Gold Award

Negotiator Awards 2013:

- Property Manager of the Year – Silver Award

Lettings Agency of the Year Awards 2013, sponsored by the Sunday Times:

- Best Property Management – Bronze Award

Intercounty

Lettings Agency of the Year Awards 2013, sponsored by the Sunday Times:

- Best Medium Letting Agent (East of England) – Gold Award

Marsh & Parsons

Estate Agency of the Year Awards 2013, sponsored by the Sunday Times:

- Best Customer Service – Gold
- Best London Estate Agency (Medium) – Gold
- Best Marketing Campaign – Bronze
- Training and Development – Shortlisted

The Negotiator Awards 2013:

- Best Large Estate Agent – Gold
- Best Employer – Silver
- Best Community Agent – Silver
- Best Large Lettings Agency – Bronze

Lettings Agency of the Year Awards 2013, sponsored by the Sunday Times:

- Best London Estate Agency (Medium) – Silver

Pink Home Loans

Financial Advisor Service Awards – 2013

- 5 star award

Mortgage Strategy Awards – 2013

- Best Network less than 300 Appointed Representatives – Second

Linear Mortgage Network

Mortgage Strategy Awards 2013:

- Best Broker for Protection – Winner
- Best Broker for General Insurance – Winner

British Mortgage Awards 2013:

- Network Business Leader of the Year – Winner – Mark Graves, MD of Linear Mortgage Network

First Complete

Mortgage Strategy Awards 2013:

- Best Network more than 300 Appointed Representatives – Finalist

Surveying Division

Strong second half performance

+3%

Jobs performed – like-for-like[6]

2012: -12%

+3%

Income per job – like-for-like[6]

2012: +1%

21.7%

Underlying Operating Margin – like-for-like[9]

2012: 20%

386

Number of qualified surveyors

2012: 378

	Total			Like-for-Like[11]		
Financial	**2013 £m**	2012 £m	% Change	**2013 £m**	2012 £m	% Change
Revenue	**60.4**	62.2	(2.9)	**60.4**	56.7	6.6
Operating expenditure	**(47.3)**	(48.3)	2.0	**(47.3)**	(45.3)	(4.4)
Underlying Operating Profit	**13.1**	13.9	(5.8)	**13.1**	11.4	15.3
KPIs						
Profit margin (%)	**21.7**	22.4	(0.7)	**21.7**	20.0	1.7
Jobs Performed ('000s)	**396**	408	(3.0)	**396**	384	3.1
Revenue from private surveys (£m)	**4.9**	4.0	20.4	**4.9**	4.0	20.4
Income per job (£)	**153**	152	0.2	**153**	148	3.3
PI insurance (Balance Sheet) provision at 31st December (£m)	**25.9**	24.2	7.0	**25.9**	24.2	7.0
Number of qualified surveyors at 31st December	**386**	378	2.1	**386**	378	2.1
Mortgage approvals (000's)[12]	**1,286**	1,151	11.8			

[8] Like-for-like excludes the impact of the insourcing of a contract by a major Surveying client in June 2012 as announced in the Interim Results in July 2012

[9] Bank of England for "Total Mortgage Approvals" 2013

Surveying Division Performance

After a difficult first quarter when transaction volumes fell by 11%, the surveying market has shown significant improvement since April. Total mortgage approvals have increased by 19% year on year for the period from April to December with a 12% full year increase in total mortgage approvals to 1.29m (2012: 1.15m).

Surveying turnover was £60.4m (2012: £62.2m) and the total number of jobs performed was 396,000 (2012: 408,000). The reduction in volumes was driven by the decision of a major lender client to transfer their valuations and associated panel management instructions back in house. On a like-for-like basis, excluding the impact of this contract, revenue increased by 7% to £60.4m (2012: £56.7m) and the total number of jobs performed increased by 3% to 396,000 (2012: 384,000). Since the improvement in the market in April 2013, on a like-for-like basis the number of jobs has increased by 7% following a decline of 8% in the first quarter of the year.

The surveying market is currently suffering from significant capacity constraints and in order to improve the Group's position a new graduate recruitment and training programme was launched during 2013. This represents a major investment for the business especially given the time required to train the new graduate surveyors. A total of 43 new graduates were hired during 2013 and a further 31 were taken on in January 2014. Constrained capacity is a wider market issue and has resulted in a short term improvement in the pricing environment. It is expected that some of this benefit will continue into early 2014 but it remains to be seen what the impact will be on negotiations relating to longer term contracts which come up for renewal later in the year. In prior years, the Surveying Division made excellent progress in developing surveying services for private buyers. Given the current capacity constraints LSL decided to reduce the focus on this area. Although full year revenue from surveying services for private buyers increased by 20% to £4.9m (2012: £4.0m) in the second half of the year it declined by 2% year on year instead.

Underlying Operating Profit was £13.1m (2012: £13.9m) and the Underlying Operating Profit Margin was 21.7% (2012: 22.4%). On a like-for-like basis, Underlying Operating Profit increased by 15.3% to £13.1m (2012: £11.4m) and the Underlying Operating Profit Margin was 21.7% (2012: 20.0%).

Surveying Division Developments

The major growth initiative in the Surveying Division has been investment in a new graduate recruitment and training programme to increase capacity. Capacity constraints have been geographically concentrated particularly in London and the South East and LSL has responded to this challenge by moving surveyors around the country on a short term basis. In addition, in order to meet obligations to provide valuation services to our major lender clients the Surveying Division has reduced the level of private surveys where possible.

The Surveying Division serves key lender clients through both exclusive contracts and through panel management arrangements. LSL is continuing to invest in the Surveying Division business in order to maintain high service levels for all clients. During 2013 LSL have successfully rolled out new tablet computers for surveyors to use when performing valuations on site and feedback has been positive.

The Surveying Division has a number of contracts which come up for renewal in 2014 and negotiations relating to some of these have commenced. Although it is too soon to predict the outcome of these discussions, the Surveying Division has also recently finalised a number of other contracts with lenders to provide surveying and valuation services with improved pricing. Given the capacity shortage in the market, if any volumes were lost from existing contracts, it is likely that the Surveying Division could provide additional capacity to other lenders which would mitigate any reduction in revenue.

PI Costs

LSL has increased the PI provisions relating to the 2004-2008 high risk period by £12.0m as indicated in the Interim Management Statement issued in November 2013. This is disappointing and reflects the fact that a reduction in the rate of claims that LSL had expected during the year, and assumed in setting the previous level of provision, has not yet materialised. Since November 2013, the rate of new claims and cost per claim has been consistent with the assumptions behind the new provision. The additional provision represents the Group's current best estimate of likely claims costs but the process of resolving open claims and estimating future claims is on-going. The provision required is highly sensitive to the run rates of new claims and the costs per claim for both new and existing claims.

Market Intelligence

As stated in the Estate Agency Business Review, LSL issues a number of market indices and reports. The report relevant to the Surveying Division is listed below. Further information and copies of the latest reports can be found at **www.lslps.co.uk/news**

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

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

Achievements/Awards 2013 and 2014

e.surv, has achieved a number of awards and accreditations:

Equity Release Awards 2013:
Best Surveyor – shortlist

Mortgage Strategy Awards 2013:
Best Surveyor/Valuer – second

BSi ISO 9001 Accreditation:

e.surv once again secured an extension to its ISO 9001: 2008, which was originally achieved in 1996. e.surv 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). The standard, developed and maintained by the International Organisation for Standardisation, covers quality management systems.

Financial Review

The key drivers of the financial performance of LSL in 2013 are summarised below:

£258.6m
Group Revenue up 6%
2012: £243.8m

£37.1m
Group Underlying Operating Profit up 6%
2012: £35.1m

£42.4m
Operating cashflow[1] up 2.4%
2012: £41.4m

£26.3m
Net Bank Debt down 1.3%
2012: £26.6m

[1] Operating cash flow is before impact of PI and exceptional costs

Income statement

Revenue

Revenue increased by 6.0% to £258.6m in the year ended 31st December 2013 (2012: £243.8m). On a like-for-like basis, excluding the impact of the insourcing of a contract by a major Surveying Division client in June 2012, revenue increased by 8.5% to £258.6m (2012: £238.3m).

Operating Expenses Excluding Exceptional Costs, Amortisation and Share Based Payment

Operating expenses increased by 6.9% to £225.6m (2012: £211.1m). This was mainly in the Estate Agency Division and included investment to support revenue growth in 2014. The average number of full time equivalent employees during the year was 4,327 (2012: 4,113).

Underlying Operating Profit

Group Underlying Operating Profit increased by 5.6% to £37.1m (2012: £35.1m) with the Underlying Operating Profit Margin of 14.3% (2012: 14.4%). On a like-for-like basis, Group Underlying Operating Profit increased by 13.8% to £37.1m (2012: £32.6m) with the Underlying Operating Profit Margin of 14.3% (2012: 13.7%).

Exceptional Items

Total net exceptional costs in 2013 were £15.2m (2012: £21.7m). The main exceptional costs in 2013 were PI Costs of £12.0m; movements in the provision for contingent consideration on acquisitions which were expensed of £2.8m; and redundancy and other associated branch closure costs of £0.9m. These costs were offset by a gain on the sale of freehold properties totalling £0.1m. In 2012, exceptional costs comprised of PI Costs of £17.3m; movements in the provision for contingent consideration on acquisitions which were expensed of £4.4m; and redundancy and other associated branch closure costs including onerous lease provisions of £1.9m. These costs were offset by a gain on the sale of freehold properties totalling £1.4m.

Provision for PI claims/notifications

Since early 2012 the Group has experienced a high level of claims relating to the 2004-2008 period, which was a period of relatively high risk lending characterised by higher house prices, high loan-to-value ratios and considerable levels of buy-to-let and sub-prime lending. As a result the provision for PI Costs was increased by £17.3m in June 2012 and again by £12.0m in November 2013.

The PI provision at 31st December 2013 was made up of a 'Specific Provision' and 'Incurred But Not Reported' (IBNR). The Specific Provision was based on the Group's review of any notifications or claims which had been made against the Group as at 31st December 2013. The main factors considered in quantifying the Specific Provision were the likelihood that a claim would be successful, an assessment of the likely cost for each claim, including any associated legal costs and whether any reduction in the claim is considered likely due to contributory negligence of the lender. The IBNR provision was based on the Directors' estimates of the number of claims which would be received in the future with regard to work completed before 31st December 2013. The Directors have then applied an average cost per case, based on historical averages, to estimate the IBNR provision.

In June 2012, it was assumed that the run rate of new claims would reduce significantly from July 2013 following the change in legislation governing civil litigation taking effect in April 2013 (the Jackson Reforms). This reduction has not yet materialised and the run rate of new cases has remained at the level established in June 2012. In addition, the cost per claim has increased and in most recent months has been running higher than assumed in 2012. The increasing trend in cost per claim has been driven by a relatively small number of high value claims and by increases in legal costs.

As announced in November 2013, an additional exceptional charge of £12.0m (c£9.2m after tax) has been made in the year ending 31st December 2013 in order to increase the PI provision. Since November 2013, the rate of new claims and cost per claim has been consistent with the assumptions behind the new provision. This additional provision represents the Directors' current best estimate of likely claims costs but the process of resolving open claims and estimating future claims is on-going.

A number of risks and uncertainties remain, in particular the actual monthly run rate of new claims, the date at which the high rate of claims will significantly reduce, and the average cost per case both for existing open claims and for claims yet to be received. The cost of these factors could differ materially from the Board's estimates, which could result in a further provision being required.

At 31st December 2013 the total provision for PI Costs was £25.9m. The Board has considered sensitivity analysis on the key risks and uncertainties discussed above. If the run rate of new claims was 10% higher or lower than assumed in the year end provision of £25.9m, an additional or lower provision of £3.1m would be required. If the average cost per case for both existing open claims and for claims yet to be received was 5% higher or lower than assumed in the year end provision of £25.9m, an additional or lower provision of £1.8m would be required.

Contingent consideration
Certain contingent consideration arrangements have been accounted for as remuneration as the arrangements potentially involve the vendors forfeiting amounts otherwise due if continued services are not provided.

Contingent consideration relating to the 2011 acquisition of Marsh & Parsons has been treated as an expense of £0.4m (2012: £1.8m) in 2013. LSLi has acquired a number of subsidiaries whereby the contingent consideration is also considered to be remuneration under IFRS 3. A further expense of £2.4m (2012: £2.6m) was recorded in 2013.

Net Financial Costs
Net financial costs (excluding exceptional finance costs) amounted to £3.1m (2012: £2.6m). The finance costs related principally to interest and fees on the revolving credit facility, however, £0.7m (2012: £0.5m) of the costs relates to the unwinding of discounts on provisions.

Taxation
The UK standard corporation tax rate has reduced from 28% as at 1st January 2011 to 23% at 31st December 2013 with a further reduction to 22% occurring on 5th April 2014. The effective rate of corporation tax for the year was 21.4% (2012: 19.0%) excluding prior year adjustments. The effective tax rate for 2013 and 2012 was impacted by non taxable income for joint ventures and dividends, the impact of a rate change on the deferred tax liability, contingent consideration recognised as an expense and the impact of temporary differences on certain non-qualifying properties no longer being recognised. Excluding these impacts the effective tax rate is 24.0% (2012: 28.6%). Income tax charged directly to other comprehensive income was £4.4m (2012: £2.5m) and related to the revaluation of financial assets (see Note 16).

Adjusted Basic Earnings Per Share
The Basic Earnings Per Share was 13.6p (2012: 6.8p). The Adjusted Basic Earnings Per Share (as calculated in Note 10 to the Financial Statements) is 25.3p (2012: 23.8p). The Directors consider that the adjustments made to exclude the after tax effect of exceptional items, contingent acquisition consideration treated as remuneration, and amortisation of acquisition intangibles 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 £7.1m (2012: £5.3m) and an additional £0.7m (2012: £0.3m) has been spent internally on developing new software which has been treated as an intangible asset.

Bank Facilities
LSL refinanced its bank facility during the year and now has a £100.0m revolving credit facility in place until August 2017 (2012: £75.0m). Further details on the Group's financial commitments as well as the Group's treasury and risk management policies are set out in Note 29 of the Financial Statements.

Net Bank Debt
As at 31st December 2013 Net Bank Debt was £26.3m (2012: £26.6m) and Shareholders' funds amounted to £99.3m (2012: £76.1m) giving balance sheet gearing of 26.5% (2012: 35%). The decrease in Net Bank Debt was achieved in spite of the payment of £5.4m for various new acquisitions by the Estate Agency Divisions and payment of PI claims of £14.4m (2012: £7.7m). Net Bank Debt represented 5.8% of the Group's market capitalisation at 31st December 2013, and 64% of the Group's adjusted EBITDA for the year (2012: 10% and 67% respectively).

Cash Flow
The Group generated £42.4m (2012: £41.4m) of operating cash flow which is before capital expenditure including software of £7.9m (2012: £5.7m) and before PI claims paid out of £14.4m (2012: £7.7m) and exceptional costs of £1.1m (2012: £1.1m). The increase was due to improved Group Underlying Operating Profit. During the year the Group sold a number of freehold properties receiving net proceeds of £1.4m (2012: £6.2m) and generating an exceptional profit of £0.1m (2012: £1.4m).

Zoopla
In November 2013, the Group increased its stake in Zoopla to 4.91% by acquiring a further 48,178 shares at £17.50 per share. Based on this transaction and the current profitability of Zoopla, the Directors increased the valuation of the Group's stake in Zoopla to £35.1m (2012: £11.8m).

Net Assets
The Group's net assets as at 31st December 2013 were £99.3m (2012: £76.1m).

Treasury and Risk Management
LSL has an active debt management policy. The Group has interest rate swaps in place which fixes the interest on borrowings up to £25.0m at an average LIBOR rate of 2.93%, which provides a degree of predictability on finance costs. The interest rate swaps expire in the first half of 2014 and LSL is currently considering whether additional hedging should be put in place once these expire. 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.

Principal Risks and Uncertainties

LSL has an overall framework for management of risks and internal controls to mitigate the risks. Through the framework, the Board continually identifies, evaluates and manages the principal risks and uncertainties faced by LSL and 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 and Internal 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 and Internal 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 opposite 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 opposite. This may include some risks which were included in previous Annual Report and 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 Audit Committee Report (Internal Controls) of this Report on page 50.

Principal Risk and Uncertainty	Mitigation
Although the UK housing market started to recover in 2013, there is still economic uncertainty in both the UK and finance sector and there is some dependence on stimuli added to the housing market through Help to Buy. In addition political uncertainty around the 2015 election may impact the market towards the end of year and results in some uncertainty over whether the market improvement will be sustained. Any impact on 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 reviews trends in market volumes and monitors the Group's operational gearing to decide on the appropriate level of resourcing. In addition, the Board regularly focuses on counter-cyclical income streams to ensure that the growth in income in Lettings and Asset Management set off any impact on residential transaction numbers.
LSL has an exposure to the Central London property market via Marsh & Parsons. 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.	Marsh & Parsons is a well managed business with a diversified strategy. It operates in all key segments of the London market. The Board closely monitors 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 Client Services clients or contracts at their renewal date or significant reduction in volumes combined with pressure on fees, either as a result of adverse market conditions, market consolidation, competition or inadequate service delivery. In 2014, a number of major Surveying contracts are up for retender increasing this risk.	There has been an increased investment in customer services to retain existing clients and attract new ones. In addition, LSL is continuing to develop its private survey proposition to provide an alternative income stream. Improvements in the market has led to an increased demand for valuation services which has reduced the risk on loss of contracts or reduced pricing when the Surveying contracts come up for renewal in 2014.
Liability for inaccurate professional services advice to clients (e.g. legal claims relating to valuation services) 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 Risk and Internal Audit reviews of services provided on a sample basis. There are also specific operational controls implemented within the Surveying Division which include a risk based criteria for the identification of transactions to be reviewed by on-site specialists. In light of the improving market and the availability of higher LTV mortgages, LSL have undertaken a review of the valuation controls and processes to mitigate this risk.
Failure to effectively deliver and manage the market share and fee growth initiatives for the Estate Agency Division.	Regular monitoring by the Board is undertaken on the Estate Agency Division's progress.
Failure to comply with existing legislation/regulation or changes to legislation/regulation and/or Government policy which 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 existing business practices and any reform proposals. Where appropriate Government departments and/or trade bodies are engaged in a dialogue.
In response to the financial crisis, significant changes to financial services regulations have occurred which have included the implementation of the recommendation from the Retail Distribution Review which came in on 31st December 2012 and Mortgage Market Review which will come into effect on 26th April 2014.	The Board is monitoring the impacts of these changes and assessing what changes to business practices may be required to ensure compliance with new legislation. Where required, specialist have been engaged to provide advice on the impacts of the incentives review and Risk and Internal Audit have provided the Board with reports on the implementation of these recommendations. In addition, a new IT platform has been developed for the Financial Services business which will assist in ensuring compliance with the new legislation.
The continued growth of LSL's Financial Services business may result in increased regulation from the FCA and increased compliance requirements particularly if new offerings are introduced.	The Board closely monitors any new service offering proposed by the Financial Services business as well as any new acquisition. Where necessary external specialists are engaged to provide advice to ensure that all laws and regulations are adhered to and that a culture of treating customers fairly is embedded in the Group.
Failure to identify appropriate targets for acquisition and once acquired, the businesses are not successfully integrated into the Group.	Each Division has plans in place to identify acquisition opportunities and wherever necessary additional external consultants are hired to assist with this process. Where opportunities arise, thorough due diligence is carried out and all significant acquisitions are approved by the Board. A detailed 100 day plan is prepared by management and then implemented once the business has been acquired. Post acquisition, a review will be presented to the Board on the financial and operational success of the acquisition, the integration of the business and together with any learnings and improvements arising from the process. In addition, with the continued focus on acquisition, LSL is in the process of strengthening its acquisitions team.
Failure or interruptions of IT services on which the Group is reliant for operational performance and financial information.	Dedicated in house IT departments with specialist staffing. Maintenance of a formalised business continuity infrastructure and contingency plans in the event of a system failure. Regular monitoring by subsidiary company management, external specialists and Risk and Internal Audit, with any system issues highlighted to the Board.
Loss of senior management who are key to delivering the future growth strategy of the Group.	The executive team focuses on retention of all senior management and ensures that adequate remuneration policies, management development and succession plans are in place. This is supported by annual reviews by the Remuneration and Nominations Committees.

Corporate Social Responsibility

The Board has overall responsibility for establishing the Group's Corporate Social Responsibility (CSR) statement and associated policies with Steve Cooke, Group Finance Director, 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, progress and achievements are communicated to employees at regular intervals through bulletins, intranet sites and notice boards as appropriate.

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

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

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

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

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

As part of LSL's regular risk assessment procedures, the Board takes account of the significance of environmental, social and governance (ESG) matters to the business of the Group and in its decision making. The Board has identified and assessed 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 received adequate information to make this assessment and that account is taken of ESG matters in the training of Directors. The Board has also 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.

Our People

LSL recognises that its people are a valuable asset and is committed to providing a working environment in which its 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 is achieved through employee opinion surveys. This also ensures that LSL, in its decision-making, takes into account its employees views. For further details of the employee survey arrangements, see Employee Communications below.

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 the Group's employees. LSL's employees are its key differentiator and it is this principle that guides the Board's decision making on how LSL approaches the management of its people.

Communication

Employees:

LSL ensures that employees are kept informed of Group affairs via information distributed by post, e-mail, handbooks or the various intranet sites. In addition, during 2013 LSL's Group Human Resources Team launched a new online service for Group employees called 'People Matters' which will enhance the way in which LSL communicates with and disseminates information to its employees. LSL values employee feedback and all Group employees are encouraged to discuss strategic, operational and business issues within their teams and with their management.

In addition, the Board receives employee feedback via employee opinion surveys which operate across all parts of the Group businesses on an annual basis. The data that is captured is presented to the Board as part of a regular review of employee matters which focuses on understanding the issues facing our employees. KPIs such as labour turnover and responses to key questions are also monitored to measure staff morale.

During 2013, LSL engaged an external consultant to assist with the annual employee survey and this engagement will allow LSL to not only generate an accurate picture of engagement across the Group, it will also allow LSL to assess the results and feedback received against similar organisations using the benchmarking data retained by the agency. The 2013 survey covered all aspects of the working environment including training, careers, performance and company communications together with questions on the effectiveness of company management and leadership. The response from employees to the survey was very positive with 3,114 (62%) returns.

The survey results provide the Board with insight into what factors concern and motivate the Group's employees and contribute to action plans and/or focus groups across the Group. The employee survey process is continually evaluated and developed to maximise the validity and reliability of the data that is captured. Further, and in response to feedback received in previous years, the process will be repeated again in 2014 as LSL remains committed to developing and improving employee engagement across the Group.

Another area of focus for the Group has been gender diversity and during 2013, LSL continued to review gender diversity across the Group and the findings of this review are detailed below (see Equal Opportunities – Gender Diversity).

On strategic matters, LSL recognises and consults Unite.

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 LSL's decision-making processes and in particular in the development of its services to customers.

Equal Opportunities

LSL promotes equal opportunities in employment, recognising that equality and diversity is a vital part in its success and growth. The Group 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 individuals suffers harassment or intimidation.

Specific employment policies exist which employees are required to observe and over which the Group Chief Executive Officer has overall responsibility with some policies being submitted annually for review and approval by the Board. 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.

Gender Diversity:

Since 2011, LSL has undertaken reviews in relation to gender diversity which was further explored in 2013 by research into the identification of barriers to gender diversity within the Group. The results of this research found that within the Group, gender diversity diminishes with seniority. The findings of the 2011 and 2012 reviews are set out in LSL's 2012 Annual Report and Accounts.

Whilst this finding is consistent with research conducted in other organisations, LSL is implementing recommendations to address the differences in career progression between genders within the Group. For details of gender diversity KPIs, see below.

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.

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.

	2013	2012	2011	2010	2009
Total Employees at (31st December)	**5,299**	4,754	4,831	4,490	3,287
Total Employee turnover percentage (%)*	**26.4**	26.7	24.8	28.5	19.3

*Data excludes forced leavers.

Breakdown by Gender	**2013**	**2012**	2011	2010	2009
Male	**2,318**	2,052	2,065	1,838	1,389
Female	**2,981**	2,702	2,748	2,652	1,898

Corporate Social Responsibility continued.

In accordance with new reporting requirements, the gender split for the Board, senior management team and Group employees for 2013 is as follows:

2013	Female	Male
Directors	**1 (2012: 1)**	8 (2012: 7)
Senior management team	**12**	44
Group employees	**2,981 (2012: 2,702)**	2,318 (2012: 2,052)

A 2012 comparable for the senior management team is not available because at the start of 2013 following a review conducted in 2012, LSL revised its senior management banding structure which impacted on the number of individuals falling within the revised definition of the senior management team. Going forward LSL intends to provide comparable data for the previous years for the Directors, senior management team and Group employees.

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. During 2013, LSL continued its commitment to recruit, develop and invest in colleagues. The Group's approach is to prioritise colleague learning and development to strengthen the businesses and to ensure the Group's continued success. Examples of this approach to training are detailed below.

Surveying:
During 2013 e.surv continued their successful partnership with the Mitre Group, one of the UK's leading skills development organisations. As a result, 40 (2012: 204) members of staff were trained to NVQ 1, 2 and 3 levels across a range of programmes including customer service, sales, leadership and management. The programme continues into 2014 with e.surv employees completing 15 (2012: 146) apprenticeships and 3 (2012: 167) stand alone NVQ's. There are now 26 (2012: 48) members of staff on apprenticeship programmes many of whom are nearing completion. Since 2011 e.surv has employed a dedicated trainer to head up the Training Academy which supports the Apprenticeship and NVQ programmes.

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

As explained in the Strategic Report, LSL has during the year invested in the recruitment of graduates into e.surv. This graduate training programme has involved the creation of National Assessment Centres and graduates with applicable building surveying qualifications have been selected into areas where e.surv could provide mentoring support. A total of 43 graduates were appointed during 2013 with a further 31 recruited in January 2014.

Estate Agency and Related Services:
Across the Group's Estate Agency Division's branches, employees adhere to the Codes of Practice issued by both The Property Ombudsman (TPO) and/or the Association of Residential Lettings Agents (ARLA). This is in addition to observing compliance with relevant legislation, such as the Consumer Protection Regulations, guidance material published by relevant regulators, including the Office of Fair Trading and codes published by other relevant bodies, including the Advertising Standards Authority (ASA) and the Trading Standards Institute (TSI). LSL also enters into direct dialogue with the regulators and consumer groups, such as Which. During 2014, the TSI and FCA will take over from the OFT in relation to Residential Sales and Lettings regulation (including Anti-Money Laundering) and Consumer Credit.

2013 has been a year of regulatory change, for example in October the Government repealed the Property Misdescriptions Act. 2014 is also expected to present significant changes with the TSI and FCA taking over from the OFT and the Governments' plans to review and implement changes to consumer legislation, including the Consumer Rights Bill which seeks to simplify the UK's consumer legislation and implement the EU's Directive on Unfair Commercial Practices.

LSL monitors all relevant legislative changes and in response keeps under review its training programmes to ensure that employees of the Estate Agency Division receive specially designed training courses, with the quality of service monitored on a regular basis.

In April 2013, the Financial Conduct Authority (FCA) took over the regulation of the financial services industry from the Financial Services Authority (FSA). The FCA is responsible for the conduct of firms authorised by the Financial Services and Markets Act 2000 (FSMA). LSL's Financial Services businesses include two authorised firms, which operate broker networks that include other Group companies acting as their appointed representatives. Accordingly, the Financial Services companies are responsible for the training and compliance arrangements of all Financial Services business conducted by Group companies. LSL's Financial Services businesses place strong emphasis on the quality of service provided to customers and as part of the compliance arrangements, all employees involved in the Financial Services businesses receive appropriate and relevant training. In particular, all advisers complete a specially designed training programme which is supplemented by effective supervision, regular monitoring and regular refresher training sessions.

For further details on the regulations relevant to LSL's businesses, please see page 18 of the Strategic Report, Business Review – Estate Agency Division in this Report.

During 2013, the Group training expenditure was:

Division	Expenditure 2013	Expenditure 2012
Estate Agency and Related Services (£)	**1,460,499**	1,232,368
Surveying and Valuation Services (£)	**381,647**	152,688
Total Expenditure	**1,842,146**	1,385,056

This includes in house training costs of £1,213,523 (2012: £700,623).

Health, Safety and Welfare

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

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

Separate Health and 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 Risk and Internal Audit team with regular reporting to the Board, and includes indicators such as accident numbers.

Environmental Issues

LSL recognises that the environment has an intrinsic value, is central to quality of life and it underpins economic development. As part of this understanding, LSL have assessed the main areas in which it is able to effect the largest reductions in the Group's overall environmental impact.

The Group's Environmental Policy is contained within the CSR Policy, which Steve Cooke, Group Finance Director, has overall responsibility for. Compliance with aspects of the CSR is audited by the Group's Risk and Internal Audit team with regular reporting to the Board.

Since 2010, LSL's 'green' priorities have therefore been to:

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

Since the adoption of these 'green' priorities, LSL has sought to keep stakeholders informed on how LSL manages its environmental impacts and how it is performing. Stakeholders may also provide LSL with views and opinions which can strengthen LSL's approach to environmental management. Within this framework, LSL companies 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 receives regular reports to enable it to monitor progress.

Going forward into 2014, LSL will continue to promote environmental awareness within the Group and to encourage the use of environmentally sensitive operating models. Set out in the table below are examples of the environmental initiatives focused on in 2013.

Green Priorities and Environmental Initiatives:	Examples of Actions Undertaken in 2013:

Recycling	• Group companies working to specific targets in relation to the use of general waste services in and the use of dry mixed recycling.
	• Environmental waste friendly arrangements with Green Star (part of Biffa) extended with the commission of several new transfer stations which will result in Group companies increasing its use of dry mixed recycling during 2014.
	• e.surv participation in the 'Shred-Pro' shredding and recycling programme which saved 136 trees (2012: 64 trees)
	• Across the Group various recycling schemes are in place with Iron Mountain, which delivered the following benefits:
	  • 133 (2012: 96) cubic metre landfill reduction
	  • 1,102 (2012: 798) trees saved
	  • 58,859 (2012: 42,476) kilos of recycled paper produced

Corporate Social Responsibility continued.

Green Priorities and Environmental Initiatives:	Examples of Actions Undertaken in 2013:
Power Saving	• Continued monitoring of energy consumption and benefits of energy saving initiatives. • Installation of Smart Meters to monitor electricity and gas consumption within some Estate Agency Division branches as part of branch refurbishment programmes. • Installation of low energy light installations at some Estate Agency Division branches, also as part of branch refurbishment programmes. • Encouraging the switching off of electrical equipment, such as printers and PCs overnight. • Promotion of the installation of timer plugs and other devices.
Avoid/Limit Printing	• Continued use of the "think before you print" note on emails to customers and employees. • Continued investment in electronic record keeping avoiding the need to maintain paper files. • Promote double sided photo copying and printing where paper records are necessary. • During 2014, the Group's Human Resources Team is launching a new self-service HR system which will allow employees to access and change their personal information and to view their monthly remuneration online, thereby avoiding the need to print off paper payslips each month providing both financial and environmental benefits to the Group.
Remote Meetings	• LSL employees are geographically spread out across the UK and where possible, meetings are held by conference facilities to avoid the need for travel which provides both financial and environmental benefits to the Group.
Reduce Carbon Emissions	• 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. • See also mandatory emissions reporting below.

The Greenhouse Gas Emissions (Directors' Reports) Regulations 2013 and The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013:
During 2012 and 2013, as required by the introduction of mandatory emissions reporting legislation that came into force during 2013 and applies to reporting periods commencing on or after 30th September 2013, LSL commissioned the independent organisation, Carbon Credentials, to evaluate the Group's preparedness via an objective assessment of emissions reporting capabilities, including through investigation of the Group's previous Carbon Disclosure Project responses.

In accordance with The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations, each year LSL reports on targets and KPIs set by the Board. For the period from 1st October 2012 to 30th September 2013, the LSL Group of companies' emissions amounted to 9,164 tCO_2e. LSL's intensity ratio has been calculated based on the tCO_2 per £m of revenue and tCO_2 per full time equivalent employee LSL's intensity ratio from the 1st October 2012 to 30th September 2013 was 37 tCO_2e per £m of revenue and 2.0 tCO_2 per full time. equivalent employee.

The Group has calculated the above emissions according to the Climate Disclosure Standards Board's Climate Change Reporting Framework Edition 1.1. These sources fall within the consolidated Financial Statement. LSL does not have responsibility for any emissions sources that are not included within the consolidated Financial Statement. Figures were calculated using emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2014.

LSL has taken data from its Carbon Reduction Commitment and EU Emissions Trading Scheme obligations in order to report in accordance with the new reporting requirements. The information above forms part of the first reporting year and subsequent Directors' Reports will include information from previous years, including 2013, in order to offer comparison.

Social and Community interests (including Human Rights and Ethical Issues)

LSL's social, community interests (which includes the promotion of human rights and ethical issues) objective is to establish a common and coherent approach among Group businesses and to support investment in the communities in which they operate. Group companies are sensitive to the local community's cultural, social and economic needs. LSL is committed to acting responsibly wherever it operates and to engaging with stakeholders to manage the social, economic and environmental impact of all Group activities.

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

LSL supports its businesses in achieving these 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.

LSL's approach to the promotion of human rights and ethical issues is contained within the Group's HR policies, which includes the Group's Combined Ethics Policy, which is presented to the Board for annual review and approval. While all Group employees are made aware of the policy, the Risk and Internal Audit team will audit awareness and compliance.

Charitable Donations:

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 in 2013 LSL employees raised over £25k. Over 198 employees participate in the scheme, which donates to a range of charities.

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**

Agents Giving (formerly The Estate Agency Foundation) (www.agentsgiving.org/):
LSL's Estate Agency Division continues to support the Agents Giving initiative which was formerly known as The Estate Agency Foundation (AG) as its employee nominated charity.

With effect from the 13th February 2014, the foundation changed its name to "Agents Giving" and widened its scope for both how it helps to raise funds and how they donate to great causes all over the UK.

During 2013, the AG initiative supported several registered charities whose collective aim is to eliminate the causes of homelessness. These included:

- Centre Point (**www.centrepoint.org.uk**) – £10,000 was donated to each of the following Centre Point charities: (a) Thames Reach (**www.thamesreach.org.uk**); (b) Trinity Winchester (**www.trinitywinchester.org.uk**); (c) Doncaster Housing for Young People (**www.dhyp.net**); and (d) HOPE4 (**www.hope4.org.uk**)
- The Bridge (**www.bridgeleicester.org**) – £2,000 was donated.

The AG 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 AG initiative makes a significant contribution to communities.

Surveying
Within the Surveying Division, during 2013 a number of different charities (national and local) were supported by initiatives undertaken by e.surv Chartered Surveyors' employees, which included the following:

- Cransley Hospice, a hospice for terminally ill patients in Kettering (nominated staff charity since in 2010) (**www.cransleyhospice.co.uk**).
- Comic Relief (**www.comicrelief.com**)
- Diabetes UK (**www.diabetes.org.uk**)
- Jeans for Genes (**www.jeansforgenesday.org**)
- Macmillan Cancer Support (**www.macmillan.org.uk**)
- Stroke Association (**www.stroke.org.uk**)
- Wear it Pink (**www.wearitpink.co.uk**)
- Children in Need (**www.bbc.co.uk**)
- Help for Heroes (**www.helpforheroes.org.uk**)
- Movember UK (**uk.movember.com**)
- British legion Poppy Appeal (**www.britishlegion.org.uk**)
- Philippines Typhoon (**uk.virginmoneygiving.com/giving**)
- St Marys Church (**www.stmaryshinckley.co.uk/**)
- Huncote Animal Aid (**www.leicesteranimalaid.org.uk**)
- Women's Aid (**www.womensaid.org.uk**)
- Heart Foundation (**www.bhf.org.uk**)
- Teenage Cancer Trust (**www.teenagecancertrust.co.uk**)

The Board

1. Bill Shannon
Independent Non Executive Director and Chairman of the Remuneration Committee

Bill was appointed as an independent Non Executive Director and Chairman of the Remuneration Committee on 7th January 2014. Bill has significant PLC board experience in strategy, operations, finance and governance in the consumer, financial services, residential and commercial property sectors. He is currently non executive chairman of St Modwen Properties plc and non executive director of Johnson Service Group plc. He was previously at Whitbread Group plc between 1994 and 2004, as divisional managing director and has served as non executive chairman of Aegon UK plc and non executive director of Rank Group plc, Barratt Developments plc, and Matalan plc.

2. Simon Embley
Deputy Chairman

Simon was appointed Deputy Chairman on 9th September 2013 when he stepped down as Group Chief Executive Officer. He became the Group Chief Executive Officer of LSL at the time of the management buy-out of e.surv 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.

3. David Newnes
Executive Director

David has been with LSL since 1980 and was part of the management buy-out team. David was appointed as an Executive Director on 1st June 2010 with overall responsibility for the performance, strategy and development of the Estate Agency Division across LSL. David is also a member of the e.surv board and he has extensive experience within the residential property services industry. He is a Fellow of the Royal Institute of Chartered Surveyors (RICS) and holds memberships of both the Association of Residential Lettings Agents (ARLA) and the National Estate Agency Association (NAEA). David is also a trustee of the Agents Giving initiative (formerly known as the Estate Agency Foundation) and is a director of The Property Ombudsman scheme.

4. Helen Buck
Non Executive Director

Helen was appointed as an independent Non Executive Director on 1st December 2011. She is also a member of the operating board of Sainsbury's Supermarkets Limited (Sainsbury's) (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.

5. Ian Crabb
Group Chief Executive Officer

Ian was appointed Group Chief Executive Officer on 9th September 2013 and he has primary responsibility for the performance, strategy and development of LSL. Previously Ian was executive chairman of Learndirect, where he worked closely with Lloyds Development Capital on Learndirect's growth strategy and before that was chief executive of Quadriga Worldwide, Europe's market leader in digital IP communication and entertainment services for hotels, where he was responsible for expanding the business into fifty countries. Over the seven year period of his stewardship, which included the 2007 sale of the company by Terra Firma, the business consistently over-achieved against demanding financial targets. Earlier, Ian was a member of the Industrial Advisory Board at Permira Advisers LLP and worked on major transactions including the €640m buy out of Hogg Robinson. Prior to this he was chief executive of IKON Office Solutions, the document management and office products provider for six years, delivering significant growth both organically and through several acquisitions.

6. Steve Cooke
Group Finance Director

Steve was appointed Group Finance Director on 1^{st} July 2010 and is responsible for all aspects of the financial management of LSL. 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.

7. Roger Matthews
Non Executive Chairman and Chairman of the Nominations Committee

Roger was appointed Chairman of LSL and the Nominations Committee on 21^{st} November 2006 and is currently also non executive chairman of MITIE Group plc and non executive chairman of Pertemps Network Group Limited. 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.

8. Sapna 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, 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.

9. 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 on 21^{st} November 2006. He is also the Senior Independent Non Executive Director. 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 works with 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.

10. Adrian Gill
Non Executive Director

Adrian was appointed as an independent Non Executive Director on 10^{th} September 2012. He was previously an executive director at Connells Limited (Connells), the national estate agency business of the Skipton Building Society, for over 10 years. Prior to his role at Connells, Adrian was managing director of Lush Retail. Adrian is a chartered accountant and is currently also a director at Lifetime Legal Limited.

The Strategic Report (including LSL's Strategy, LSL's Business Model, the Business Reviews, the Financial Review, the Principal Risks and Uncertainties, the Corporate Social Responsibility Report and the LSL Board) is approved by and signed on behalf of the Board of Directors.

Ian Crabb	**Steve Cooke**
Group Chief Executive Officer	Group Finance Director
6^{th} March 2014	6^{th} March 2014

Report of the Directors' and Corporate Governance Reports

In this section

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

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

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

- select suitable accounting policies in accordance with IAS 8 'Accounting Policies, Change in Accounting Estimates and Errors' and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and financial performance;
- state that the Group has complied with IFRSs, subject to any material departures disclosed and explained in the Financial Statements; and
- make judgements and accounting estimates that are reasonable and prudent.

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

The Directors are also responsible for preparing the Strategic Report, Directors' Report, the Directors' Remuneration Report, the Audit Committee Report and the Corporate Governance Statement in accordance with the Companies Act 2006 and applicable regulations, including the requirements of the Listing Rules and the Disclosure and Transparency Rules.

Report of the Directors

Business Review and Development

The Chairman's Statement and the Strategic Report set out a review of the business including details of LSL's performance, developments (including future developments) and strategy.

Annual General Meeting

The AGM will be held at the London offices of LSL, 1 Sun Street, London EC2A 2EP on 24th April 2014 starting at 2.30pm.

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

Financial Results

The Strategic Report and Financial Statements set out the results of LSL.

Dividend

As a result of the improved operating performance of the Group, the reduction in Net Bank Debt and the Board's positive view of future prospects for the business, an increased final dividend of 7.2p per share (2012: 6.4p) will be proposed to Shareholders at the forthcoming AGM, increasing the total dividend for 2013 by 11% to 10.5p per share (2012: 9.5p per share). The ex dividend date for the final dividend is 26th March 2014 with a record date of 28th March 2014 and a payment date of 29th April 2014. 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 its 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 its employees views.

The Group has an equal opportunities policy so that all job applicants are treated fairly and without favour or prejudice throughout selection, recruitment, training, development and promotion. Further details of how LSL engages with its employees are contained in the CSR statement at pages 28 to 33 of this Report. The CSR statement also summarises the Group's policy in relation to disabled employees.

Financial Instruments

The Strategic Report sets out LSL's strategies and objectives relating to treasury and risk management. Details of the financial instruments are set out in Note 29 to the Financial Statements.

The Greenhouse Gas Emissions (Directors' Reports) Regulations 2013 and The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013

In accordance with The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, each year LSL reports on targets and KPIs set by the Board within the Directors' Report in the Annual Report and Accounts. For the 2013 results, see page 32 of this Report.

Directors

The current Directors are listed with their biographies in LSL Board at pages 34 and 35 of this Report. During the year, Simon Embley stepped down as Group Chief Executive Officer and was appointed Deputy Chairman with effect from 9th September 2013 and Ian Crabb was appointed Group Chief Executive Officer with effect from 9th September 2013. On 7th January 2014, Mark Pain stepped down as an independent Non Executive Director and Chairman of the Remuneration Committee and was replaced in these roles by Bill Shannon. Full details of the current Directors are also detailed within the Directors' Remuneration Report.

Re-election and Election

All of the Directors will each retire at the AGM and, being eligible, all existing Directors 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 Ian Crabb and Bill Shannon, having been appointed since the last AGM are standing for election. LSL may by ordinary resolution elect or re-elect any individual as a Director. In addition, by an amendment to the Nominations Committee's Terms of Reference, LSL has confirmed its commitment to annual elections of its Directors. Accordingly all of the Directors will stand for re-election/election at the AGM. The biographical details for all Directors are set out on pages 34 and 35 of this Report.

During the 2013 Board effectiveness review, the performance of the Directors, who are all standing for election, was specifically evaluated and the Board confirmed that it values the experience and commitment to the business demonstrated by each of these individuals.

Directors' Interests

The interests of the current Directors in LSL are contained within the Directors' Remuneration Report at page 65. During the period between 31st December 2013 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 current Non Executive Directors' letters of appointment are set out in the Director's Remuneration Report on pages 57 to 58 of this Report.

Auditors

Ernst & Young LLP, the external auditor of the Group has advised of its willingness to continue in office and a resolution to re-appoint them to this role and the authority for their remuneration to be determined by the Directors will be proposed at the AGM. See also the Audit Committee Report contained at page 47.

Details of LSL's policy designed to safeguard the independence and objectivity of the external auditors is included in the Audit Committee Report contained at page 47.

Share Capital

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

Rights and Obligations Attached to Shares

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

Details of share capital are set out in Note 24 to the Financial Statements. There have been no changes to the share capital during 2013. A renewal of the authority for the Directors to allot unissued Ordinary Shares and a renewal of their power to dis-apply statutory pre-emption rights will be proposed at the AGM. Full details of the deadline for exercising voting rights in respect of the resolutions to be considered at the AGM are set out in the Notice of Meeting.

Employee Share Schemes

LSL has 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 or 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 25 to the Financial Statements. The Trustees have waived the right to any dividend payment in respect of each share held by them in 2013 and to all future payments.

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 some of these shares were acquired by members of the current management team of Marsh & Parsons in 2012 and 2013. This was in accordance with the previously stated objective that current and future managers at Marsh & Parsons apply for Growth Shares, as part of a package of measures designed to incentivise the management of Marsh & Parsons. The 2011 EBT does not currently hold any LSL shares.

Report of the Directors continued.

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 section of the Strategic Report on pages 11 to 35. 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 sections of the Strategic Report on pages 24 to 25. Details of the Group's borrowing facilities are set out in Note 21 to the Financial Statements. Note 29 to the Financial Statements describes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. A description of the Group's principal risks and uncertainties and arrangements to manage these risks are detailed within the Strategic Report on pages 26 and 27.

As explained in Note 29 to the Financial Statements, the Group meets its day to day working capital requirements through a revolving credit facility, which was renewed in June 2013 and the Group currently have a £100m facility which is committed for a period up to August 2017. As stated in Note 21 to the Financial Statements as at 31st December 2013 the Group had available £73.5m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the terms of its current facility.

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 the Group has 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, with exception of Bill Shannon who was not a Director during 2013, 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 2013, LSL's issued share capital comprised 104,158,950 0.2p Ordinary Shares. The authorised share capital is 500,000,000 Ordinary Shares of 0.2p each.

Ordinary Shares

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

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

- certain restrictions which may from time to time apply under applicable laws and regulations (for example, insider trading laws and market requirements relating to close periods) and;
- pursuant to the Listing Rules of the FCA 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.

LSL has the authority under section 701 of the Companies Act to make market purchases of the ordinary shares of the Group on such terms and in such manner that the Directors determine. The maximum shares to buy back is capped at 10% of the Ordinary Share Capital of the Group being 10,415,895 Ordinary Shares.

Company Share Schemes

The Trust holds 1.4% (2012: 1.20%) 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.

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 its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a takeover bid.

Post Balance Sheet Event

There are no post balance sheet events to report.

Directors' Responsibility Statement

Each of the Directors listed on pages 34 and 35, with exception of Bill Shannon who was not a Director during 2013, 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;
- the Strategic Report (including LSL's Strategy, LSL's Business Model, the Business Reviews, the Financial Review, the Principal Risks and Uncertainties, Corporate Social Responsibility Report and the LSL Board) and the Directors' Report (including the Corporate Governance Reports) 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;
- the Report (including the Financial Statements), taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess and provide LSL's performance, business model and strategy.

Substantial Shareholding

As at 31st December 2013 and as at 4th March 2014, the shareholders set out below have notified LSL of their interest under DTR 5:

		31st December 2013		4th March 2014	
Institution	Nature of holding	Number of 0.2 pence Ordinary Shares	% of issued shares	Number of 0.2 pence Ordinary Shares	% of issued shares
Harris L.P	Beneficial	10,301,680	9.89%	10,301,680	9.89%
The Capital Group Companies Inc	Beneficial	7,348,850	7.05%	8,746,350	8.40%
Aviva Investors	Beneficial	5,621,090	5.40%	1,985,895	1.91%
Caledonia (Private) Holdings Pty Limited	Beneficial	3,612,785	3.47%	3,059,648	2.94%
Henderson Global Investors	Beneficial	NA	NA	6,178,975	5.92%

The Report of the Directors' has been approved by and is signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary
6th March 2014

Corporate Governance Report

UK Corporate Governance Code (September 2012) (the 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 2013, LSL complied with the provisions of the Code in all respects.

The Board

At the date of this Report, the Board has nine members, whose details are as follows:

Director Name	Position(s)
Helen Buck	Independent Non Executive Director
Steve Cooke	Executive Director – Group Finance Director
Ian Crabb	Executive Director – Group Chief Executive Officer
Simon Embley	Executive Director – Deputy Chairman
Adrian Gill	Independent Non Executive Director – member of Nominations Committee, Audit Committee and Remuneration Committee
Roger Matthews	Non Executive Director – Chairman of the Board, Chairman of the Nominations Committee and member of the Remuneration Committee
Mark Morris	Independent Non Executive Director – Senior Independent Non Executive Director, Chairman of the Audit Committee and member of the Nominations Committee and Remuneration Committee
David Newnes	Executive Director
Bill Shannon	Independent Non Executive Director – Chairman of the Remuneration Committee and member of the Audit Committee and Nominations Committee

During the year, the Nominations Committee and the Board considered at length the composition of the Board, which resulted in a number of changes, namely the appointment of Ian Crabb as Group Chief Executive Officer in September, when Simon Embley, the former Group Chief Executive Officer stepped into the role of Deputy Chairman.

Simon's new responsibilities took into account the Board's desire to affect a smooth handover to Ian and to allow Simon to support Ian on the execution of LSL's existing strategy to continue delivering shareholder value as the market recovers. The Directors feel that the changes reflect the Board's desire to implement an orderly succession to a new Group Chief Executive Officer whilst retaining Simon's significant knowledge of the residential property market and, in particular, maintaining key client and industry relations. Further, the recommendation for the appointment of Ian took into account his experience in growing entrepreneurial businesses in both 'business to business' and 'business to consumer' markets.

During January 2014, Mark Pain stepped down from the Board and LSL appointed Bill Shannon as an independent Non Executive Director and Chairman of the Remuneration Committee. Bill is also a member of the Audit and Nominations Committees. Further details on all Board changes in are set out in this Corporate Governance Report (see pages 42 to 46) and all of the Directors are listed with their biographies LSL Board at pages 34 and 35 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.

At the date of this Report, all of the Non Executive Directors are independent of management. The current Non Executive Directors together have a range of experience covering strategy, estate agency, surveying, financial services, the residential housing sector, retail and marketing, operations, business services, entrepreneurial private and public companies, finance, customer and employee matters, corporate governance and commercial property.

When Roger Matthews was appointed Chairman he was deemed to be independent under the provisions of the Code. Since then he has also become a non executive chairman of MITIE Group plc and Pertemps Network Group Limited and he is also 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 2013 involved discussions between each Director and the Chairman, meetings of the Board and a meeting of the Non Executive Directors (including discussions without the Chairman present and chaired by the Senior Independent Non Executive Director, to appraise the Chairman's 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 will continue to review the composition of the Board and focus on the execution of the current strategy in a recovering housing market, as well as monitoring performance and governance matters.

LSL continues to recognise the benefits of gender diversity and the current Board composition includes one female Director, Helen Buck, who is an independent Non Executive Director. Whilst the Directors remain of the view that the setting of targets for the number of female directors on the Board is not necessary and that it will continue to appoint on merit, the Chairman ensures that all searches take into account diversity, including gender.

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 2013 the Board held eleven scheduled meetings (including an annual strategy meeting). 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 2014 the Board is scheduled to meet twelve times, including the annual strategy meeting and additional meetings will be held as required.

During 2013 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 2014.

Board and Committee Attendance 2013

Director	Board (including annual strategy meeting)	Audit Committee	Remuneration Committee	Nominations Committee
Helen Buck	11	-	-	-
Steve Cooke	11	-	-	-
Ian Crabb[1]	4	-	-	-
Simon Embley[2]	10	-	-	-
Adrian Gill	11	3	3	2
Roger Matthews	11	-	3	2
Mark Morris	11	3	3	2
David Newnes	11	-	-	-
Mark Pain	11	3	3	2

[1] Ian Crabb was appointed as Group Chief Executive Officer on 9th September 2013.

[2] Simon Embley was not present at one of the scheduled Board meetings during 2013. He received the papers and provided his comments and queries to the Chairman and the Group Chief Executive Officer for raising at the meeting.

Corporate Governance Report continued.

In accordance with LSL's Articles of Association, all of the Directors appointed since the previous AGM and circa one-third of the remaining Directors, including any Director who has not been elected or re-elected at either of the two preceding AGMs, are required to retire and seek election/re-election (as appropriate). Notwithstanding this, LSL has in accordance with best practice since 2012, chosen to adopt annual elections for all Directors and in accordance with this policy, all of the Directors will stand for election/re-election (as appropriate) at the forthcoming AGM.

The Board is primarily responsible for the overall management of the Group and for decisions on Group strategy, including approval of the Group's strategy, its annual business plans and budgets, the interim and full year financial statements and reports, any dividend proposals, the accounting policies, any major capital projects, any investments and disposals, its succession plans and the monitoring of financial performance against budget and forecast. In accordance with best practice, LSL has adopted a policy of Matters Reserved for the Board which is annually reviewed by the Board and any items not included within the policy (such as responsibility for implementing the Board's strategy and managing the business) are delegated to the Management Team.

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 interests (including human rights and ethical issues). LSL believes that CSR 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 (ESG) when making decisions. Further details of LSL's CSR objectives can be found in the CSR statement at pages 28 to 33 of this Report.

The Board has adopted principles of good boardroom practice which set out procedures on how Directors are given accurate, timely and clear information and how they can seek and obtain information or advice necessary for them to discharge their duties and these arrangements are reviewed annually as part of the 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 both annually and following the appointment of any new Director. 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: Nominations, Remuneration and Audit. 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 2013, the Board reviewed the Terms of Reference for each of the Committees. It is the intention that the Chairman of each of the Committees will attend the AGM to answer any questions.

Nominations Committee

Roger Matthews is the Chairman of the Nominations Committee and, as at the date of this Report the other members of the Committee are Adrian Gill, Mark Morris and Bill Shannon. During 2013, the Committee members were Roger Matthews, Adrian Gill, Mark Morris and Mark Pain. The Committee met twice in 2013 and the Group Chief Executive Officer, Group HR Director and Company Secretary also attended meetings and assisted the Nominations Committee in its deliberations during this period.

The duties of the Nominations Committee are governed by its Terms of Reference, which was updated on 1st January 2013 to reflect the Code 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.

By an amendment to the Nominations Committee's Terms of Reference, the Board has adopted the practice of annual election of all Directors.

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 2013, the Committee nominated Ian Crabb for appointment as Group Chief Executive Officer, Simon Embley as Deputy Chairman and Bill Shannon as an independent Non Executive Director.

The recommendations for the change in role for Simon Embley and succession to Ian Crabb as Group Chief Executive Officer followed a thorough succession planning and search process. Simon's new responsibilities took into account the Board's desire to affect a smooth handover to Ian and to allow Simon to support Ian on the execution of LSL's existing strategy to continue delivering shareholder value as the market recovers. The Directors feel that the changes reflect the Board's desire to implement an orderly succession to a new Group Chief Executive Officer whilst retaining Simon's significant knowledge of the residential property market and, in particular, maintaining key client and industry relations. Further, the recommendation for the appointment of Ian took into account his experience in growing entrepreneurial businesses in both 'business to business' and 'business to consumer' markets.

The recommendation for the appointment of Bill Shannon took into account his significant PLC board experience in strategy, operations, finance and governance in consumer, financial services, residential and commercial property sectors. The Committee utilised the services of an external search consultancy firm, Inzito LLP, in recommending the appointment of Ian Crabb and Bill Shannon. Inzito LLP has no other connection with the Group.

Following the appointment of Bill, amongst the Non Executive Directors, LSL now has expertise in strategy, estate agency, surveying, financial services, the residential housing sector, retail and marketing, operations, business services, entrepreneurial private and public companies, finance, customer and employee matters, and corporate governance.

LSL is committed to promoting diversity throughout 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. In 2012, a further study was undertaken to review gender progression which highlighted differences in career progression and in 2013 further research into the identification of barriers to gender diversity within the Group was commissioned. The results of this research found that within the Group, gender diversity diminishes with seniority. Whilst this finding is consistent with research conducted in other organisations, LSL is implementing recommendations to address the differences in career progression between genders within the Group. Further details of the study together with key performance indicators are set out in LSL's CSR statements on pages 28 to 33.

Remuneration Committee

During 2013 the Remuneration Committee was chaired by Mark Pain and at the date of this Report its Chairman is Bill Shannon, who joined the Committee in January 2014. Its other members are Adrian Gill, Roger Matthews and Mark Morris. The Committee met three times in the year and the Group Chief Executive Officer, Group HR Director and Company Secretary also attended meetings and assisted the Remuneration Committee in its deliberations during this period.

The duties of the Remuneration Committee are governed by its Terms of Reference, which were updated on 1st January 2013. The Remuneration Committee has responsibility for determining 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 52 of this Report and the Terms of Reference of the Remuneration Committee are available from the Company Secretary or LSL's website at **www.lslps.co.uk**.

The Remuneration Committee'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.

Details of any remuneration consultants engaged by the Remuneration Committee during the year are set out in the Directors' Remuneration Report on pages 52 to 68.

None of the current Remuneration Committee members have and nor did the 2013 Remuneration Committee members have 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.

Corporate Governance Report continued.

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.

Audit Committee

The Audit Committee is chaired by Mark Morris and at the date of this Report, its other members are Adrian Gill and Bill Shannon, who joined the Committee in January 2014. During 2013, Mark Pain was also a member of the Committee. The Board is satisfied that Mark Morris, the Committee Chairman, has recent and relevant financial experience as is required by the Code.

The Committee met on three occasions in 2013. 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 twice during 2013.

Further details of the duty and responsibilities of the Audit Committee are shown on pages 47 to 51 of this Report.

Shareholder Relations

LSL places a great deal of importance on communication with its stakeholders and is committed to establishing constructive relationships with investors and potential 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 strategy, performance and governance 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.

During the latter part of 2013, Roger Matthews consulted with a number of major Shareholders regarding the future composition of the Board and to discuss the appointment of Ian Crabb as Group Chief Executive Officer. In addition all of the Non Executive Directors, including the Chairman and the Senior Non Executive Independent Director, are offered the opportunity to attend meetings with all Shareholders as they require. If any Shareholder or any Shareholder representative groups would like to discuss any issues or concerns with the Non Executive Directors, they can be contacted through the Company Secretary's office (see Shareholder Information at page 139 of this Report for details).

With regard to individual Shareholders, the Board considers that the main forum for communication is at the AGM and all of the current 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.

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 40 of the Report of the Directors'.

The Corporate Governance Report is approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary
6th March 2014

Audit Committee Report

Dear Shareholder

I am pleased to report on the activities of the Audit Committee during the 2013 financial year, a year that has seen a number of regulatory changes which have reinforced the role of the Audit Committee, on behalf of the Board, in ensuring that the Annual Report, taken as a whole, is fair, balanced and understandable.

In this report I have detailed how the Audit Committee has discharged its responsibilities in relation to three areas highlighted being:

- addressing significant financial statement reporting issues;
- assessing external audit effectiveness; and,
- appointing the external auditor and safeguards on non-audit services.

Members of the Audit Committee have continued to take an active role understanding certain aspects of the business and the risks and challenges it faces, including participating in key discussions on areas of financial judgement, such as the estimation of the professional indemnity insurance provision and review of valuation controls.

These actions have allowed us to have an even greater input, for example in the design of the internal audit programme, and to develop greater awareness of the day-to-day challenges that the business faces and the potential consequences of such challenges.

Also set out below are details on the processes we have in place to safeguard the independence and objectivity of our relationship with the external auditor and the role played by Risk and Internal Audit to ensure we have effective control and risk management processes.

Mark Morris
Chairman of the Audit Committee
6th March 2014

Audit Committee Report continued.

Roles and Responsibility of the Audit Committee

The duties of the Audit Committee include:

- 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 Risk and 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;
- to keep under review the nature and extent of non audit services provided by the external auditors, taking into account LSL's Auditor Independence Policy; and
- to report to the Board on how it has discharged its responsibilities.

In carrying out its duties, the Audit Committee takes into account the requirements of the Listing Rules (together with any requirements issued by the FCA), the Code and the Guidance on Audit Committees issued by the FRC, together with any requirements of the Board, which are all incorporated into the Audit Committee's Terms of Reference by referral to them.

The Audit Committee has an established programme of work to ensure that each of its responsibilities is covered adequately during the year.

What the Audit Committee did in 2013:

The Audit Committee met three times since my last report, during which time we:

- reviewed the interim and year end results and preliminary announcement;
- received and considered, as part of the review of the interim and annual financial statements, reports from the external auditor in respect of their review of the interim results, the audit plan for the year and the results of the annual audit. These reports included the scope of the interim review and annual audit, the approach to be adopted by the auditor to address and conclude upon key estimates and other key audit areas, the basis on which the auditor assesses materiality, the terms of engagement for the auditor and an on-going assessment of the impact of future accounting developments on the Group;
- considered this Annual Report, including the Financial Statements in the context of fairness, balance and understandability to ensure that the Committee was in a position to report to the Board that the 2013 Report when taken as a whole is fair, balanced and understandable on the basis that the description of the business agrees with the Audit Committee's own understanding, the risks reflect the issues that concerned the Audit Committee, appropriate weight has been given to the 'good and bad' news, the discussion of performance properly reflects the 'story' of the year and that there is a clear and well-articulated link between all areas of disclosure;
- considered the effectiveness and independence of the external audit and recommended to the Board the re-appointment of Ernst & Young as external auditor;
- considered the effectiveness of internal audit and agreed the annual Risk and Internal Audit plan, including compliance with both internal standards and external regulatory requirements;
- received and considered regular reports from the internal audit team with regard to the control environment of the Group;
- considered the review of material business risks, including reviewing internal control processes used to identify and monitor principal risks and uncertainties. An update of the Group's risk register was presented to the Audit Committee for discussion at each meeting;
- reviewed the appropriateness of the systems and controls in place with regard to valuations carried out by the Surveying Division;
- reviewed the effectiveness of the Group's whistleblowing policy;
- reviewed the Audit Committee's composition and confirmed that there is sufficient expertise and resource for us to fulfil the Audit Committee's responsibilities effectively;
- reviewed the Audit Committee's Terms of Reference; and
- carried out an annual review of the Audit Committee's performance.

Significant issues considered in relation to the Financial Statements

During the year the Audit Committee, management and the external auditor considered and concluded on what the significant risks and issues were in relation to the Financial Statements and how these would be addressed. Areas of particular focus during the year have been:

Significant Financial Judgments and Financial Reporting for 2013	How the Audit Committee Addressed these Judgments
Appropriateness of the provision for professional indemnity claims	Given the materiality of the PI provision, the Board and Committee members receive monthly updates on the status of the PI provision which includes the status of any material claims and the number of new claims. In 2013, additional papers were provided to the Audit Committee to support the additional exceptional provision which was recorded at 31st December 2013 and members of the Management Team discussed the findings with the Audit Committee, where the key risks and underlying assumptions in the models were challenged and tested. The appropriateness of the PI provision at 31st December 2013 was discussed at length at the Audit Committee meetings held in November 2013 and February 2014, with both the Management Team and the external auditors, before the Financial Statements were recommended to the Board for approval.
The valuation of the Zoopla financial asset	As Zoopla's profitability has improved, the Group's stake in Zoopla has substantially increased in value during the year. Given Zoopla is a private company, the valuation of the investment is highly judgmental due to the liquidity of the shares. As at 31st December 2013, this risk was partially mitigated as there were a number of arms-length transactions which occurred at the end of November which provided an indication of what the fair value of the investment might be. The Management Team have provided the Audit Committee with a paper on the valuation of the Zoopla investment as compared to valuations of similar businesses. The key inputs to the valuation were discussed and considered at the February 2014 Audit Committee before the Financial Statements were recommended to the Board for approval.
Other Matters considered by the Committee	**How the Audit Committee Addressed these Judgments**
Going Concern	Management provided the Audit Committee with a paper on the ability of the Group to continue as a going concern. This paper considered the future profitability of the Group, forecast of future cash flows, banking covenants and the ability of the Group to re-finance any loans due to mature in the next eighteen months where necessary. The key judgments, assumptions and estimates underpinning this review were discussed and considered. The Audit Committee was able to conclude that the Group will remain a going concern for the foreseeable future.
Impairment of intangible and tangible assets	The Management Team provided the Audit Committee with a paper supporting the carrying value of the intangible and tangible assets in each cash generating unit of the Group. The key assumptions and estimates underpinning the model, including the discount rate used, were discussed and considered by the Audit Committee. The Management Team also provided a number of different scenarios where growth rates and discount rates were varied to demonstrate the robustness of the carrying value of the assets. Based on the work performed, the Audit Committee was able to conclude that no impairment was necessary to the intangible or tangible assets as at 31st December 2013.
Revenue recognition	Revenue recognition is considered to be material to the Group although the nature of the revenue recognised in the Group is not considered complex. LSL's Risk and Internal Audit Team performed financial control audits on all key subsidiaries in 2013 which included focus on the revenue cycle with findings reported to the Audit Committee for discussion.
Treatment of client accounts with regard to the Lettings business	The Lettings income of the Group has grown significantly, both organically and by acquisitions, resulting in an increase in the aggregate client account balance to £73.7m as at 31st December 2013. 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. The Group does have a responsibility to ensure that the money held in the client accounts is appropriate and if required, the Group would make good any shortfall. Given the size of these balances, the client accounts for each subsidiary are reconciled at least once a month or daily for larger subsidiaries. Risk and Internal Audit performed audits on the controls in each subsidiary over client accounts as part of the 2013 financial control audits and findings were reported to the Audit Committee. In addition, as required by ARLA, these accounts were audited externally in 2013.
Acquisition accounting including both the fair values of assets acquired and the treatment of associated contingent consideration	All significant acquisitions require Board approval and a paper highlighting the risks and benefits of proposed acquisitions is sent to the Board before any such acquisition is completed. Any material accounting issues are highlighted in this paper and where necessary the Audit Committee challenges the underlying assumptions made before any approval is given. External advice is sought to substantiate the accounting treatment of material issues where the substance of the transaction differs to that previously encountered by the Group to ensure that relevant accounting standards are adhered to. In 2013, the Board approved the acquisition of Lawlors.
Internal and financial control environment for new acquisitions	Typical Estate Agency acquisitions have been of businesses where the acquired management is incentivised to deliver significant growth while retaining a degree of independence from LSL. The Audit Committee has considered and kept under review the extent to which the LSL internal control framework needs to be adjusted and resourced in order to maintain the optimum degree of control over acquired businesses as the Group expands. This includes consideration of controls relating to individual businesses and also with regard to the overall group control environment as its size increases. In addition, the Audit Committee considered a post acquisition review of Marsh & Parsons.
Financial Services control environment and regulatory matters	LSL provides mortgage and pure protection products to consumers through its Estate Agency branches and intermediary networks. These activities are regulated by the FCA. The Audit Committee and the Board regularly reviews the appropriateness of the internal control environment relating to these parts of the business. This is achieved through a combination of engagements with senior internal Compliance personnel, Risk and Internal Audit and external specialists.

Audit Committee Report continued.

Appointment of External Auditor

The Audit Committee has not undertaken a tendering exercise in 2013. However, it has conducted a review of the auditor's effectiveness, independence and objectivity. In making its assessment of the effectiveness of the external audit, the Audit Committee reviewed the external audit findings and the Management Team's responses to these findings. In addition, discussions were held with the Risk and Internal Audit Team and Management Teams with regard to the effectiveness of the audit process.

Based on the above the Audit Committee, on behalf of the Directors, concluded that Ernst & Young is effective, independent and objective. Based on this conclusion, the Directors will recommend to Shareholders the reappointment of Ernst & Young as auditor at the forthcoming AGM and seek authority for the Directors to agree the external auditor's remuneration.

Ernst & Young have acted as LSL's external auditors since 2004 with a tendering exercise undertaken in 2007. Going forward, LSL has decided to adopted the FRC's recommendations on audit firm tendering taking place at least once every ten years and has amended the Audit Committee's Terms of Reference to reflect this.

Accordingly, LSL plans to conduct an audit firm tendering exercise prior to 2018 when the current audit partner is expected to complete his five year term. The purpose of the audit tendering exercise will be to benchmark the quality and effectiveness of the services provided by the incumbent auditor against those offered by other firms, with the aim of obtaining the best quality and most effective audit.

Auditor Independence Policy

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 (Auditor Independence Policy). The Audit Committee is kept regularly informed of the fees paid to the auditor in all capacities.

Under the terms of the Auditor Independence Policy, which takes into account the relevant ethical guidance regarding the provision of non-audit services by external audit firms, the following categories of fee need pre approval from 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 is likely to exceed the audit fee for the year.

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

A copy of the Auditor Independence Policy is available at LSL's website: **www.lslps.co.uk**.

The split between audit and non-audit fees for 2013 appears at Note 9 to the Financial Statements. The non-audit fees amount to £68,000 (2012: £79,000) compared with audit fees (including those covering the review of the half yearly report) of £299,000 (2012: £262,000). This is line with the provisions of the Auditor Independence Policy. The non-audit fees for the current and prior year relate to taxation services.

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 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 has continually evolved since LSL was listed on the London Stock Exchange in 2006 and is regularly reviewed by the Board and the Audit Committee and continues to be 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. Risk assessment
2. Control environment
3. Control activities
4. Monitoring
5. Information and communication

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

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 latest forecast, 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 2013 the Executive Directors have continually identified, evaluated and managed the principal risks and uncertainties 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 2013 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, operational and compliance controls. In addition, LSL's Risk and 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 Strategic Report on pages 26 and 27.

The Audit Committee Report is approved by and signed on behalf of the Board of Directors

Mark Morris
Chairman of the Audit Committee
6th March 2014

Directors' Remuneration Report

Annual Statement

Dear Shareholder

This report sets out the remuneration policy for the Directors of LSL and discloses amounts paid to them over the course of the financial year ended 2013. In line with the UK Government's revised legislation regarding the reporting of directors' remuneration published in 2013 by the Department for Business, Innovation and Skills, the Remuneration Committee has adopted the changes as required. This report has therefore been divided into the following three sections:

- **Annual Statement**: summarising and explaining the major decisions on, and any substantial changes to the Directors' remuneration in the year;
- **Directors' Remuneration Policy**: setting out the basis of remuneration for the Directors from 1st January 2014, together with how it will be implemented in 2014; and
- **Annual Report on Remuneration**: setting out the remuneration earned by the Directors in the year ended 31st December 2013.

The Directors' Remuneration Policy will be subject to a binding Shareholder vote and the Annual Report on Remuneration will be subject to an advisory Shareholder vote at the AGM. In future, the Directors' Remuneration Policy (referred to in this Directors' Remuneration Report as the Policy) will be subject to a binding vote every three years (sooner if changes are made to the Policy) and the Annual Report on Remuneration will be subject to an annual Shareholder advisory vote.

Summary of LSL's performance in the year

2013 has been a good year for LSL. As a result, LSL exceeded budget, resulting in maximum bonus payments of 80% for the element of the bonus based on Group Underlying Operating Profit. The 20% bonus element in respect of non financial measures was not achieved in its entirety and the Remuneration Committee recommended a reduced bonus of 11.7% be payable for this element of the bonus. Bonuses for the Executive Directors are capped at 100% of salary. Further, reflecting the challenging performance conditions set at the time of grant, the long-term incentive awards granted in 2011 (JSOP), with performance conditions based on the three years to 31st December 2013, will not vest. For details of the 2013 bonus arrangements please see page 61 of this Directors' Remuneration Report.

Summary of key decisions in the year

The Remuneration Committee continually reviews the senior executive remuneration policy to ensure it promotes the attraction, motivation and retention of the high quality executives who have been key to delivering the Company's strategy in the past and who will be key to delivering sustainable earnings growth and shareholder return in the future. The Committee's most recent conclusions are that the existing senior executive remuneration policy remains appropriate and should continue to operate for 2014. Specifically, the Remuneration Committee felt that:

- while base salary levels were considered to be broadly appropriate, a number of adjustments (up and down) should be made to reflect certain changes in responsibility levels. Details of these base salary adjustments are set out at the start of the Annual Report on Remuneration;
- the structure and quantum of the annual bonus work well and shall remain unchanged for 2014; and
- the long-term incentive grant policy, whereby nil-cost awards are granted annually up to a maximum normal limit of 100% of salary with vesting based on Adjusted Basic Earnings Per Share (70%) and relative Total Shareholder Return (TSR) (30%) performance conditions and continued service provides a strong alignment between the senior executive team and shareholders. The long-term incentive plan rules apply a limit to awards, which may be granted in excess of the normal 100% of salary in exceptional circumstances. The Committee felt it appropriate that this maximum exceptional limit will continue to operate. Therefore, from 2014 onwards, the long-term incentive policy will operate both a normal maximum limit (100% of basic salary) and an exceptional limit (200% of basic salary).

In addition to the above, the Remuneration Committee has also dealt with the recruitment of a new Group Chief Executive Officer during 2013, with the former Group Chief Executive Officer moving to a new role of Deputy Chairman. Further details of their new remuneration packages are described in the Annual Report on Remuneration overleaf.

In conclusion, the Remuneration Committee believes that the current remuneration policy continues to incentivise the delivery of strong yet sustainable financial results and the creation of Shareholder value.

Bill Shannon
Chairman of the Remuneration Committee
6th March 2014

Directors' Remuneration Policy

Introduction and Overview

The Policy has been developed taking into account the principles of the Code. The Board recognises that the Directors' remuneration is of legitimate concern to Shareholders and is committed to following current best practice. The Group operates within a competitive environment; performance depends on the individual contributions of the Directors and employees and LSL believes in rewarding vision and innovation.

When setting the Executive Directors' remuneration, the Remuneration Committee endeavours to ensure that all Executive Directors are provided with appropriate profit related pay and an element of pay relates to non-financial performance measures to encourage enhanced performance and that they are, in a fair and responsible manner, rewarded for their individual contributions to the success of the Group.

The policy of the Board is to provide executive remuneration packages designed to attract, motivate and retain Executive Directors of the calibre necessary to maintain and improve the Group's profitability and effectiveness and to reward them for enhancing shareholder value and return. To do this, it aims to provide a market competitive (but not excessive) package of pay and benefits. The Group's general policy is to set basic salaries around mid-market levels and set performance pay levels which are at the upper quartile of market practice but with stretching goals that accord with the Group's general policy of seeking to make bonuses self-financing wherever possible. Remuneration packages will also reflect the Executive Director's responsibilities and contain incentives to deliver the Group's objectives.

Consideration of Shareholder Views

The Remuneration Committee considers Shareholder feedback received in relation to LSL's Annual Report and Accounts, including the Directors' Remuneration Report each year at a meeting following publication of the Report. This feedback, plus any additional feedback received during any meetings from time to time, is then considered as part of the Group's annual review of the remuneration policy. In addition, the Remuneration Committee will seek to engage directly with institutional Shareholders and their representative bodies should any material changes be made to the remuneration policy. Details of votes cast for and against the resolution to approve last year's Directors' Remuneration Report and any matters discussed with Shareholders during the year are set out in the Annual Report on Remuneration. For further details of the way in which LSL communicates with its Shareholders, please see the Shareholder Relations section of the Corporate Governance Report.

Consideration of Employment Conditions Elsewhere in the Group

The Remuneration Committee considers the general basic salary increase for the broader UK employee population when determining the annual salary increases for the Executive Directors. The Remuneration Committee did not consult with other employees with regard to remuneration of the Executive Directors.

Summary of Remuneration Policy

Element	How component supports corporate strategy	Operation	Maximum	Performance metrics and period
Basic salary	• Reflects the value of the individual and their role. • Reflects skills and experience over time. • Provides an appropriate level of basic fixed income avoiding excessive risk arising from over reliance on variable income.	• Reviewed annually, normally effective 1st January. • Takes periodic account against companies with similar characteristics and sector comparators.	• There is no prescribed maximum annual basic salary increase. • The Remuneration Committee is guided by the general increase for the broader employee population but may decide to award a lower increase for Executive Directors or indeed exceed this to recognise, for example, an increase in the scale, scope or responsibility of the role and/or to take account of relevant market movements. • Current salary levels are set out in the Annual Report on Remuneration.	• Not applicable.
Annual bonus	• Incentivises annual delivery of financial and strategic goals. • Maximum bonus only payable for achieving demanding targets.	• Targets reviewed annually. • Bonus level is determined by the Remuneration Committee after the end of the relevant financial year, subject to performance against targets set at the start of the year. • Paid in cash. • Not pensionable. • Bonus is subject to a clawback mechanism.	• Maximum: 100% of salary.	• Performance period: one year. • Performance metrics: Group Underlying Operating Profit (majority); and • Non Financial Measures (minority).
Long-term incentive plan (approved by Shareholders in 2006)	• Aligned to main financial measures of delivering sustainable profit growth and shareholder return.	• Awards of nil-cost or conditional shares are made annually with vesting dependent on the achievement of performance conditions over the subsequent three years. • The Remuneration Committee reviews the quantum of awards annually and monitors the continuing suitability of the performance measures. • LTIP award is subject to a clawback mechanism.	• 100% of salary or grants up to 200% of salary may be made in exceptional circumstances.	• Performance period: normally three years. • Adjusted Basic EPS growth targets; and/or • Relative TSR targets. • 25% vests at threshold (35% for TSR) increasing to 100% at maximum.
All-employee sharesave (SAYE), SIP (BAYE) and CSOP	• Encourages long-term shareholding in LSL.	• Invitations made by the Committee under the approved SAYE, SIP (BAYE) and CSOP.	• As per HMRC limits.	None.
Share ownership	• To provide alignment between Executive Directors and Shareholders.	• 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 from date of appointment if later) through the retention of vested share awards or through open market purchases.	• 100% of salary.	None.
Benefits	• Provides insured benefits to support the individual and their family during periods of ill health, accidents or death. • Access to car allowance to facilitate effective travel.	• Includes car allowance, life assurance and private medical insurance. Other benefits may be provided where appropriate.	• At cost.	None.
Pension	• Provides modest retirement benefits. • Opportunity for Executive Directors to contribute to their own retirement plan.	• Defined contribution. • HMRC approved arrangement.	• New employees are offered a pension in accordance with auto enrolment minimums. The Remuneration Committee may use its discretion on the appointment of new executive directors to recommend a 5% match of basic salary.	None.
Non Executive Directors	• To provide fees reflecting time commitments and responsibilities of each role, in line with those provided by similarly sized companies.	• Cash fee paid on a monthly basis. • Fees are normally reviewed from time to time.	• There is no prescribed maximum annual fee increase. • The Remuneration Committee is guided by the general increase for the broader employee population scale, scope or responsibility of the role and/or to take account of relevant market movements. • Current fee levels are set out in the Annual Report on Remuneration.	None.

Notes to the Remuneration Policy Summary:

1. A description of how LSL intends to implement the Policy set out in this table from the 2014 AGM is set out in the Annual Report on Remuneration.
2. The following differences exist between LSL's policy for the remuneration of Executive Directors as set out above and its approach to the payment of Group employees generally:

a) A lower level of maximum annual bonus (or no bonus) opportunity may apply to employees other than the Executive Directors.

b) Participation in the long term incentive plan (LTIP) is limited to the Executive Directors and certain selected senior managers. All employees are eligible to participate in LSL's sharesaves scheme (SAYE), SIP (BAYE) and/or CSOPs schemes, upon invitation.

c) Benefits that are offered to other employees generally comprise of paid holidays and voluntary benefits such as childcare vouchers, a health cash plan, life assurance and, for more senior managers, private medical insurance.

d) LSL offers a stakeholder pension scheme with employee and employer contributions for new members calculated at a level which is compliant with automatic enrolment minimums (increasing over time as required by legislation) and based on a band of qualifying earnings which may vary month by month as variable pay fluctuates.

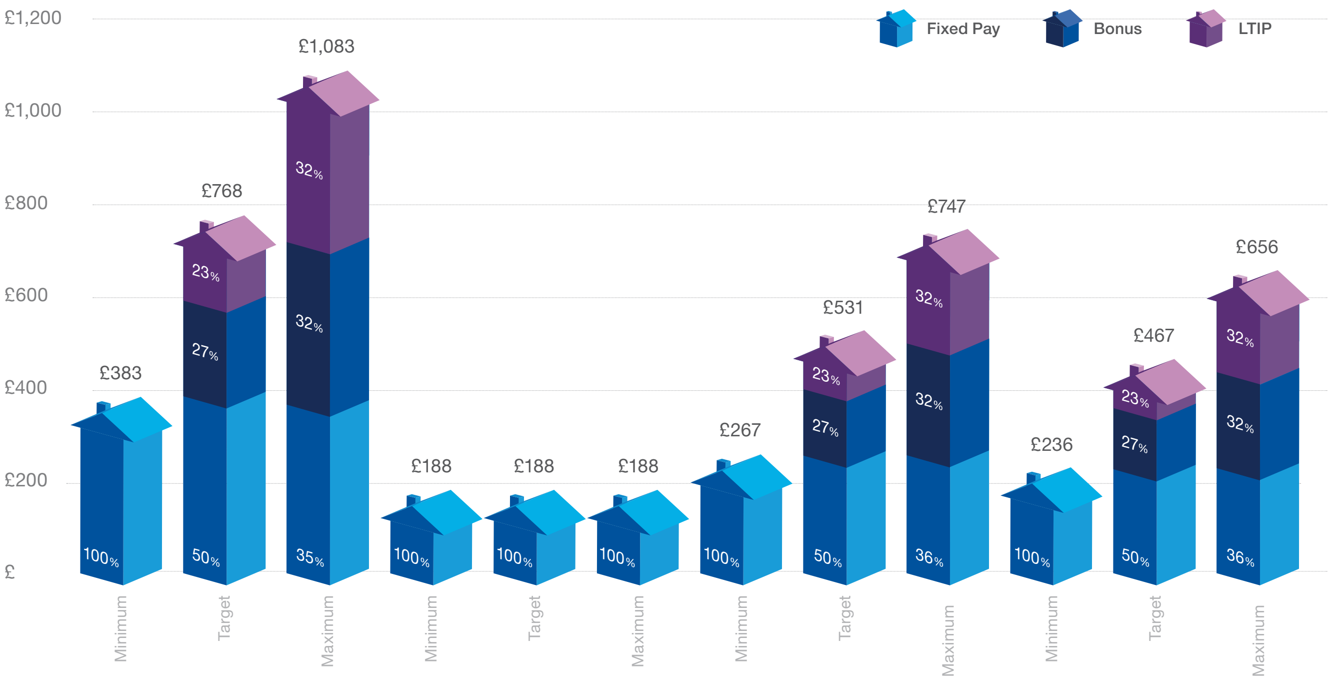
In general, these differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals, together with the fact that remuneration of the Executive Directors and senior managers typically has a greater emphasis on performance-related pay.

3. The choice of the performance metrics applicable to the annual bonus scheme reflect the Remuneration Committee's belief that any incentive compensation should be appropriately challenging and tied to both the delivery of profit and non financial measures.
4. The TSR and EPS performance conditions applicable to the LTIP were selected by the Remuneration Committee on the basis that they reward the delivery of long-term returns to Shareholders and the Group's financial growth, and they are consistent with LSL's objective of delivering superior levels of long-term value to Shareholders. The TSR performance condition is monitored on the Remuneration Committee's behalf by NBS whilst the Group's EPS growth is derived from the audited financial statements.
5. The Remuneration Committee operates the LTIP in accordance with the plan rules and the Listing Rules of the FCA and the Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of the plan.
6. While LTIP awards currently vest after three years subject to continued service and performance targets, the Remuneration Committee will consider developments in best practice when setting future long-term incentive grant policies.
7. The all-employee sharesave (SAYE), SIP (BAYE) and CSOP schemes do not have performance conditions.
8. For the avoidance of doubt, in approving this Directors' Remuneration Policy, authority is given to LSL to honour any commitments entered into with current or former Directors (such as the payment of a pension, payment of last year's annual bonus or the vesting/exercise of share awards granted in the past) that have been disclosed in previous remuneration reports. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

Directors' Remuneration Report continued.

Reward Scenarios (Illustration of Application of Remuneration Policy)

The charts below show how the composition of each of the Executive Directors' remuneration packages varies at different levels of performance under the Policy set out above, as a percentage of total remuneration opportunity and as a total value:



Notes to the Reward Scenarios:

1. The minimum performance scenario comprises the fixed elements of remuneration only, including:

a) salary, as per the Policy for 2014;

b) pension, as per the Policy for 2014; and

c) estimated benefits.

2. The on-target level of bonus is taken to be 60% of the maximum bonus opportunity (100% of salary), and the on-target level of LTIP vesting is assumed to be 50% of the face value assuming a normal grant level (100% of salary). These values are included in addition to the components/values of minimum remuneration.

3. Maximum remuneration assumes full bonus payout (100% of salary) and the full face value of the LTIP (100% of salary), in addition to fixed components of remuneration.

4. No share price growth has been factored into the calculations.

Approach to Recruitment and Promotions

The remuneration package for a new Executive Director would be set in accordance with the terms of LSL's prevailing approved remuneration policy at the time of appointment and take into account the skills and experience of the individual, the market rate for a candidate of that experience and the importance of securing the relevant individual.

Salary would be provided at such a level as required to attract the most appropriate candidate and may be set initially at a below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance has been proven and sustained. The annual bonus potential would be limited to 100% of salary and grants under the LTIP would be limited to 100% of salary or 200% of salary in exceptional circumstances. Further, in exceptional circumstances the Remuneration Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an individual leaving a previous employer. It would seek to ensure, where possible, that these awards would be consistent with any awards forfeited in terms of vesting periods, expected value and performance conditions.

For an internal candidate being appointed as an Executive Director appointment, any variable pay element awarded in respect of the prior role may be allowed to pay out according to its terms. In addition, any other on-going remuneration obligations existing prior to appointment may continue, provided that they are put to Shareholders for approval at the earliest opportunity.

For external and internal candidate appointments, the Remuneration Committee may agree that LSL will meet certain relocation and/or incidental expenses as appropriate.

In exceptional circumstances the Remuneration Committee may also agree, on recruitment of a new Executive Director, a notice period in excess of nine months but with the intention to reduce this to nine months over a specified period.

Service Contracts for Executive Directors

The service contracts of the Executive Directors are not fixed term and are terminable by either LSL or the Executive Director on the following bases:

Director	Commencement of Current Service Contract	Notice Period from Company
Steve Cooke	1st July 2010	9 months
Ian Crabb	9th September 2013	9 months
Simon Embley	15th July 2004	9 months
David Newnes	1st June 2010	9 months

At the Remuneration Committee's recommendation and the Board's discretion early termination of an Executive Director's service contract can be undertaken by way of payment of salary and benefits in lieu of the required notice period. A summary of the main contractual terms surrounding termination are set out below:

Provision	Detailed Terms
Notice Period	9 months
Termination Payment	Payment in lieu of notice based on basic salary, fixed benefits and pension
Remuneration entitlements	A bonus may be payable (pro rated where relevant) and outstanding share awards may vest (see below)
Change of control	No Executive Director's service contract contains additional provisions in respect of change of control

At the Remuneration Committee's recommendation and the Board's discretion early termination of a service contract can be undertaken by way of payment of nine months' salary and benefits. An annual bonus may be payable with respect to the period of the financial year served although it will be pro-rated for time and paid at the normal payout date.

Any share-based entitlements granted to an Executive Director under LSL's share plans will be determined based on the relevant plan rules. However, in certain prescribed circumstances under the LTIP rules, such as death, injury, disability, redundancy, retirement or cessation by reason of the employing company/business ceasing to be a member of the Group, or other circumstances at the discretion of the Remuneration Committee, a "good leaver" status may be applied.

In exceptional circumstances for good leavers, all or part of unvested LTIP awards may vest at the date of cessation of employment. In all other circumstances the awards will vest at the original specified vesting date, unless specifically determined by the Remuneration Committee that the award(s) for an individual will lapse. In exercising its discretion to the extent to which and when an award shall vest the Remuneration Committee will, under the LTIP rules, take into account:

1. the progress made towards meeting the performance conditions;
2. the extent to which it considers the performance condition would have been satisfied by the end of the vesting period;
3. the proportion of the vesting period elapsed; and
4. any other factors which it considers to be relevant.

The Board permits Executive Directors to accept appropriate outside commercial non executive director appointments provided that the aggregate commitment is compatible with their duties as an Executive Director. The Executive Directors concerned may (subject to Board approval) retain fees paid for these services. Other than Simon Embley's appointment to a small estate management company for which no remuneration is paid, during 2013, none of the Executive Directors held any non executive directorships of any other companies other than to represent the minority interests of the Group or to participate in representative trade bodies.

Directors' Remuneration Report continued.

Non Executive Directors

The Group's policy is to appoint Non Executive Directors to the Board with a breadth of skills and experience that is relevant to the Group's business. Appointments are made by the Board upon the recommendations and advice from the Nominations Committee.

Non Executive Directors, including the Chairman, have letters of appointment which set out their duties and responsibilities. The Non Executive Directors and Chairman are not eligible to participate in incentive arrangements or receive pension provision. The following table shows details of the terms of appointment for the Non Executive Directors:

Director	Date Original Term Commenced	Date Current Term Commenced	Expected Expiry Date of Current Term
Helen Buck	1st December 2011		30th November 2014
Adrian Gill	10th September 2012		9th September 2015
Roger Matthews	21st November 2006	21st November 2012	20th November 2015
Mark Morris	21st November 2006	21st November 2012	20th November 2015
Bill Shannon	7th January 2014		6th January 2017

Annual Report on Remuneration

Implementation of the Remuneration Policy for the year ending 31st December 2013

This section of the Directors' Remuneration Report sets out how the remuneration policy will be implemented for the year ending 31st December 2014 and how the policy was implemented for the year ended 31st December 2013.

Basic Salary

Executive Directors' basic salaries are reviewed annually by the Remuneration 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. Basic salary levels as at 1st January 2014 and 2013 for the Executive Directors are set out below:

Director	Note	Role	From 1st January 2014 (£)	From 1st January 2013 (or date of appointment) (£)
Steve Cooke	1	Group Finance Director	240,000	226,600
Ian Crabb	2	Group Chief Executive Officer	350,000	350,000
Simon Embley	3	Group Deputy Chairman	150,000	257,500
David Newnes	4	Executive Director	210,000	175,000

Notes:

1. Following a review of Steve Cooke's role and responsibility levels and his total remuneration positioning against the market, the Committee awarded a 6% increase in his base salary with effect from 1st January 2014.
2. Ian Crabb joined on 9th September 2013 with a salary of £350,000 and he did not receive any increase with effect from 1st January 2014.
3. Simon Embley was Chief Executive and moved to Deputy Chairman on 9th September 2013 with a reduced salary of £150,000 to reflect the change in the role (his salary from 1st January 2013 was £257,500).
4. David Newnes was awarded a basic salary increase of 20% to reflect the significant change in his responsibility levels during the year, which in part, are as a result of the changes to the Board which took place during 2013. While the Remuneration Committee is aware that this increase is significant in the context of general salary inflation, the increase is considered appropriate in light of his revised role and value of his total package which was below market (see details of pension provision and incentive pay below).

Annual Bonus

Annual Bonus Payments 2013 – audited

Set out in the table below is a summary of the Executive Directors' bonus scheme for 2013:

Bonus Element	Targets for 2013	Performance against targets for 2013	Bonus Achieved for 2013
Group Underlying Operating Profit 80% of basic salary	Sliding scale from threshold of £33m of this part is payable increasing pro rata to £37m (100%) of this part is payable.	The top threshold was achieved and attracts a bonus of 80%.	91.7%
Non Financial Measures 20% of basic salary	Three targets aligned to the longer term goals of the group.	A bonus of 11.7% was awarded with regard to these measures.	

LSL has not disclosed specific targets for (and the relative weighting within the 20%) or actual outcomes for 2013 non-financial measures as they are considered to be commercially sensitive, although the Remuneration Committee is satisfied that they were demanding and required performance significantly better than budget for full payout.

Annual Bonus Payments 2014

The Remuneration Committee will operate an annual bonus plan for Executive Directors (excluding the Deputy Chairman who will not participate) during 2014 in line with that operated in 2013. The maximum bonus continues to be capped at 100% of base salary.

For 2014, the structure of the annual bonus will remain broadly similar to 2013 with sliding scale performance targets based on LSL's budgeted Group Underlying Operating Profit (after the payment of bonuses) for 80% of the potential with the remaining 20% of the potential based on challenging non-financial performance. In 2013, LSL exceeded budget in excess of 15% and this resulted in maximum bonus payments to the Executive Directors, whose bonuses are capped at 100% of salary.

LSL has not disclosed specific targets (and the relative weighting within the 20%) for 2014 non financial measures as they are considered to be commercially sensitive, although the Remuneration Committee is satisfied that they were demanding and required performance significantly better than budget for full payout.

Long-Term Incentive Plan

The LTIP continues to be LSL's primary long-term incentive. Awards to be granted in 2014 to the Executive Director will be made over shares worth 100% of salary (excluding the Deputy Chairman who will not participate).

Awards will be subject to a range of normalised earnings per share growth targets (70% of an award) and a total shareholder return (**TSR**) condition (for 30% of an award), each applying to separate parts of an award and measured over a period of three years from the date of grant as follows:

1. 25% of the EPS part of the award will vest for Adjusted Basic EPS growth of 12.5% p.a. increasing pro-rata to full vesting of this part of the award for Adjusted Basic EPS growth of 20% p.a for the three financial years preceding the vesting date of the award.
2. 35% of the TSR part of the award will vest if LSL's TSR for the three years from date of grant is equal to the TSR of the median company increasing pro-rata to full vesting of this part of the award for top quartile performance as measured against the constituents of the FTSE 250 (excluding investment trusts). In addition to the TSR performance condition, the Remuneration Committee must also be satisfied that there has been an improvement in LSL's underlying financial performance.

Benefits

Taxable benefits for the Executive Directors will continue to include a car allowance, life assurance and private medical insurance. Benefits in kind are not pensionable and are not taken into account when determining basic salary for performance-related remuneration.

Pension

The Executive Directors are members of a stakeholder pension scheme. LSL matches Executive Directors' contributions of up to 5% of base salary.

Non Executive Directors

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 Remuneration 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. A summary of current fees is as follows:

Directors' Remuneration Report continued.

Director	2014 (£)	2013 (£)
Helen Buck	40,000	40,000
Adrian Gill	40,000	40,000
Roger Matthews	100,000	100,000
Mark Morris[1]	47,000	47,000
Mark Pain[2]	-	45,000
Bill Shannon[3]	45,000	-

Notes:

[1] Mark Morris' fee includes additional sums for his role as the Senior Non Executive Independent Director (£2,000) and as Chairman of the Audit Committee (£5,000).

[2] Mark Pain's fee includes an additional sum for his role as Chairman of the Remuneration Committee (£5,000). Mark Pain retired from the Board on 7th January 2014.

[3] Bill Shannon's fee includes an additional sum for his role as Chairman of the Remuneration Committee (£5,000). Bill Shannon joined the Board on 7th January 2014.

Audited Information

Directors' Remuneration

The Remuneration of the Directors for 2013 was as follows:

		Basic salary or fees £	Benefits[7] £	Pension contributions £	Annual bonus[8] £	Gain on share Awards[9] £	Total £
Chairman							
Roger Matthews	2013	100,000	-	-	-	-	100,000
	2012	100,000	-	-	-	-	100,000
Executive Directors							
Steve Cooke	2013	226,600	16,572	11,330	207,717	-	462,219
	2012	220,000	11,635	11,000	132,000	162,536	537,171
Ian Crabb[1]	2013	109,035	4,654	5,833	-	-	119,522
	2012	-	-	-	-	-	-
Simon Embley[2]	2013	239,583	29,682	11,979	219,618	-	500,862
	2012	250,000	25,969	12,500	150,000	86,549	525,018
David Newnes	2013	175,000	14,233	8,493	160,417	-	358,143
	2012	140,000	9,106	7,000	104,000	48,491	308,597
Alison Traversoni[3]	2013	-	-	-	-	-	-
	2012	140,000	11,042	7,000	56,000	-	214,042
Non Executive Directors							
Helen Buck	2013	40,000	-	-	-	-	40,000
	2012	40,000	-	-	-	-	40,000
Adrian Gill[4]	2013	40,000	-	-	-	-	40,000
	2012	18,196	-	-	-	-	18,196
Paul Latham[5]	2013	-	-	-	-	-	-
	2012	27,750	-	-	-	-	27,750
Mark Morris	2013	46,667	-	-	-	-	46,667
	2012	45,000	-	-	-	-	45,000
Mark Pain[6]	2013	44,667	-	-	-	-	44,667
	2012	43,000	-	-	-	-	43,000
Total	2013	1,021,552	65,141	37,635	587,752	-	1,712,080
	2012	1,023,946	57,752	37,500	442,000	297,576	1,858,774

Notes:

1. Ian Crabb was appointed as Group Chief Executive Officer on 9th September 2013.
2. Simon Embley moved from Group Chief Executive Officer to Deputy Chairman on 9th September 2013. Simon's bonus for 2013 was calculated on a pro rata basis to reflect his lower salary from 1st November 2013.
3. Alison Traversoni retired from the Board on 31st December 2012.
4. Adrian Gill was appointed to the Board on 10th September 2012. The 2012 Fee includes £5,889 paid in respect of consultancy services to the Estate Agency Division. There were no additional consultancy fees in 2013.
5. Paul Latham retired from the Board on 1st October 2012. The fee includes £5,000 paid in respect of consultancy services to e.surv.
6. Mark Pain retired from the Board on 7th January 2014.
7. "Benefits" refers to benefits in kind, which excludes pension provision and is comprised of private medical cover and company car. Further in respect of Simon Embley, it includes a taxable relocation allowance of £15,000.
8. In respect of the annual bonus amounts, LSL exceeded budget in excess of 15% and this resulted in maximum bonus payments for the Group Underlying Operating Profit element of the scheme to the Executive Board, whose total bonuses were capped at 100% of salary. See table above at page 61 for a summary of the 2013 bonus payments.
9. The share award values for 2013 presented in the table above have been based on the 2011 JSOP award which is due to vest in 2014 based on performance for the three years ended 31st December 2013 are set out below:

Directors' Remuneration Report continued.

2011 JSOP Awards:

Director	Date of grant	Expected vesting date	Shares under award	Pre-tax gain per share[1]	Expected vesting % in 2014[2]	Estimated pre-tax gain[3]
Steve Cooke	31st March 2011	30th March 2014	**89,613**	**£1.92**	**0%**	–
Simon Embley	31st March 2011	30th March 2014	**203,665**	**£1.92**	**0%**	–
David Newnes	31st March 2011	30th March 2014	**57,026**	**£1.92**	**0%**	–

Notes:

[1] Based on the share price at 3 month average share price to 31st December 2013 (£4.37) less the effective exercise price (£2.45).

[2] Actual EPS growth for the three years ended 31st December 2013 was 6.6% compared to a minimum threshold of 10% and so no options will vest.

[3] Based on shares under award x pre-tax gain per share x expected vesting %.

Comparative share award numbers for 2012 (2010 JSOP awards and 2010 CSOP awards) are based on the following:

2010 JSOP Awards:

Director	Date of grant	vesting date	Shares under award	Pre-tax gain per share[1]	vesting % in 2013[2]	Pre-tax gain[3]
Steve Cooke	24th August 2010	23rd August 2013	**70,764**	**£1.99**	**100%**	**£137,105**
Simon Embley	1st June 2010	31st May 2013	**167,857**	**£0.85**	**50%**	**£71,549**
David Newnes	1st June 2010	31st May 2013	**39,286**	**£0.85**	**100%**	**£33,491**

Notes:

[1] Based on the share price at the vesting date (£3.70 for the June 2010 awards and £4.67 for the August 2010 awards) less the effective exercise price (£2.85 for the June 2010 awards and £2.63 for the August 2010 awards).

[2] EPS growth for the three years ended 31st December 2012 was 10%. For Steve Cooke and David Newnes, 100% of the share options grant vest if EPS was at least 10%. For Simon Embley 50% vest at this growth rate.

[3] Based on shares under award x pre-tax gain per share x expected vesting %.

2010 CSOP Awards:

Director	Date of grant	Vesting date	Shares under award	Pre-tax gain per share[1]	vesting % in 2014[2]	Pre-tax gain[3]
Steve Cooke	24th August 2010	23rd August 2013	**11,870**	**£2.14**	**100%**	**£25,431**
Simon Embley	11th June 2010	31st May 2013	**12,500**	**£1.20**	**100%**	**£15,000**
David Newnes	11th June 2010	31st May 2013	**12,500**	**£1.20**	**100%**	**£15,000**

Notes:

[1] Based on the share price at the vesting date (£3.60 for the June 2010 awards and £4.67 for the August 2010 awards) less the exercise price (£2.40 for the June 2010 awards and £2.53 for the August 2010 awards).

[2] EPS growth for the three years ended 31st December 2012 was 10% and so 100% of the award vested.

[3] Based on shares under award x pre-tax gain per share x expected vesting %.

Share Awards Granted During 2013

Details of LTIP awards granted in 2013 are as follows:

Director	Scheme	Date of grant	Basis of award (% of salary)	Face value at grant date[1] £'000	vesting at threshold	vesting at maximum	Performance period
Steve Cooke	LTIP (nil cost options)	2nd April 2013	**100%**	**254,546**	25% (EPS) 35% (TSR)	100%	TSR: three years from grant date EPS: 3 years to 31st December 2015
Ian Crabb		23rd September 2013	**100%**	**352,946**			
Simon Embley		2nd April 2013	**100%**	**289,257**			
David Newnes		2nd April 2013	**100%**	**196,582**			

Notes:

[1] Based on the number of shares granted x the share price at grant date (£3.37 for April 2013 awards and £4.79 for September 2013 awards). The number of shares granted was based on the price of £3.00 for April 2013 awards and £4.75 for the September 2013 awards).

For awards presented above:

[1] For 70% of awards: 25% of this part of an award will vest for Adjusted Basic EPS growth of 7% p.a. increasing pro-rata to 100% of this part of an award vesting for Adjusted Basic EPS growth of 10% p.a. for the three year ending 31st December 2015. There is no vesting for Adjusted Basic EPS growth less than 7% p.a.

[2] For 30% of awards: 35% of this part of an award will vest for a median TSR for the three years from date of grant, increasing to 100% vesting of this part of an award for an upper quartile TSR, measured against the FTSE 250 (excluding investment trusts). For the TSR part of an award to vest, the Remuneration Committee must also be satisfied that there has been an improvement in LSL's underlying financial performance.

Payments to Past Directors

There were no payments made during the year to past Directors save that during 2013 Alison Traversoni was paid £56,000 which related to her bonus for 2012. This payment was disclosed in LSL Annual Report and Accounts 2012 which is available at **www.lslps.co.uk**.

Payments for Loss of Office

No payments were made to past Directors relating to loss of office during the year ended 31st December 2013.

Directors' Remuneration Report continued.

Outstanding Share Awards

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

Director	Award type	Date of grant	Share price on grant	Exercise price	As at 1st January 2013	Awards granted	Awards lapsed	Awards exercised	Awards vested	As at 31st December 2013	Exercise period
Steve Cooke	JSOP	24th August 2010	248.75p	280p	70,764	–	–	(70,764)	–	–	24th August 2013 to 24th August 2020
	JSOP[1]	31st March 2011	245.00p	280p	89,613	–	–	–	–	89,613	31st March 2014 to 31st March 2021
	CSOP	24th August 2010	248.75p	252p	11,870	–	–	(11,870)	–	–	24th August 2013 to 24th August 2020
	SAYE	5th April 2011	245.00p	257p	3,502	–	–	–	–	3,502	5th April 2014 to 5th October 2014
	LTIP	2nd April 2012	271.00p	nil	80,000	–	–	–	–	80,000	2nd April 2015 to 2nd April 2022
	LTIP	2nd April 2013	337.00p	nil	–	75,533	–	–	–	75,533	2nd April 2016 to 2nd April 2023
Ian Crabb	LTIP	23rd September 2013	479.00p	nil	–	73,684	–	–	–	73,684	23rd September 2016 to 23rd September 2023
Simon Embley	JSOP	1st June 2010	271.00p	280p	167,857	–	(83,929)	–	83,928	83,928	1st June 2013 to 1st June 2020
	JSOP[1]	31st March 2011	245.00p	280p	203,665	–	–	–	–	203,665	31st March 2014 to 31st March 2021
	CSOP	11th June 2010	237.50p	240p	12,500	–	–	–	12,500	12,500	11th June 2013 to 11th June 2020
	SAYE	5th April 2011	245.00p	257p	3,502	–	–	–	–	3,502	5th April 2014 to 5th October 2014
	LTIP	2nd April 2012	271.00p	nil	90,909	–	–	–	–	90,909	2nd April 2015 to 2nd April 2022
	LTIP	2nd April 2013	337.00p	nil	–	85,833	–	–	–	85,833	2nd April 2016 to 2nd April 2023
David Newnes	JSOP	1st June 2010	271.00p	280p	39,286	–	–	–	39,286	39,286	1st June 2013 to 1st June 2020
	JSOP[1]	31st March 2011	245.00p	280p	57,026	–	–	–	–	57,026	31st March 2014 to 31st March 2021
	CSOP	11th June 2010	237.50p	240p	12,500	–	–	–	12,500	12,500	11th June 2013 to 11th June 2020
	SAYE	5th April 2011	245.00p	257p	3,502	–	–	–	–	3,502	5th April 2014 to 5th October 2014
	LTIP	2nd April 2012	271.00p	nil	50,909	–	–	–	–	–	2nd April 2015 to 2nd April 2022
	LTIP	2nd April 2013	343.50p	nil	–	58,333	–	–	–	58,333	2nd April 2016 to 2nd April 2023

[1] The 2011 JSOP will not vest as the performance criteria have not been met.

All of the above are scheme interests. Details of long-term incentive awards granted in 2013 are presented in a separate paragraph above while details of past awards are presented in last year's Directors' Remuneration Report and are included in Note 12 to the Financial Statements.

The aggregate of gains made by the Executive Directors on the exercise of any options in the year was £159,355 (2012: £nil).

The Ordinary Share mid-market price ranged from 259p to 489p and averaged 382p during 2013. The share price on 31st December 2013 was 440p compared to 259.50p on 1st January 2013.

Directors' Interests in Shares

The interests of the Directors who served on the Board during the year, are set out in the table below:

	Shareholdings		Share Awards		Total	Shareholding guideline
Director	31st December 2012	31st December 2013	Unvested	Vested but unexercised	31st December 2013	(Percentage of base salary)
Roger Matthews[1]	86,882	86,882	-	-	86,882	NA
Ian Crabb[2]	NA	59	73,684	-	73,743	0.1%
Steve Cooke	40,000	40,000	248,657	-	288,657	78%
Simon Embley[3]	10,230,500	6,065,998	396,418	83,928	6,546,344	17,794%
David Newnes[3]	5,619,250	3,454,748	131,370	39,286	3,625,404	8,686%
Mark Pain[4]	-	-	-	-	NA	NA
Mark Morris	53,972	53,972	-	-	53,972	NA
Helen Buck	-	-	-	-	-	NA
Adrian Gill[5]	-	-	-	-	-	NA
Bill Shannon[6]	NA	-	-	-	-	NA

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 from date of appointment if later) through the retention of vested share awards or through open market purchases.

Notes:

1. Roger Matthews holding includes shares held by his wife.
2. Ian Crabb joined the Board on 9th September 2013 and shares have been purchased by Ian as a participant in LSL's BAYE/SIP. The shares specified in the table were purchased by the Trust at the prevailing market value.
3. Simon Embley sold 4,164,502 and David Newnes sold 2,164,502 shares on 4th September 2013.
4. Mark Pain retired from the Board on 7th January 2014.
5. Adrian Gill joined the Board on 10th September 2012.
6. Bill Shannon joined the Board on 7th January 2014.
7. Calculated based on shares owned at 31st December 2013, share price at 31st December 2013 of £4.40 per share and the Director's base salary at 31st December 2013.

All of the interests detailed above are beneficial. Apart from the interests disclosed above no Directors were interested at any time in the year in the share capital of any other Group company.

There have been no changes in the interests of any Director between 1st January 2014 and the date of this Report other than 83 Shares purchased by Ian Crabb as a participant of LSL's BAYE/SIP. These shares were purchased by the Trust at the prevailing market value.

No Director has or has had any interest, direct or indirect, in any transaction, contract or arrangement (excluding service agreements), which is or was unusual in its nature or conditions or significant to the business of the Group during the current or immediately preceding the financial year.

Directors' Remuneration Report continued.

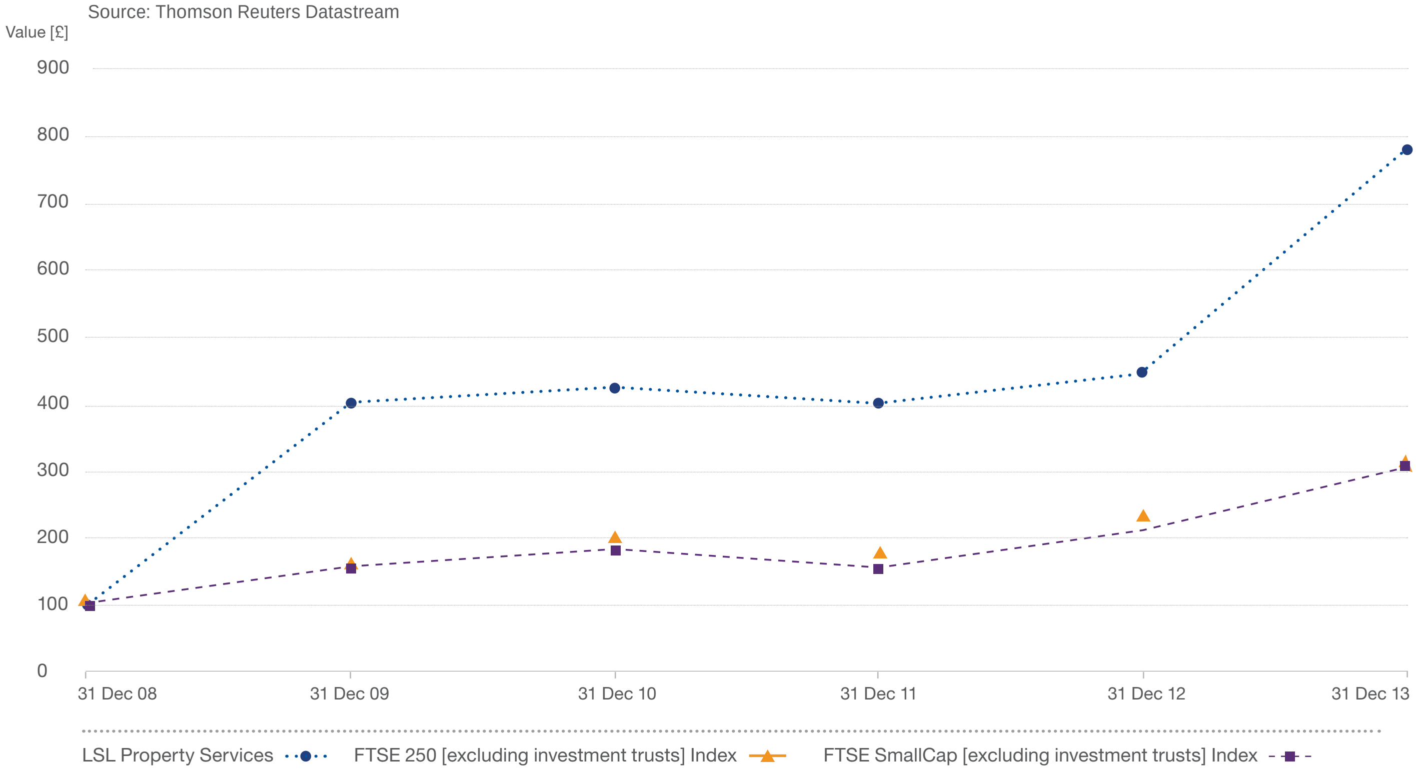
Unaudited Information

Performance Graph and Table

The following graph shows the value, by the 31st December 2013, 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. During this period LSL has outperformed both indices.

Total shareholder return

Source: Thomson Reuters Datastream



Chief Executive Officer's Total Remuneration

The total remuneration figures for the role of Group Chief Executive Officer during each of the last five financial years are shown in the table below. The total remuneration figure includes the annual bonus based on that year's performance and share awards (excluding any SAYE/BAYE (SIP) awards in the interests of simplicity) based on three year performance periods ending in/just after the relevant year. The annual bonus payout and share vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	Year ending in					
	Simon Embley (to 9th September 2013)					Ian Crabb (from 9th September 2013)
	2009	2010	2011	2012	2013	2013
Total remuneration	£373,754	£517,716	£308,747	£525,018	£500,862[1]	£119,523
Annual bonus (%)	100%	97.5%	9.6%	60%	92%	N/A
LTI vesting (%)	N/A	N/A	N/A	55%	0%	N/A

1 The salary disclosed is Simon Embley's total remuneration for the year ended 31st December 2013 but he ceased being Group Chief Executive Officer and became Deputy Chairman on 9th September 2013.

Percentage Change in Chief Executive's Remuneration

The table below shows the percentage change in the Group Chief Executive Officer's salary, benefits and annual bonus between the financial year ending 31st December 2012 and 2013, compared to that of the total remuneration for all employees of the Company for each of these elements of pay. As Simon Embley moved rolefrom Group Chief Executive Officer to Deputy Chairman from the 9th September 2013, the 2013 salary and benefit numbers have been annualised as if he had remained in the role for the full year.

	Salary % change	Benefits % change	Bonus % change
Chief Executive	+3%	+14%	+46%
All employees	+2%[1]	0%	+20%[2]
Average number of employees	5,015		

Notes:

1. Refers to staff outside the commission structure
2. Refers to a subset of employees outside the commission structure

Relative Importance of Spend on Pay

The following table shows LSL's actual spend on pay (for all employees) relative to dividends.

	2012	2013	% change
Staff costs (£'m)	142.2	150.2	5.6
Dividends (£'m)	9.8	10.8	11.5
Profit after tax (£'m)	7.0	14.0	99.7
Adjusted Profit after tax (£'m) (see Note 10)	24.5	26.1	6.2

Statement of shareholder voting

The Directors' Remuneration Report for the financial year ending 31st December 2012 was put to Shareholders at the AGM held on 2nd May 2013 on an advisory basis. The voting outcomes were as follows:

2013 AGM		
Votes cast in favour	87,186,203	99.44%
Votes cast against	487,291	0.56%
Total votes cast	87,673,494	100%
Abstentions	-	

Directors' Remuneration Report continued.

Remuneration Committee

Role and membership

Details of the Remuneration Committee's composition and responsibilities are set out in the Corporate Governance Report at page 42 of this Report. During 2013 the Remuneration Committee was chaired by Mark Pain and its other members were Adrian Gill, Mark Morris and Roger Matthews. Since 7th January 2014, Bill Shannon is the Chairman of the Remuneration Chairman.

The terms of reference of the Committee are available from the Company Secretary or LSL's website at: www.lslps.co.uk.

Committee's advisers

The Remuneration Committee took independent advice from New Bridge Street (NBS) and Deloitte LLP on matters relating to senior executive remuneration. NBS was appointed by the Remuneration Committee with regard to the disclosures required in the annual report. Deloitte were appointed by the Management Team to provide tax advice associated with the legacy JSOP. NBS and Deloitte provided no other advice to LSL during the year and their fees for 2013 were £10,000 and £4,500 respectively. These companies are considered to be independent and objective.

The Directors' Remuneration Report is approved by and signed on behalf of the Board of Directors

Bill Shannon
Chairman of the Remuneration Committee
6th March 2014

Financial Statements

In this section

Independent Auditor's Report

for the year ended 31st December 2013

We have audited the Group financial statements of LSL Property Services plc for the year ended 31st December 2013 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 41, the directors are responsible for the preparation of the Group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

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 2013 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.

Our assessment of risks of material misstatement

We identified the following risks that have had the greatest effect on the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team:

- Revenue recognition, including the timing of revenue recognition and the treatment of commissions, and the risk of management override.
- The recognition and measurement of professional indemnity liabilities for inaccurate surveys.
- Accounting for acquisitions, including purchase price allocation, recognition of intangible assets and goodwill, and the treatment of contingent consideration and earn-out arrangements.
- The risk of loss or misappropriation of monies held on behalf of estate agency clients

Our application of materiality

We determined materiality for the Group to be £854,000 which is approximately 5% of pre-tax profit. This provided a basis for determining the nature, timing and extent of risk assessment procedures, identifying and assessing the risk of material misstatement and determining the nature, timing and extent of further audit procedures.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that overall performance materiality (i.e. our tolerance for misstatement in an individual account or balance) for the Group should be 75% of materiality, namely £641,000. Our objective in adopting this approach was to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £43,000, as well as differences below that threshold that, in our view warranted reporting on qualitative grounds.

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we selected seven components which represent the principal business units within the Group's two reportable segments and account for 85% of the Group's revenue and 75% of the Group's profit before tax. These seven were subject to a full audit, whilst we also selected a further five components that were subject to audits of specific account balances. A further six components were subject to review procedures.

For the remaining components, we performed other procedures to confirm there were no significant risks of material misstatement in the Group financial statements.

The audit work at the seven locations subject to a full audit, the five locations subject to a specific scope audit were executed at levels of materiality applicable to each individual entity which were much lower than the Group materiality.

Our response to the risks identified above was as follows:

- We performed walkthroughs of revenue processes and carried out a combination of controls testing, substantive testing, journals testing and analytical procedures to assess the appropriateness of revenue recognition, in particular in respect of the timing of revenue recognition and the treatment of commissions payable.
- We challenged the assumptions used by management in their estimates of professional indemnity liabilities for inaccurate surveys, including specifically those relating to the expected cost of future claims and the expected number of future claims. We also performed sensitivity analysis on management's calculations.
- For acquisitions in the period we obtained and understood sales and purchase agreements to ensure the appropriateness of the allocation of the purchase price and the recognition of intangible assets. We also challenged the accounting treatment of contingent consideration, including that related to employment, to ensure that it was appropriate.
- For acquisitions that arose in prior periods we tested the subsequent measurement of contingent consideration liabilities and challenged the accounting treatment to ensure that it was appropriate.
- We performed walkthroughs of the processes in place in respect of client monies and performed substantive testing on the year end client account reconciliations including agreement of balances to bank statements and underlying lettings records.

Opinion on other matter 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;
- the information given in the Strategic Report and the Directors' Report for the financial year for which the Group financial statements are prepared is consistent with the Group financial statements; and
- the information given in the Corporate Governance Statement set out on pages 42 to 46 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 ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:
- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- is otherwise misleading.

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

Independent Auditor's Report continued.

for the year ended 31st December 2013

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, set out on page 41, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Other matter

We have reported separately on the parent Company financial statements of LSL Property Services plc for the year ended 31st December 2013 and on the information in the Directors' Remuneration Report that is described as having been audited.

Alistair Denton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor Leeds
6th March 2014

Group Income Statement

for the year ended 31st December 2013

	Note	2013 £'000	2012 £'000
Revenue	3	**258,603**	243,845
Operating expenses:			
Employee and subcontractor costs	12	**(150,158)**	(142,224)
Establishment costs		**(19,386)**	(18,459)
Depreciation on property, plant and equipment	15	**(3,977)**	(3,499)
Other		**(52,125)**	(46,926)
		(225,646)	(211,108)
Other operating income	3	**2,376**	1,120
Gain on sale of property, plant and equipment		**38**	–
Group's share of profit after tax in joint ventures	17	**1,731**	1,283
Group operating profit before contingent consideration, exceptional costs, amortisation and share-based payments		**37,102**	35,140
Share-based payments	12	**(1,323)**	(647)
Amortisation of intangible assets	14	**(375)**	(3,472)
Exceptional cost	7	**(12,990)**	(17,684)
Contingent consideration	7	**(2,793)**	(4,410)
Group operating profit	4	**19,621**	8,927
Finance income	5	**7**	10
Finance costs	6	**(3,154)**	(2,633)
Exceptional finance credits	7	**606**	429
Net financial costs		**(2,541)**	(2,194)
Profit before tax	8	**17,080**	6,733
Taxation			
– related to exceptional costs and contingent consideration		**2,879**	5,288
– others		**(5,945)**	(5,004)
	13	**(3,066)**	284
Profit for the year		**14,014**	7,017
Attributable to			
– Owners of the parent		**14,001**	7,001
– Non-controlling interest		**13**	16
Earnings per share expressed in pence per share:			
Basic	10	**13.6**	6.8
Diluted	10	**13.5**	6.8
Adjusted – basic	10	**25.3**	23.8
Adjusted – diluted	10	**25.2**	23.8

Group Statement of Comprehensive Income

for the year ended 31st December 2013

	Note	2013 £'000	2012 £'000
Profit for the year		**14,014**	7,017
Items to be reclassified to profit and loss in subsequent periods:			
Revaluation of financial assets	16	**23,806**	10,677
Income tax effect	13	**(4,380)**	(2,456)
Net other comprehensive income to be reclassified to profit and loss in subsequent periods:		**19,426**	8,221
Other comprehensive income for the year, net of tax		**19,426**	8,221
Total comprehensive income for the year, net of tax		**33,440**	15,238
Attributable to			
– Owners of the parent		**33,427**	15,222
– Non-controlling interest		**13**	16

Group Balance Sheet

for the year ended 31st December 2013

Company No. 05114014

	Note	2013 £'000	2012 £'000
Non-current assets			
Goodwill	14	**125,642**	120,361
Other intangible assets	14	**19,080**	18,509
Property, plant and equipment	15	**16,230**	13,501
Financial assets	16	**36,574**	11,921
Investments in joint ventures	17	**3,239**	2,313
Total non-current assets		**200,765**	166,605
Current assets			
Trade and other receivables	18	**35,340**	29,432
Current tax receivables		**771**	2,242
Cash and cash equivalents	19	**469**	225
Total current assets		**36,580**	31,899
Non-current assets held for sale	15	**276**	1,097
Total assets		**237,621**	199,601
Current liabilities			
Financial liabilities	21	**(5,113)**	(2,396)
Trade and other payables	20	**(54,090)**	(48,297)
Provisions for liabilities	22	**(8,458)**	(2,305)
Total current liabilities		**(67,661)**	(52,998)
Non-current liabilities			
Financial liabilities	21	**(43,749)**	(42,165)
Deferred tax liability	13	**(9,014)**	(5,464)
Provisions for liabilities	22	**(17,881)**	(22,895)
Total non-current liabilities		**(70,644)**	(70,524)
Total Liabilities		**(138,305)**	(123,522)
Net assets		**99,316**	76,079
Equity			
Share capital	24	**208**	208
Share premium account	25	**5,629**	5,629
Share-based payment reserve	25	**2,475**	1,526
Treasury shares	25	**(4,292)**	(2,691)
Fair value reserve	25	**27,647**	8,221
Retained earnings		**67,567**	63,117
Equity attributable to owners of parent		**99,234**	76,010
Non-controlling interests		**82**	69
Total equity		**99,316**	76,079

The Financial Statements were approved by and signed on behalf of the Board by:

Steve Cooke
Group Finance Director
6th March 2014

Ian Crabb
Group Chief Executive Officer
6th March 2014

Group Statement of Cash Flows

for the year ended 31st December 2013

	Note	31st December 2013 £'000	31st December 2013 £'000	31st December 2012 £'000	31st December 2012 £'000
Cash generated from operating activities					
Profit before tax			**17,080**		6,733
Adjustments to reconcile profit before tax to net cash from operating activities					
Exceptional operating costs and contingent consideration (non-cash)	7	**15,491**		23,262	
Amortisation of intangible assets	14	**375**		3,472	
Finance income	5	**(7)**		(10)	
Finance costs	6	**3,580**		2,891	
Exceptional finance credit	7	**(606)**		(429)	
Share-based payments	12	**1,323**		647	
Total adjustments			**20,156**		29,833
Group operating profit before amortisation and share-based payments			**37,236**		36,566
Depreciation	15	**3,977**		3,499	
Dividend income		**(1,141)**			
Share of results of joint ventures		**(1,731)**		(1,283)	
Gain on sale of property, plant and equipment	8	**(172)**		(1,426)	
			933		790
(Increase)/decrease in trade and other receivables		**(4,656)**		12	
Increase/(decrease) in trade and other payables		**4,881**		(2,078)	
Decrease in provisions		**(11,544)**		(2,699)	
			(11,319)		(4,765)
Cash generated from operations			**26,850**		32,591
Interest paid		**(3,270)**		(2,084)	
Tax paid		**(2,537)**		(7,252)	
			(5,807)		(9,336)
Net cash generated from operating activities			**21,043**		23,255
Cash flows from investing activities					
Cash acquired on purchase of subsidiary undertaking	27	**24**		223	
Acquisitions of subsidiaries and other businesses	27	**(3,515)**		(3,926)	
Payment of contingent consideration		**(520)**		–	
Investment in joint venture	17	**–**		(10)	
Investment in financial assets	16	**(847)**		(897)	
Dividends received from joint venture		**805**		748	
Dividends received from financial assets		**1,141**		–	
Interest received	5	**7**		10	
Purchase of property, plant and Equipment and intangible assets	14,15	**(7,859)**		(5,680)	
Proceeds from sale of property, plant and equipment	15	**1,475**		6,290	
Net cash expended on investing activities			**(9,289)**		(3,242)

Group Statement of Cash Flows continued.

for the year ended 31st December 2013

	Note	31st December 2013 £'000	31st December 2013 £'000	31st December 2012 £'000	31st December 2012 £'000
Cash flows from financing activities					
Drawdown/(repayment) of loans		**510**		(10,962)	
Payment of deferred consideration		**(494)**		–	
Purchase of treasury shares		**(2,625)**		–	
Proceeds from exercise of share options		**1,084**		–	
Dividends paid	11	**(9,985)**		(9,261)	
Net cash used in financing activities			**(11,510)**		(20,223)
Net increase/(decrease) in cash and cash equivalents			**244**		(210)
Cash and cash equivalents at the beginning of the year			**225**		435
Cash and cash equivalents at the end of the year	19		**469**		225

Group Statement of Changes in Equity

for the year ended 31st December 2013

Year ended 31st December 2013

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Treasury shares £'000	Fair value Reserve £'000	Retained earnings £'000	Total equity £'000	Non-controlling interests £'000	Total £'000
At 1st January 2013	**208**	**5,629**	**1,526**	**(2,691)**	**8,221**	**63,117**	**76,010**	**69**	**76,079**
Profit for the year	–	–	–	–	–	14,001	14,001	13	14,014
Other comprehensive income	–	–	–	–	19,426	–	19,426	–	19,426
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**19,426**	**14,001**	**33,427**	**13**	**33,440**
Exercise of options	–	–	(374)	1,024	–	434	1,084	–	1,084
Investment in treasury shares	–	–	–	(2,625)	–	–	(2,625)	–	(2,625)
Share-based payments	–	–	1,323	–	–	–	1,323	–	1,323
Dividend payment	–	–	–	–	–	(9,985)	(9,985)	–	(9,985)
At 31st December 2013	**208**	**5,629**	**2,475**	**(4,292)**	**27,647**	**67,567**	**99,234**	**82**	**99,316**

Year ended 31st December 2012

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Treasury shares £'000	Fair value Reserve £'000	Retained earnings £'000	Total equity £'000	Non-controlling interests £'000	Total £'000
At 1st January 2012	208	5,629	912	(2,747)	–	68,328	72,330	53	72,383
Profit for the year	–	–	–	–	–	7,001	7,001	16	7,017
Other comprehensive income	–	–	–	–	8,221	–	8,221	–	8,221
Total comprehensive income for the year	–	–	–	–	8,221	7,001	15,222	16	15,238
Exercise of options	–	–	(33)	56	–	(23)	–	–	–
Put option over non-controlling interests	–	–	–	–	–	(2,928)	(2,928)	–	(2,928)
Share-based payments	–	–	647	–	–	–	647	–	647
Dividend payment	–	–	–	–	–	(9,261)	(9,261)	–	(9,261)
At 31st December 2012	208	5,629	1,526	(2,691)	8,221	63,117	76,010	69	76,079

Notes to the Group Financial Statements

for the year ended 31st December 2013

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 2013 were authorised for issue by the Board of the Directors on 6th March 2014 and the balance sheet was signed on the Board's behalf by Ian Crabb and Steve Cooke. LSL is a listed company incorporated and domiciled in England and 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 financial assets 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 2013. 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

During the year ended 31st December 2013, the Group has adopted a number of new IFRS, IAS or amendments issued by the IASB or interpretation issued by the IFRS Interpretations Committee which have had a significant impact on the Group's consolidated financial statements. These are as follows:

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The resulting calculations under IFRS 13 affected the principles that the Group uses to assess the fair value, but the assessment of fair value under IFRS 13 has not materially changed the fair values recognised or disclosed. IFRS 13 mainly impacts the disclosures of the Group. It requires specific disclosures about fair value measurements and disclosures of fair values, some of which replace existing disclosure requirements in other standards.

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 became effective 1st July 2012 and were first applied by the Group on 1st January 2013. The amendments introduce a grouping of items presented in other comprehensive income (OCI). Items that will be reclassified ('recycled') to profit or loss at a future point in time (e.g. net loss or gain on available-for-sale financial assets) have to be presented separately from items that will not be reclassified (e.g. revaluation reserve). The amendment affected presentation only and had no impact on the Group's financial position or performance.

Recoverable Amount Disclosures for Non-Financial Assets – Amendments to IAS 36 Impairmentof Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36.In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1st January 2014 with earlier application permitted, provided IFRS 13 is also applied. The Group has early adopted these amendments to IAS 36 in the current period since the amended/additional disclosures provide useful information as intended by the IASB. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets in Note 14. These amendments would continue to be considered for future disclosures.

Judgements and estimates

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

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

2. Accounting policies (continued)

Judgements and estimates (continued)

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 claims

Significant judgement is required when provisioning for professional indemnity claims. Details of key assumptions in these areas are disclosed in Notes 7 and 22 to these Financial Statements. A sensitivity calculation which illustrates the impact of different assumptions on the required PI provision is included in Note 7.

Contingent consideration

The Group has acquired a number of businesses over the last few years. With regard to a number of these businesses, the Group has a put and call option to buy the remaining interest in these businesses at some point in the future. In accordance with the accounting standards, estimates have been made with regard to the future profitability of these acquisitions and a provision for the cost of acquiring these interests has been recognised. The provisions are disclosed in Note 21 to these Financial Statements. A sensitivity calculation which shows the impact of changes in assumption is shown in Note 29.

Valuation of financial assets

The Group owns minority interests in a number of unlisted entities. In accordance with the accounting standards, these investments are held at fair value and significant judgment is required in assessing this. Further details of the methodology used are disclosed in Note 16 to these Financial Statements. A sensitivity calculation which shows the impact of changes in assumption is shown in Note 29.

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.

2. Accounting policies (continued)

Non-controlling interests:
Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Parent Company; and is presented 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 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 interests represent the portion of profit or loss and net assets in subsidiaries that is not held by the group and is presented separately within equity in the consolidated balance sheet, separately from parent shareholder's equity.

Acquisitions of non-controlling interests, prior to 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 2010 were not reallocated between non-controlling interest and the parent shareholders. The carrying value of such investments at 2010 has not been restated. The purchase method of accounting was used for all acquisitions of subsidiaries. All intra-Group transactions, balances, income and expenses were eliminated on consolidation.

Interest in jointly controlled entities
The Group has a number of contractual arrangements with other parties which represent jointly controlled entities. These take the form of arrangements to share control over other entities. Where the jointly controlled entity 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 jointly controlled entity 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 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 contingent consideration is linked to a service condition then expected payments are recognized as remuneration in the profit or loss over the earn-out period.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

2. Accounting policies (continued)

Intangible assets (continued)

Where a put and call option is transacted over a non-controlling interest independently of a business combination, the present value of the exercise price of the put and call option is recorded as a liability with a debit to equity. Subsequent movements in the assessment of the exercise price are taken to profit and loss. If the put option lapses, the liability is derecognised with a corresponding adjustment to equity.

Goodwill is initially measured at cost being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest (and where the business combination is achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree) over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination. Assets acquired and liabilities assumed in transactions separate to the business combinations, such as the settlement of pre-existing relationships or post-acquisition remuneration arrangements are accounted for separately from the business combination in accordance with their nature and applicable IFRSs. Identifiable intangible assets, meeting either the contractual-legal or separability criteria 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 2010

Business combinations are 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 is recognised if, and only if, the Group had a present obligation, the economic outflow is more likely than not and a reliable estimate is 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 of changes in circumstances indicate that the carrying value maybe 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 represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and is not 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.

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.

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.

2. Accounting policies (continued)

Intangible assets (continued)

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	– between three and five years

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

Brand names are not amortised as the Directors are of the opinion that they each 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 each of the assets are 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 brands, 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 nor 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.

Impairment

Intangible assets with indefinite useful lives are not amortised but tested for impairment annually either individually or at the cash generating unit level. The useful life of such intangible assets 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.

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or Groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

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

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

2. Accounting policies (continued)

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 asset's 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 AGM.

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 the 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).

Treasury shares

The Group has an employee share trust (ESOT) and an employee benefit trust (Trust) for the granting of Group shares to Executive Directors and senior employees. Shares in the Group held by the ESOT and 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 commences or ceases 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.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

2. Accounting policies (continued)

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 de-recognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. Where a reliable indicator of fair value cannot be obtained the assets are valued at cost.

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.

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.

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.

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

2. Accounting policies (continued)

Financial instruments (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 de-recognised when they are assessed as uncollectable.

Revenue recognition

Revenue is recognised to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration receivable, net of 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. Revenue from conveyancing fees is recognised on completion of the service being provided.

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

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

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

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

Exceptional items

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

New standards and interpretations not applied

The 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 2013 and have not been early adopted:

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 9	Financial Instruments: Classification and Measurement	
Amendment to IFRS 10	Consolidated Financial Statements, Joint Venture Arrangement and Disclosure of Interests in Other Entities and Investment Entities	1st January 2014
IFRS 11	Joint Arrangements	1st January 2014
Amendment to IFRS 12	Disclosure of Interests in Other Entities – Investment Entities	1st January 2014
Amendments to IAS 32	Financial Instruments	1st January 2014

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.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

3. Revenue

The revenue and pre-tax income is attributable to the continuing activity of estate agency and related activities and the provision of surveying and valuation services on residential property. All revenue arises in the United Kingdom.

Revenue is analysed as follows:

	2013 £'000	2012 £'000
Revenue from services	258,603	243,845
Revenue	**258,603**	**243,845**
Operating revenue		
Rental Income	1,235	1,120
Dividend Income	1,141	–
Other operating income	**2,376**	**1,120**
Finance income	7	10
Total revenue	**260,986**	**244,975**

Dividend income was dividends received in the year from the Group's investments in Zoopla and GPEA Limited. Neither had previously paid dividends to the Group. Further details of LSL's investments are shown in Note 16.

4. Segment analysis of revenue and operating profit

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

- The Estate Agency and Related Services provides services related to the sale and letting of residential properties. It operates a network of high street branches. As part of this process, the division also provides marketing and conveyancing services. 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, Pink Homes Loans, First Complete and Linear Mortgage Network. It also operates a financial services segment as a separate mortgage and insurance, distribution business providing products and services for sale via financial intermediaries. The results of this 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 valuations and professional survey service of residential 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 to 15 under the Business Review section of the Strategic Report.

The Management Team 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 2013 and financial year ended 31st December 2012 respectively:

4. Segment analysis of revenue and operating profit (continued)

Year ended 31st December 2013

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Income statement information				
Segmental revenue	198,170	60,433	–	**258,603**
Segmental result:				
– before exceptional costs, contingent consideration, amortisation and share-based payments	29,116	13,096	(5,110)	**37,102**
– after exceptional costs, contingent consideration, amortisation and share-based payments	25,966	204	(6,123)	**20,047**
Finance income				**7**
Finance costs				**(3,580)**
Exceptional finance costs				**606**
Profit before tax				**17,080**
Taxation				**(3,066)**
Profit for the year				**14,014**

	Estate Agency and Related activities £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Balance sheet information				
Segment assets – intangible	133,840	10,882	–	**144,722**
Segment assets – other	79,907	10,640	2,352	**92,899**
Total Segment assets	213,747	21,522	2,352	**237,621**
Total Segment liabilities	(61,209)	(39,444)	(37,652)	**(138,305)**
Net assets/(liabilities)	152,538	(17,922)	(35,300)	**99,316**
Other segment items				
Capital expenditure including intangible assets	7,029	824	6	**7,859**
Depreciation	(3,531)	(429)	(17)	**(3,977)**
Amortisation of intangible assets	(375)	–	–	**(375)**
Share of results of joint venture	1,731	–	–	**1,731**
Professional indemnity claim provision	–	(16,146)	–	**(16,146)**
Onerous leases provision	56	–	–	**56**
Share based payment	(545)	(227)	(551)	**(1,323)**

Unallocated net liabilities comprise certain property, plant and equipment (£28,000), cash and bank balances (£469,000), other assets (£1,084,000), other taxes and liabilities (£219,000), accruals (£1,642,000) financial liabilities (£26,548,000), deferred and current tax liabilities (£8,243,000), interest rate swap (£230,000).

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

4. Segment analysis of revenue and operating profit (continued)

Year ended 31st December 2012

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Income statement information				
Segmental revenue	181,627	62,218	–	**243,845**
Segmental result:				
– before exceptional costs, contingent consideration, amortisation and share-based payments	24,430	13,910	(3,200)	**35,140**
– after exceptional costs, contingent consideration, amortisation and share-based payments	20,168	(6,070)	(4,913)	**9,185**
Finance income				**10**
Finance costs				**(2,891)**
Exceptional finance costs				**429**
Profit before tax				**6,733**
Taxation				**284**
Profit for the year				**7,017**

	Estate Agency and Related activities £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Balance sheet information				
Segment assets – intangible	129,102	9,768	–	**138,870**
Segment assets – other	51,198	7,018	2,515	**60,731**
Total Segment assets	180,300	16,786	2,515	**199,601**
Total Segment liabilities	(56,805)	(32,797)	(33,920)	**(123,522)**
Net assets/(liabilities)	123,495	(16,011)	(31,405)	**76,079**
Other segment items				
Capital expenditure including intangible assets	4,977	700	3	**5,680**
Depreciation	(3,168)	(298)	(33)	**(3,499)**
Amortisation of intangible assets	(1,072)	(2,400)	–	**(3,472)**
Share of results of joint venture	1,283	–	–	**1,283**
Professional indemnity claim provision	–	(21,204)	–	**(21,204)**
Onerous leases provision	(875)	–	–	**(875)**
Share based payment	(353)	(212)	(82)	**(647)**

Unallocated net liabilities comprise certain property, plant and equipment (£39,000), cash and bank balances (£225,000), other assets (£9,000), other taxes and liabilities (£219,000), other creditors (£45,000), accruals (£1,320,000) financial liabilities (£26,037,000), deferred and current tax liabilities (£3,222,000), interest rate swap (£836,000).

5. Finance income

	2013 £'000	2012 £'000
Interest receivable on funds invested	7	10

6. Finance costs

	2013 £'000	2012 £'000
Interest on revolving credit facility and overdraft	2,142	1,826
Interest on loan notes	329	299
Unwinding of discount on professional indemnity provision	683	508
	3,154	2,633

7. Exceptional items and contingent consideration

	2013 £'000	2012 £'000
Exceptional costs:		
Branch closure costs including redundancy costs	924	1,200
Acquisition related costs	200	(98)
Gain on disposal of freehold properties	(134)	(1,426)
Onerous leases	–	675
Provision for professional indemnity claims/notifications	12,000	17,333
Total operating exceptional costs	12,990	17,684
Contingent consideration:		
Contingent consideration on acquisitions	2,793	4,410
	2,793	4,410
Exceptional finance credits:		
Movement in fair value of interest rate swap	(606)	(429)
	(606)	(429)
Net exceptional costs	15,177	21,665

Branch closures

In 2013, e.surv closed one of its administration offices. In the prior year, a number of branches were closed relating to the Your Move and Reeds Rains brands. This resulted in redundancy costs, creation of onerous leases on the closed premises and other associated costs which have been treated as exceptional.

Freehold properties

During the period, freehold properties with a book value totalling £1,227,000 (2012: £4,663,000) were sold for net proceeds of £1,361,000 (2012: £6,178,000) resulting in a gain on disposal of £134,000 (2012: £1,515,000). In the prior year other assets relating to closure of branches totalling £201,000 were sold for net proceeds of 2012: £122,000 resulting in a loss on disposal of £89,000.

Contingent consideration

The expense for contingent consideration on the acquisition of Marsh & Parsons (in 2011) amounted to £352,000 (2012: £1,802,000). The exceptional contingent consideration expense recognised in the year relating to other acquisitions, primarily by LSLi Limited, is £2,441,000 (2012: £2,608,000). See Notes 21 and 27 for more details.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

7. Exceptional items (continued)

Provision for professional indemnity (PI) claims/notifications

Since early 2012 the Group has experienced a high level of claims relating to the 2004 to 2008 period, which was a period of relatively high risk lending characterised by higher house prices, high loan-to-value ratios and considerable levels of buy-to-let and sub-prime lending. As a result the provision for PI Costs was increased by £17.3m in June 2012 and again by £12.0m in November 2013.

The PI provision at 31st December 2013 was made up of a 'Specific Provision' and 'Incurred But Not Reported' (IBNR). The Specific Provision was based on the Group's review of any notifications or claims which had been made against the Group as at 31st December 2013. The main factors considered in quantifying the Specific Provision were the likelihood that a claim would be successful, an assessment of the likely cost for each claim, including any associated legal costs, and whether any reduction in the claim is considered likely due to contributory negligence of the lender.

The IBNR provision, was based on the Directors estimates on the number of claims which would be received in the future with regard to work completed before 31st December 2013. The Directors have then applied an average cost per case, based on historical averages, to estimate the IBNR provision.

In June 2012, it was assumed that the run rate of new claims would reduce significantly from July 2013 following the change in legislation governing civil litigation taking effect in April 2013 (the Jackson Reforms). This reduction has not yet materialised and the run rate of new cases has remained at the level established in June 2012. In addition, the cost per claim has increased and in most recent months has been running higher than assumed in 2012. The increasing trend in cost per claim has been driven by a relatively small number of high value claims and by increases in legal costs.

As announced in November 2013, an additional exceptional charge of £12.0m (c£9.2m after tax) has been made in the year ending 31st December 2013 in order to increase the PI provision. Since November 2013, the rate of new claims and cost per claim has been consistent with the assumptions behind the new provision. This additional provision represents our current best estimate of likely claims costs but the process of resolving open claims and estimating future claims is on-going.

A number of risks and uncertainties remain, in particular the actual monthly run rate of new claims, the date at which the high rate of claims will significantly reduce, and the average cost per case both for existing open claims and for claims yet to be received. The cost of these factors could differ materially from the Board's estimates, which could result in a further provision being required.

At 31st December 2013 the total provision for PI Costs was £25.9m. The Board have considered sensitivity analysis on the key risks and uncertainties discussed which is set out in Note 22.

The Group has continued to build a provision for estimated PI costs relating to valuations completed since 2009, and an Income Statement charge has been made in these results, which has been considered as an operating expense rather than as an exceptional cost.

8. Profit before tax

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

	2013 £'000	2012 £'000
Auditors' remuneration (Note 9)	**367**	341
Operating lease rentals:		
Land and buildings	**10,767**	11,204
Plant and machinery	**3,908**	3,278
(Gain)/loss on sale of property, plant and equipment	**(172)**	(1,426)

9. Auditors' remuneration

The remuneration of the auditors is further analysed as follows:

	2013 £'000	2012 £'000
Audit of the Financial Statements	**43**	42
Audit of subsidiaries	**240**	204
Total Audit	**283**	246
Audit related assurance services (interim results review fee)	**16**	16
Other assurance services	**3**	4
Tax compliance services	**65**	64
Tax advisory services	**–**	11
	367	341

10. Earnings per share (EPS)

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.

	2013 Profit after tax £'000	2013 Weighted average number of shares	2013 Per share amount Pence	2012 Profit after tax £'000	2012 Weighted average number of shares	2012 Per share amount Pence
Basic EPS	**14,001**	**102,955,662**	**13.6**	7,001	102,912,662	6.8
Effect of dilutive share options	**–**	**410,999**	**–**	–	–	–
Diluted EPS	**14,001**	**103,366,661**	**13.5**	7,001	102,912,662	6.8

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:

	2013 £'000	2012 £'000
Group operating profit before contingent consideration in acquisitions linked to employment, exceptional costs, share-based payments and amortisation (excluding non-controlling interest):	**37,089**	35,124
Net finance costs (excluding exceptional costs)	**(3,147)**	(2,623)
Normalised taxation	**(7,892)**	(7,963)
Adjusted profit after tax[1] before exceptional costs, share-based payments and amortisation	**26,050**	24,538

Adjusted basic and diluted EPS

	2013 Adjusted profit after tax[1] £'000	2013 Weighted average number of shares	2013 Per share amount Pence	2012 Adjusted profit after tax[1] £'000	2012 Weighted average number of shares	2012 Per share amount Pence
Adjusted Basic EPS	**26,050**	**102,955,662**	**25.3**	24,538	102,912,662	23.8
Effect of dilutive share options	**–**	**410,999**	**–**	–	–	–
Adjusted Diluted EPS	**26,050**	**103,366,661**	**25.2**	24,538	102,912,662	23.8

[1] This represents adjusted profit after tax attributable to equity holders of the parent. Effective tax rate considered to calculate normalised taxation in 2013 is 23.25% (2012: 24.5%).

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

11. Dividends paid and proposed

	2013 £'000	2012 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
2011 Final: 5.9p	–	6,071
2012 Interim: 3.1p	–	3,190
2012 Final: 6.4p	6,584	–
2013 Interim: 3.3p	3,401	–
	9,985	9,261
Dividends on Ordinary Shares proposed (not recognised as a liability as at 31st December):		
Equity dividends on Ordinary Shares:		
Dividend: 7.2p per share (2012: 6.4p)	7,395	6,584

12. Directors and employees

Remuneration of Directors

	2013 £'000	2012 £'000
Directors' remuneration (short-term benefits)*	1,685	1,524
Contributions to money purchase pensions schemes (post-employment benefits)	38	37
Share-based payments	419	59
	2,142	1,620

* included within this amount is accrued bonuses of £588,000 (2012: £442,000).

The number of Directors who were members of Group money purchase pension schemes during the year totalled 4 (2012: 4). During the year the Directors exercised 11,870 (2012: nil) CSOP options and 70,764 (2012: nil) JSOP options and made a gain of £159,355 (2012: £nil) on exercise of these options.

Employee numbers and costs

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

	2013 £'000	2012 £'000
Wages and salaries	132,488	124,597
Social security costs	13,213	12,702
Pension costs	1,745	1,917
Total employee costs	147,446	139,216
Subcontractor costs	2,712	3,008
Total employee and subcontractor costs[1]	150,158	142,224
Share-based payment expense (see below)	1,323	647

[1] The total employee and subcontractor costs exclude employees redundancy costs of £932,000 (2012 – £954,000), which have been shown under Exceptional costs (see Note 7).

The monthly staff numbers (including Directors) during the year averaged 4,327 (2012 – 4,113).

	2013	2012
Estate Agency and Related Services	3,547	3,315
Surveying and Valuation Services	780	798
	4,327	4,113

12. Directors and employees (continued)

Share-based payments

Long Term Incentive Plan

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

LTIP 2013 vesting conditions

30% of the options vest based on the TSR of LSL as compared to the FTSE 250 index (excluding investment trusts) over the three year performance period:

- If the Group is in the top 25% percentile, all of these options will vest;
- If the Group is at the median 25% will vest;
- Straight line vesting between median and top 25% percentile; and
- Below the median no options vest.

70% of the options are based on the adjusted EPS performance over the three financial years starting with the financial year in which the LTIP award is granted:

- If growth >10% pa – 100% vest;
- If growth is 7% pa – 25% vest;
- Straight line vesting between 7% pa and 10% pa; and
- If growth is below 7% pa no options vest.

LTIP 2012 vesting conditions

30% of the options vest based on the TSR of LSL as compared to the FTSE 250 index (excluding investment trusts) over the three year performance period:

- If the Group is in the top 25% percentile, all of these options will vest;
- If the Group is at the median 35% will vest;
- Straight line vesting between median and top 25% percentile; and
- Below the median no options vest.

70% of the options are based on the adjusted EPS performance over the three financial years starting with the financial year in which the LTIP award is granted:

- If growth >12% pa – 100% vest;
- If growth is 8% pa – 25% vest;
- Straight line vesting between 8% pa and 12% pa; and
- If growth is below 8% pa no options vest.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

12. Directors and employees (continued)

	2013		2012	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	–	435,622	–	–
Granted during the year	–	599,739	–	507,984
Lapsed during the year	–	(15,878)	–	(72,362)
Outstanding at 31st December	–	1,019,483	–	435,622

There were no options exercisable at the end of the year or the prior year. The weighted average remaining contractual life is 1.84 years (2012: 2.25 years). The weighted average fair value of options granted during the year was £3.31 (2012: £2.41).

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 of an interest in jointly owned shares (i.e. Ordinary Shares held in co-ownership with the Trust) and a stock appreciation right. A key feature of the JSOP is that individuals are required to purchase their interest in the jointly owned shares and have thereby put their personal capital at risk.

The vesting of JSOP awards granted in 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.

The EPS performance of LSL for the three years ended 31st December 2013 is such that the vesting criteria of the 2011 JSOP will not be met and as such these options will not vest in March 2014.

	2013		2012	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	3.20	1,099,306	3.20	1,223,001
Exercised during the year	3.20	(89,246)	–	–
Lapsed during the year	3.20	(180,224)	3.20	(123,695)
Outstanding at 31st December	3.20	829,836	3.20	1,099,306

There were 129,464 options exercisable at the end of the year (2012: nil). The weighted average remaining contractual life is 0.21 years (2012: 1.0 years). The average market value at the date of exercise was £4.37 (£nil).

12. Directors and employees (continued)

Company Stock Option Plan (CSOP)

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

	2013		2012	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**2.53**	**1,114,077**	2.44	809,010
Granted during the year	**–**	**–**	2.75	334,149
Exercised during the year	**2.40**	**(348,825)**	–	–
Lapsed during the year	**2.54**	**(157,658)**	2.40	(29,082)
Outstanding at 31st December	**2.60**	**607,594**	2.53	1,114,077

There were 66,660 options exercisable at the end of the year (2012: nil). The average market value at the date of exercise was £3.68 (£nil).

The weighted average fair value of options granted during the prior year was £1.22. The weighted average remaining contractual life is 0.67 years (2012: 1.21 years).

Save-As-You-Earn scheme

The Group has offered options under the SAYE scheme in each of 2011, 2012 and 2013. All these offers were open to all qualifying employees and provide for an exercise price equal to the daily average market price on the date of grant. 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.

	2013		2012	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**2.59**	**887,842**	2.57	680,554
Granted during the year	**3.00**	**238,155**	2.62	360,813
Exercised	**2.58**	**(4,554)**	–	–
Lapsed during the year due to employees withdrawal	**2.59**	**(113,435)**	2.57	(153,525)
Outstanding at 31st December	**2.69**	**1,008,008**	2.59	887,842

The weighted average fair value of options granted durind the year was £1.68 (2012: £1.25) and the weighted average remaining contractual life was 1.41 years (2012: 2.16 years). The average market value at the date of exercise was £4.64 (£nil).

There were no options exercisable at the end of the year or the prior year.

Equity-settled transactions

The assumptions used in the estimation of the fair value of equity settled options were as follows:

	LTIP	**SAYE 2013**
Option pricing model used	**Black Scholes**	**Black Scholes**
Weighted average share price at grant date (£)	**3.614**	**3.435**
Exercise price (£)	**–**	**3.00**
Expected life of options (years)	**3 years**	**3 years**
Expected volatility	**80%**	**80%**
Expected dividend yield	**3.0%**	**3.0%**
Risk free interest rate	**1.68%**	**1.68%**

Notes to the Group Financial Statements continued.

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12. Directors and employees (continued)

	2012		
	LTIP	CSOP	SAYE 2012
Option pricing model used	Black Scholes	Black Scholes	Black Scholes
Weighted average share price at grant date (£)	2.71	2.71	2.71
Exercise price (£)	–	2.75	2.62
Expected life of options (years)	3 years	3 years	3 years
Expected volatility	80%	80%	80%
Expected dividend yield	3.90%	3.89%	3.89%
Risk free interest rate	3.50%	3.50%	3.50%

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

	2013 £'000	2012 £'000
Share-based payment charged during the year	**1,323**	647

A charge of £551,000 (2012: £81,000) 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.

13. Taxation

(a) Tax on profit on ordinary activities

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

		2013 £'000	2012 £'000
UK corporation tax	– current year	**4,474**	2,997
	– adjustment in respect of prior years	**(574)**	(1,407)
		3,900	1,590
Deferred tax:			
Origination and reversal of temporary differences		**(814)**	(1,718)
Adjustment in respect of prior year		**(20)**	(156)
Total deferred tax credit		**(834)**	(1,874)
Total tax charge/(benefit) in the income statement		**3,066**	(284)

Income tax charged directly to other comprehensive income is £4,380,000 (2012: £2,456,000) and relates to the revaluation of financial assets (see Note 16).

In March 2013, the UK government announced proposals to reduce the main rate of corporation tax to 20% from 1st April 2015. As of 31st December 2013 reductions to the main rate of corporation tax to 20% had been enacted. Accordingly this is the rate at which deferred tax has been provided.

13. Taxation (continued)

(b) Factors affecting tax charge for the year

The tax assessed in the profit and loss account is lower (2012: lower) than the standard UK corporation tax rate, because of the following factors:

	2013 £'000	2012 £'000
Profit on ordinary activities before tax	17,080	6,733
Tax calculated at UK standard rate of corporation tax rate of 23.25% (2012 – 24.5%)	3,971	1,650
Non taxable goodwill	(127)	–
Non taxable income from joint ventures and dividends	(667)	(314)
Benefit of deferred tax asset not previously recognised	–	(49)
Disallowable expenses	248	295
Impact of movement in contingent consideration charge to Income Statement	650	1,017
Share-based payment relief	62	29
Temporary differences on non-qualifying properties no longer recognised	(94)	(1,060)
Brought forward losses not previously recognised utilised	(62)	–
Impact of rate change on deferred tax	(321)	(289)
	3,660	1,279
Prior period adjustments – current tax	(574)	(1,407)
Prior period adjustment – deferred tax	(20)	(156)
Total taxation charge/(benefit)	3,066	(284)

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

	2013 £'000	2012 £'000
Unrecognised deferred tax asset relating to:		
Property, plant and equipment temporary differences	–	–
Losses	2,810	3,277
	2,810	3,277

No (2012: £nil) 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:

	2013 £'000	2012 £'000
Net deferred tax liability/(asset) at 1st January	5,464	4,772
Deferred tax liability arising on business combinations	4	110
Deferred tax liability recognised directly in other comprehensive income	4,380	2,456
Deferred tax credit in income statement for the year (Note 13a)	(834)	(1,874)
Net deferred tax liability at 31st December	9,014	5,464

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

13. Taxation (continued)

Analysed as:

	2013 £'000	2012 £'000
Accelerated capital allowances	(754)	(588)
Deferred tax liability on separately identifiable intangible assets on business combinations	3,554	4,137
Deferred tax on financial assets	6,836	2,456
Deferred tax on share options	(346)	(155)
Deferred tax on interest rate swap	(46)	(192)
Other short-term temporary differences	(119)	(194)
Trading losses recognised	(111)	–
	9,014	5,464

Deferred tax credit in income statement relates to the following:

	2013 £'000	2012 £'000
Intangible assets recognised on business combinations	584	699
Accelerated capital allowance	167	1,239
Deferred tax on share options	191	92
Other temporary differences	(219)	(156)
Trading losses recognised	111	-
	834	1,874

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

	2013 £'000	2012 £'000
Cost		
At 1st January	120,361	116,452
Arising on acquisitions during the year	5,339	4,065
Adjustment in respect of change in contingent consideration	(58)	(156)
At 31st December	125,642	120,361

	2013 £'000	2012 £'000
Carrying amount of goodwill by operating unit		
Estate Agency and Related Services companies		
Marsh & Parsons	40,307	40,307
Your Move	39,463	39,088
Reeds Rains	15,279	15,279
LSLi	13,738	9,914
AMF (Pink Home Loans)	2,604	2,604
First Complete	3,998	3,998
Templeton LPA	336	336
Others	348	348
	116,073	111,874
Surveying and Valuation Services company		
e.surv	9,569	8,487
	9,569	8,487
	125,642	120,361

14. Intangible assets (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:

	2013 £'000	2012 £'000
Estate Agency and Related Services companies		
Marsh & Parsons	**11,724**	11,724
Your Move	**2,510**	2,510
Reeds Rains	**1,241**	1,241
LSLi	**1,136**	1,044
AMF	**180**	180
	16,791	16,699
Surveying and Valuation Services company		
e.surv	**1,305**	1,281
	1,305	1,281
	18,096	17,980

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 Corporate Client Department)
  - Reeds Rains
  - LSLi, which includes ICIEA, David Frost Estate Agency, JNP Estate Agents, GFEA, Davis Tate, Lauristons and Lawlors [1]
  - Pink Home Loans
  - Templeton LPA
  - First Complete
- Surveying and Valuation Services company
  - e.surv

Estate Agency and Related Services companies

The recoverable amount of the Estate Agency 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 three year plan. The discount rate applied to cash flow projections is 11.4% (2012: 11.3%) and cash flows beyond the three year plan are extrapolated using a 0% (2012: 0%) growth rate even though there is evidence of gain in size of market in 2013.

Surveying and Valuation Services company

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 11.4% (2011: 11.3%). The growth rate used to extrapolate the cash flows of the Surveying and Valuation Services company beyond the three-year plan is 0% (2012: 0%).

[1] The Management Team 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.

Notes to the Group Financial Statements continued.

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14. Intangible assets (continued)

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 20%) of 11.4%. 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. The Estate Agency and Surveying market both showed significant recovery in the second half of 2013 which could continue over the next couple of years partly assisted by the Government Help to Buy initiatives. The calculations supporting the impairment test are a 10% pa growth in the housing market which will drive the performance in the Estate Agency Business and a 6% pa growth in the mortgage market which will drive performance in the Surveying Division. These growth rates are lower than experienced in the second half of 2013 but in line with market expectations. The forecast housing and mortgage markets are still significantly below the levels pre-financial crisis in 2007. Even if the growth rates in the budgets are reduced to nil, the carrying value of goodwill or brand would not be impaired.

Growth rate conservatively estimated at nil (2012: nil) after the end of the three year plan. Given the housing and mortgage markets are currently considered to be at a very low point in the cycle, with transaction volumes at approximately half the long term average, this estimate is considered very conservative.

There has been no impairment in respect of the carrying amount of goodwill or brand (an 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.

Other intangible assets

As at 31st December 2013

	Brand Names £'000	Customer Contracts £'000	Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Other * £'000	Total £'000
Cost							
At 1st January 2013	18,171	17,316	5,612	2,246	5,451	1,460	50,256
Additions	–	–	–	–	–	645	645
Arising on acquisition during the year	116	185	–	–	–	–	301
At 31st December 2013	18,287	17,501	5,612	2,246	5,451	2,105	**51,202**
Aggregate amortisation and impairment							
At 1st January 2013	191	17,184	5,612	2,246	5,451	1,063	31,747
Charge for the year	–	280	–	–	–	95	375
At 31st December 2013	191	17,464	5,612	2,246	5,451	1,158	**32,122**
Carrying amount							
At 31st December 2013	18,096	37	–	–	–	947	**19,080**

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

14. Intangible assets (continued)

Other intangible assets (continued)

As at 31st December 2012

	Brand Names £'000	Customer Contracts £'000	Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Other * £'000	Total £'000
Cost							
At 1st January 2012	17,723	47,274	5,612	2,246	5,451	1,127	79,433
Additions	–	–	–	–	–	333	333
Arising on acquisition during the year	448	158	–	–	–	–	606
Disposals	–	(30,116)	–	–	–	–	(30,116)
At 31st December 2012	18,171	17,316	5,612	2,246	5,451	1,460	**50,256**
Aggregate amortisation and impairment							
At 1st January 2012	191	44,083	5,612	2,102	5,382	1,021	58,391
Disposals	–	(30,116)	–	–	–	–	(30,116)
Charge for the year	–	3,217	–	144	69	42	3,472
At 31st December 2012	191	17,184	5,612	2,246	5,451	1,063	**31,747**
Carrying amount							
At 31st December 2012	17,980	132	–	–	–	397	**18,509**

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

The brand value relates to the following:

- Your Move, a network of residential sales and lettings agencies and e.surv, a valuation and surveying company which were acquired by the Group in 2004;
- Reeds Rains, a network of residential sales and lettings agencies which was acquired in October 2005;
- ICIEA, a network of residential sales and lettings agencies which was acquired in February 2007;
- David Frosts Estate Agents, a network of residential sales and lettings agencies which was acquired in July 2007;
- JNP Estate Agents, a network of residential sales and lettings agencies which was acquired in September 2007;
- Goodfellows Estate Agents, a network of residential sales and lettings agencies which was acquired in May 2010;
- AMF (trading as Pink Home Loans) was acquired in December 2010;
- Marsh & Parsons, a network of residential sales and lettings agencies which was acquired in November 2011;
- Davis Tate, a network of residential sales and lettings agencies which was acquired in February 2012;
- Lauristons, a network of residential sales and lettings agencies which was acquired in July 2012;
- Walker Fraser Steele, a surveying business which was acquired in June 2013; and
- Lawlors, a network of residential sales and lettings agencies which was acquired in September 2013.

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

Notes to the Group Financial Statements continued.

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15. Property, plant and equipment

As at 31st December 2013

	Freehold land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost					
At 1st January 2013	2,118	7,350	262	24,777	**34,507**
Acquisitions during the year	–	–	–	113	**113**
Additions	–	1,075	159	5,905	**7,139**
Transfer to assets held for sale	(406)	–	–	–	**(406)**
Disposals	–	(9)	(177)	(148)	**(334)**
At 31st December 2013	**1,712**	**8,416**	**244**	**30,647**	**41,019**
Depreciation and impairment					
At 1st January 2013	300	3,665	97	16,944	**21,006**
Charge for the year	–	477	35	3,465	**3,977**
Acquisitions during the year	–	–	–	64	**64**
Disposals	–	(5)	(118)	(135)	**(258)**
At 31st December 2013	**300**	**4,137**	**14**	**20,338**	**24,789**
Carrying amount					
At 31st December 2013	**1,412**	**4,279**	**230**	**10,309**	**16,230**

As at 31st December 2012

	Freehold land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost					
At 1st January 2012	7,878	5,797	281	21,649	35,605
Acquisitions during the year	–	–	7	116	123
Additions	–	1,760	141	3,446	5,347
Transfer to assets held for sale	(1,097)	–	–	–	(1,097)
Disposals	(4,663)	(207)	(167)	(434)	(5,471)
At 31st December 2012	**2,118**	**7,350**	**262**	**24,777**	**34,507**
Depreciation and impairment					
At 1st January 2012	300	3,496	40	14,278	18,114
Charge for the year	–	375	144	2,980	3,499
Disposals	–	(206)	(87)	(314)	(607)
At 31st December 2012	**300**	**3,665**	**97**	**16,944**	**21,006**
Carrying amount					
At 31st December 2012	**1,818**	**3,685**	**165**	**7,833**	**13,501**

Assets held for sale

During the year the Group classified £276,000 (2012: £1,097,000) as assets held for sale. This relates to two (2012: seven) freehold properties acquired in 2010 which are now being actively marketed. These assets are part of the Estate Agency and Related Services segment. During the year, freehold properties with a book value totalling £1,227,000 (2012: £4,663,000) were sold for net proceeds of £1,361,000 (2012: £6,178,000) resulting in a gain on disposal of £134,000 (2012: £1,515,000) which has been recorded in exceptional items (see Note 7).

16. Financial assets

Available-for-sale financial assets

	2013 £'000	2012 £'000
Unquoted shares carried at cost less impairment of £nil (2012: £345,000)	–	148
Unquoted shares at fair value	36,574	11,773
	36,574	11,921
Opening balance	11,921	347
Additions	847	897
Fair value adjustment recorded through reserves	23,806	10,677
Closing balance	36,574	11,921

Unquoted shares carried at cost

The financial assets are in unlisted equity instruments and are carried at fair value. Fair value is judgemental given the assumptions required and have been valued using level 3 valuation techniques (see Note 29).

Zoopla

On 22nd November 2013, the Group acquired a further 48,178 Zoopla shares at £17.50 per share. The Group now owns 4.91% which based on £17.50 per share would be valued at £35.1m. The previous shares acquired in April 2012 were acquired for £6.00 per share showing a significant increase in the value of this business.

There have been no share transactions since the 22nd November 2013. The Directors have reviewed the profitability of Zoopla over the last 12 months as well as appropriate valuation multiple at 31st December 2013 and no information has arisen which would indicate that the fair value of Zoopla at 31st December 2013 has materially changed from the price paid on 22nd November 2013. Therefore the Directors have now assessed the valuation of the Group's share in Zoopla Group to be £35.1m.

In February 2014 DMGT, the largest shareholder in Zoopla, announced that the Board of Zoopla is exploring various strategic options for the business.

Other investments

The Group originally owned 15% of Vibrant Energy Matters Limited (VEM) which was acquired for £1 in November 2011. The Group increased its interest in VEM to 15.7%. The price paid for the shares has been deemed by the Directors to be a good approximation of fair value at 31st December 2013 and the Group's entire stake has been revalued upwards to £0.6m and has been recorded through reserves.

The Group originally owned 16.0% of GPEA Limited (GPEA) which was acquired for £448,000 and subsequently impaired by £345,000. During the period, a share buy back occurred which increased the Group's stake in GPEA to 17.7% and valued our interest in the business at approximately £0.9m. The price proposed for the share buy back is considered to be a good approximation of fair value at 31st December 2013 and the Group's entire stake has been revalued upwards to £0.8m and has been recorded through reserves.

17. Investments in joint ventures

	2013 £'000	2012 £'000
Investment in joint ventures	3,239	2,313

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. In December 2012, the Group paid an additional £10,000 to increase its ownership interest to 33.82%. The principal activity of LMS is to provide panel management of conveyancing services.

Notes to the Group Financial Statements continued.

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17. Investments in joint ventures (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:

	2013 £'000	2012 £'000
Share of the joint ventures' balance sheets:		
Non-current assets	**1,008**	995
Current assets	**4,991**	3,734
Current liabilities	**(2,739)**	(2,333)
Non-current liabilities	**(21)**	(83)
Share of net assets	**3,239**	2,313

	2013 £'000	2012 £'000
Share of the joint ventures' results:		
Revenue	**24,157**	20,520
Operating expenses	**(21,847)**	(18,968)
Operating profit	**2,310**	1,552
Finance income	**13**	16
Finance costs	**–**	(6)
Profit before tax	**2,323**	1,562
Taxation	**(592)**	(279)
Profit after tax	**1,731**	1,283

18. Trade and other receivables

	2013 £'000	2012 £'000
Current		
Trade receivables	**24,687**	20,846
Prepayments and accrued income	**10,653**	8,586
	35,340	29,432

Trade receivables are non-interest bearing and are generally on 0-30 day terms.

As at 31st December 2013, trade receivables with a nominal value of £2,117,000 (2012: £2,192,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2013 £'000	2012 £'000
At 1st January	**2,192**	2,233*
Acquisitions during the year	**–**	120
Charge for the year	**371**	52
Amounts written off	**(446)**	(213)
At 31st December	**2,117**	2,192

* Prior year opening provision balance has been restated due to re-analysis of gross debtor balance. The net trade receivable balance was not impacted.

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
2013	**24,687**	**18,785**	**5,600**	**302**
2012	20,846	14,432	6,124	290

19. Cash and cash equivalents

	2013 £'000	2012 £'000
Short-term deposits	**469**	225

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 £0.5m (2012: £0.2m). At 31st December 2013, the Group had available £73.5m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2012: £49.0m).

20. Trade and other payables

	2013 £'000	2012 £'000
Current		
Trade payables	**9,982**	9,470
Other taxes and social security payable	**11,505**	9,199
Other payables	**623**	928
Accruals	**31,980**	28,700
	54,090	48,297

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

	2013 £'000	2012 £'000
Current		
Overdraft	**2,548**	1,537
Contingent consideration	**2,335**	369
Deferred consideration	**–**	490
Derivatives carried at fair value	**230**	–
	5,113	2,396
Non-current		
Bank loans – Revolving Credit Facility(RCF)	**24,000**	24,500
12% unsecured loan notes	**9,339**	8,660
Deferred consideration	**446**	450
Contingent consideration	**9,964**	7,719
Derivatives carried at fair value	**–**	836
	43,749	42,165

Bank loans – revolving credit facility and overdraft
A new £100m loan facility which expires in August 2017 was arranged in June 2013 and this replaced the previous £75m facility which was due to expire in March 2014. Loan refinance costs of £1,128,000 were incurred in June 2013 which have been capitalised and are being amortised over the life of the loan facility.

The bank loan totalling £24.0m (2012: £24.5m) and overdraft totalling £2.5m (2012: £1.5m) are secured via a cross guarantee issued from all of the Group's subsidiaries excluding the following subsidiaries, Lending Solutions, Homefast Property Services, Linear Mortgage Network, Linear Financial Services, Templeton LPA, Chancellors Associates and LSLi and its subsidiaries.

Notes to the Group Financial Statements continued.

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21. Financial liabilities (continued)

Bank loans – revolving credit facility and overdraft (continued)

The utilisation of the revolving credit facility may vary each month as long as this does not exceed the maximum £100.0m facility (2012: £75.0m). The Group's overdraft is also secured on the same facility but can not exceed £5.0m and the combined overdraft and revolving credit facility can not exceed £100.0m (2012: £75.0m). Interest and fees payable on the revolving credit facility amounted to £2.1m (2012: £1.8m). The interest rate applicable to the facility is LIBOR plus a margin rate of 1.50% (2012: LIBOR plus 1.75%). The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals. The margin negotiated is lower than the previous margin. However, an additional fee is charged if the facility is more than 33% drawn which would mean the overall fee paid was in line with the previous facility. This fee would increase by a further 0.25% if the facility was more than 67% drawn.

12% unsecured loan notes

The 12% loan note 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 they are redeemable on 31st March 2020. These amounts include accrued interest of £679,000 at 31st December 2013.

Deferred consideration

During the period the Group paid £494,000 of deferred consideration. Deferred consideration totalling £446,000 is payable at any time between 31st March 2016 and 31st March 2020 at the option of the management shareholders.

Contingent consideration

	2013 £'000	2012 £'000
Marsh & Parsons growth shares	**2,220**	1,868
LSLi contingent consideration	**9,206**	6,220
Walker Fraser Steele	**873**	–
	12,299	8,088
Opening balance	**8,088**	1,215
Cash paid	**(520)**	–
Acquisition	**1,997**	–
Put option liability recognised in equity	**–**	2,928
Fair value adjustment recorded against goodwill	**(58)**	(156)
Amounts recorded though Income Statement	**2,792**	4,101
Closing balance	**12,299**	8,088

£2,220,000 (2012: £1,868,000) of contingent consideration relates to the 'Growth Shares' issued to the 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 Shares 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.

£9,206,000 (2012: £6,220,000) of contingent consideration relates to payments to third parties in relation to the acquisition of LSLi and certain of its subsidiaries between 2007 and 2013. This is payable between three and five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years. In 2013, the contingent consideration has been recalculated based on the latest management's expectation using a discount rate of 6.5% (2012: 7%).

£873,000 (2012: £nil) is payable on the Walker Fraser Steele acquisition and will be paid over the next six years. The contingent consideration is valued based on estimates of the payments due under the contract. To date £208,000 (2012: £nil) has been paid to vendors under the contract.

21. Financial liabilities (continued)

Contingent consideration (continued)
In respect of the closing balance of contingent consideration of £12,299,000 (2012: £8,088,000), £5,624,000 (2012: £4,118,000) relates to arrangements being accounted for as remuneration, £4,371,000 (2012: £3,149,000) relates to put options over non-controlling interests and £2,304,000 (2012: £821,000) relates to arrangements accounted for under IFRS 3. In respect of the amount recorded in the income statement of £2,792,000 (2012: £4,101,000), £1,506,000 (2012: £4,039,000) relates to arrangement being accounted for as remuneration, £1,223,000 (2012: £nil) relates to put options over non controlling interests and £63,000 (2012: £62,000) relates to arrangements accounted for under IFRS 3.

Derivatives carried at fair value – interest rate swap
In 2009 the Group entered into three interest rate swaps to hedge its interest rate risks which are carried at fair value.

22. Provisions for liabilities

	2013			2012		
	Professional indemnity claim provision £'000	**Onerous leases £'000**	**Total £'000**	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000
Balance at 1st January	**24,163**	**1,037**	**25,200**	9,641	417	10,058
Amount utilised	**(14,445)**	**(506)**	**(14,951)**	(6,682)	(255)	(6,937)
Amount released	**–**	**(90)**	**(90)**	–	–	–
Unwinding of discount	**683**	**–**	**683**	508	–	508
Provided in financial year (including exceptional costs)	**15,463**	**34**	**15,497**	20,696	875	21,571
Balance at 31st December	**25,864**	**475**	**26,339**	24,163	1,037	25,200
Current	**8,378**	**80**	**8,458**	1,770	535	2,305
Non-current	**17,486**	**395**	**17,881**	22,393	502	22,895
	25,864	**475**	**26,339**	24,163	1,037	25,200

The PI claim provision is to cover the costs of claims relating to valuation services for clients which are not covered by PI insurance. The claim provision includes amounts for claims already received from clients, claims yet to be received and any other amounts which may be payable as a result of legal disputes associated with provision of valuation services.

The provision 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 a significant portion of the provision has been classified as non-current.

As announced in November 2013, an additional exceptional charge of £12.0m (c£9.2m after tax) has been made in the year ending 31st December 2013 in order to increase the PI provision. Further details of the exceptional charge are provided in Note 7.

Since November 2013, the rate of new claims and cost per claim has been consistent with the assumptions behind the new provision. This additional provision represents our current best estimate of likely claims costs but the process of resolving open claims and estimating future claims is on-going. A number of risks and uncertainties remain, in particular the actual monthly run rate of new claims, the date at which the high rate of claims will significantly reduce, and the average cost per case both for existing open claims and for claims yet to be received. The cost of these factors could differ materially from the Board's estimates, which could result in a further provision being required.

At 31st December 2013 the total provision for PI Costs was £25.9m. The Board has considered sensitivity analysis on the key risks and uncertainties discussed above. If the run rate of new claims was 10% higher or lower than assumed in the year end provision of £25.9m, an additional or lower provision of £3.1m would be required. If the average cost per case for both existing open claims and for claims yet to be received was 5% higher or lower than assumed in the year end provision of £25.9m, an additional or lower provision of £1.8m would be required.

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

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

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:

	2013			2012		
	Land and building £'000	Plan and machinery £'000	Total £'000	Land and building £'000	Plant and machinery £'000	Total £'000
No later than one year	7,888	3,190	11,078	8,109	2,751	10,860
After one year but not more than five years	15,956	3,688	19,644	20,839	2,799	23,638
After five years	6,805	–	6,805	12,727	–	12,727
	30,649	6,878	37,527	41,675	5,550	47,225

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

	2013 Land and buildings £'000	2012 Land and buildings £'000
Not later than one year	334	707
After one year but not more than five years	447	1,497
After five years	382	436
	1,163	2,640

24. Share capital

	2013		2012	
	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 2013 the Group held 1,444,148 (2012: 1,246,288) of its own shares at an average cost of £2.97 (2012: £2.16). The market value of the shares at 31st December 2013 was £6,394,000 (31st December 2012: £3,228,000). The nominal value of each share is 0.2p.

Fair value reserve

The fair value reserve is used to record the changes in fair value of financial assets held for sale. Note 16 gives further details of the movement in the current year.

26. Pension costs and commitments

The Group operates defined contribution pension schemes for its Executive 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 £1,745,000 (2012: £1,917,000). There was an outstanding amount of £700,000 in respect of pensions as at 31st December 2013 (2012: £255,000). The increase in 2013 was due to an issue with the systems of our pension provider which have now been resolved.

27. Acquisitions during the year

Year ended 31st December 2013
The Group acquired the following businesses during the year:

a. Walker Fraser Steele LLP

In June 2013, the Group acquired the trade and assets of Walker Fraser Steele LLP, a Scottish surveying business for an initial consideration of £25,000 and a contingent consideration, valued based on estimates of the payments due under the contract, calculated to be to 1,081,000. The fair value of the identifiable assets, except for cash and cash equivalents, and liabilities of Walker Fraser Steele LLP as at the date of acquisition have been determined as below:

	Provisional fair value recognised on acquisition £'000
Intangible assets	24
Total identifiable net liabilities acquired	**24**
Purchase consideration	1,106
Goodwill	1,082
Purchase consideration discharged by:	
Cash	25
Contingent consideration	1,081
	1,106

	£'000
Analysis of cash flow on acquisition	
Transaction costs (included in cash flows from operating activities)	54
Net cash acquired with the subsidiary (included in cash flows from investing activities)	–
Purchase consideration discharged in cash (included in cash flows from investing activities)	25
Net cash outflow on acquisition	**79**

The acquisition accounting above, is considered provisional as LSL is still reviewing estimates of the likely payments under the contract, but the calculation above represents our best estimate at 31st December 2013.

The goodwill of Walker Fraser Steele LLP comprises certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include an experienced management team with a good record of delivering a quality service to customers against the backdrop of challenging market conditions, the expected value of synergies and the potential to significantly grow the business. No determination has been made yet as to what proportion, if any, of the goodwill will be tax deductible.

b. Lawlors Limited

In September 2013 the Group acquired 75% of Lawlors, a three branch estate agency chain operating in Essex for a cash consideration of £2.0m. The remaining 25% is subject to put and call options which are exercisable in two tranches in 2017 and 2019 dependent on profit performance. Due to the nature of the payment terms, the deferred consideration is considered to be a capital payment for accounting purposes.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

27. Acquisitions during the year (continued)

b. Lawlors Limited (continued)

The fair value of the identifiable assets, except for cash and cash equivalents, and liabilities of Lawlors as at the date of acquisition have been determined as below:

	Provisional fair value recognised on acquisition £'000
Intangible assets	202
Property, plant and equipment	23
Trade and other receivables	124
Cash and cash equivalents	24
Trade and other payables	(138)
Current tax liabilities	(108)
Total identifiable net liabilities acquired	**127**
Purchase consideration	2,870
Goodwill	2,743
Purchase consideration discharged by:	
Cash	2,006
Deferred consideration	864
	2,870

	£'000
Analysis of cash flow on acquisition	
Transaction costs (included in cash flows from operating activities)	73
Net cash acquired with the subsidiary (included in cash flows from investing activities)	(24)
Purchase consideration discharged in cash (included in cash flows from investing activities)	2,006
Net cash outflow on acquisition	**2,055**

The acquisition accounting above, is considered provisional as LSL is still reviewing estimates of the likely payments under the contract, but the calculation above represents our best estimate at 31st December 2013.

Transaction costs have been expensed and are included under exceptional costs (see Note 7). The goodwill of Lawlors 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 a good 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.

c. Lettings acquisitions

During the year, Your Move and LSLi (through its subsidiaries) acquired five lettings businesses for an aggregate consideration of £1,536,000 of which £52,000 has been deferred which have then been amalgamated into the existing businesses. The combined fair values of the identifiable assets and liabilities as at the date of acquisition of the above acquisitions as at the date of acquisition have been determined as below:

	Provisional fair value recognised on acquisition £'000
Property, plant and equipment	26
Current tax liabilities	(4)
Total identifiable net liabilities acquired	**22**
Purchase consideration	1,536
Goodwill	1,514
Purchase consideration discharged by:	
Cash	1,484
Deferred consideration	52
	1,536

27. Acquisitions during the year (continued)

c. Lettings acquisitions (continued)

	£'000
Analysis of cash flow on acquisition	
Transaction costs (included in cash flows from operating activities)	73
Net cash acquired with the subsidiary (included in cash flows from investing activities)	–
Purchase consideration discharged in cash (included in cash flows from investing activities)	1,484
Net cash outflow on acquisition	**1,557**

The acquisition accounting above, is considered provisional as LSL is still reviewing estimates of the likely payments under the contract, but the calculation above represents our best estimate at 31st December 2013.

Transaction costs have been expensed and are included under exceptional costs (see Note 7) and totalled £200,000 in the year. The goodwill of the acquired businesses 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.

From the date of acquisition to 31st December 2013, the acquisitions in aggregate have contributed to £1.3m of revenue and £0.4m profit before tax of the Group, excluding the impact of movements in the contingent consideration recorded through the profit and loss. If all of these combinations had taken place at the beginning of the year, the consolidated revenue would have been higher by £3.4m and the consolidated profit before tax would have been higher by £1.0m. Of the total goodwill arising on all acquisitions, none is expected to be deductible for tax purposes.

Year ended 31st December 2012
The Group acquired the following businesses during the prior year:

a. Davis Tate Limited

In January 2012 the Group acquired 51% of Davis Tate, an 11 branch estate agency chain operating in 14 locations within the Thames Valley for a cash consideration £1.6m. The remaining 49% is subject to put and call options which are exercisable in two tranches in 2013 and 2016 dependent on profit performance and in part continued employment of the vendors. Due to the nature of the payment terms, the deferred consideration is considered to be an employee expense and not a capital payment for accounting purposes (see Note 7 for the expense in the current year).

The fair value of the identifiable assets, except for cash and cash equivalents, and liabilities of Davis Tate as at the date of acquisition have been determined as below:

	Fair value recognised on acquisition £'000
Intangible assets	236
Property, plant and equipment	39
Trade and other receivables	139
Cash and cash equivalents	239
Trade and other payables	(827)
Current tax liabilities	(159)
Total identifiable net liabilities acquired	**(333)**
Purchase consideration	1,633
Goodwill	1,966
Purchase consideration discharged by:	
Cash	1,633
Deferred consideration	–
	1,633

Notes to the Group Financial Statements continued.

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27. Acquisitions during the year (continued)

a. Davis Tate Limited (continued)

	£'000
Analysis of cash flow on acquisition	
Transaction costs (included in cash flows from operating activities)	–
Net cash acquired with the subsidiary (included in cash flows from investing activities)	239
Purchase consideration discharged in cash (included in cash flows from investing activities)	(1,633)
Net cash outflow on acquisition	**1,394**

Transaction costs have been expensed and are included under exceptional costs (see Note 7). The goodwill of Davis Tate 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.

b. Lauristons Limited

In July 2012, the Group acquired 85% of Lauristons, a five branch estate agency chain in South West London for a cash consideration of £1.8m. The remaining 15% is subject to put and call options exercisable in 2016 dependent on profit performance and in part continued employment of the vendors. Due to the nature of the payment terms, the deferred consideration is considered to be an employee expense and not a capital payment for accounting purposes (see Note 7 for the expense in the current year).

As allowed under IFRS 3 Business Combinations, the acquisition accounting for Lauristons was adjusted as a result of identifying additional liabilities which should have been recognised on acquisition. This resulted in an increase in goodwill of £612,000 which has been adjusted retrospectively. The fair value of the identifiable assets, except for cash and cash equivalents, and liabilities of Lauristons as at the date of acquisition have been determined as below:

	Fair value recognised on acquisition £'000
Intangible assets	212
Property, plant and equipment	84
Trade and other receivables	624
Cash and cash equivalents	(16)
Trade and other payables	(868)
Total identifiable net assets acquired	**36**
Purchase consideration	1,802
Goodwill	1,766
Purchase consideration discharged by:	
Cash	1,802
Deferred consideration	–
	1,802

	£'000
Analysis of cash flow on acquisition	
Transaction costs (included in cash flows from operating activities)	–
Net cash acquired with the subsidiary (included in cash flows from investing activities)	(16)
Purchase consideration discharged in cash (included in cash flows from investing activities)	(1,802)
Net cash outflow on acquisition	**(1,818)**

Transaction costs have been expensed and are included under exceptional costs (see Note 7). The goodwill of Lauristons 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.

27. Acquisitions during the year (continued)

c. Lettings acquisition by LSLi Limited

During the prior year, LSLi Limited (through its subsidiaries) acquired a number of lettings businesses for an aggregate consideration of £323,000 in cash. The combined fair values of the identifiable assets and liabilities as at the date of acquisition of the above acquisitions was £nil and so the entire purchase price of £323,000 was ascribed to goodwill. The goodwill of £0.3m 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.

d. Acquisition by Linear Mortgage Networks

During the prior year, Linear Mortgage Networks acquired the assets of Mortgage Options for £100,000 and the assets of Hoath Independent Financial Planning for £46,000 as well as other miscellaneous customer contracts for £15,000. Apart from the customer contracts acquired there were no other separately identifiable intangible assets and so all of the consideration was allocated to customer contract intangible asset.

e. Lettings acquisition by Your Move

During the prior year, Your Move completed the acquisition of the NSK lettings business for a total cash consideration of £10,000. There were no separately identifiable net assets and all the consideration was towards goodwill.

From the date of acquisition to 31st December 2012, the acquisitions in aggregate have contributed to £4.8m of revenue and £1.2m profit before tax of the Group, excluding the impact of movements in the contingent consideration recorded through the profit and loss. If all of these combinations had taken place at the beginning of the year, the consolidated revenue would have been higher by £6.5m and the consolidated profit before tax would have been higher by £1.4m. Of the total goodwill arising on all acquisitions, none is expected to be deductible for tax purposes.

28. Client monies

As at 31st December 2013, monies held by subsidiaries in separate bank accounts on behalf of clients amounted to £73,670,000 (2012: £65,501,000). 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 these amounts.

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.

Notes to the Group Financial Statements continued.

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29. Financial instruments – risk management (continued)

Cash flow interest rate risk (continued)

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 LIBOR 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 2013, after taking into account the effect of interest rate swaps, approximately 94% of the Group's revolving credit facility is at a fixed rate of interest (2012: 96%).

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
2013	**+100**	**(24)**
	-100	**24**
2012	+100	(10)
	-100	10

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 2013 based on contractual undiscounted payments:

Year ended 31st December 2013

	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 (including overdraft)	2,548	234	701	36,620	–	**40,103**
Trade and other payables	–	9,982	–	–	–	**9,982**
Contingent consideration	–	–	2,403	11,049	–	**13,452**
Deferred consideration	–	–	–	446	–	**446**
Interest rate swap	–	152	81	–	–	**233**
	2,548	**10,368**	**3,185**	**48,115**	**–**	**64,216**

29. Financial instruments – risk management (continued)

Liquidity risk (continued)

Year ended 31st December 2012

	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 (including overdraft)	1,537	318	956	34,103	–	**36,914**
Trade and other payables	–	9,470	–	–	–	**9,470**
Contingent consideration	–	–	380	8,811	–	**9,191**
Deferred consideration	–	490	–	450	–	**940**
Interest rate swap	–	152	457	233	–	**842**
	1,537	**10,430**	**1,793**	**43,597**	**–**	**57,357**

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 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.

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 from this ratio as they are unsecured and are not relevant to calculate the Group's banking covenant.

The Group has a current ratio of net bank debt (excluding loan notes) to EBITDA of 0.63 (2012: 0.67:1), based on net bank debt (excluding loan notes) of £26.3m (2012: net bank debt of £26.6m) and operating profit before exceptional costs, amortisation and share-based payment charge of £37.1m (2012: profit of £35.1m). 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 Group 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.

Net bank debt is defined as follows:

	2013 £'000	2012 £'000
Interest bearing loans and borrowings (including loan notes and overdraft)	**48,862**	44,561
Less: 2% and 12% unsecured loan notes	**(9,339)**	(8,660)
Less: cash and short term deposits	**(469)**	(225)
Less: deferred and contingent consideration	**(12,745)**	(9,028)
Net bank debt (excluding loan notes)	**26,309**	26,648

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.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

29. Financial instruments – risk management (continued)

Credit risk (continued)

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 2013 are as follows:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 Years £'000	Total £'000
Fixed rate					
Revolving credit facility*	(25,000)	–	–	–	**(25,000)**
Floating rate					
Cash and cash equivalents	469	–	–	–	**469**
Revolving credit facility	25,000	–	–	(26,548)	**(1,548)**

* includes the effect of interest rate swap

The effective interest rate and the actual interest rate charged on the loans in 2013 are as follows:

	Effective rate	Actual rate
Revolving credit facility	5.4%	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 note 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 2012 are as follows:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	Total £'000
Fixed rate				
Revolving credit facility*	–	(25,000)	–	**(25,000)**
Floating rate				
Cash and cash equivalents	225	–	–	**225**
Revolving credit facility	–	(1,037)	–	**(1,037)**

* includes the effect of interest rate swap

The effective interest rate and the actual interest rate charged on the loans in 2012 are as follows:

	Effective rate	Actual rate
Revolving credit facility	4.4%	2.2%
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 note is low due to the loan notes being recorded at fair value on initial issue in 2011.

29. Financial instruments – risk management (continued)

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:

	2013		2012	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
Financial assets				
Cash and cash equivalents	469	469	225	225
Available-for-sale financial assets	36,574	36,574	11,921	11,921
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	(26,548)	(26,548)	(26,037)	(26,037)
Fixed rate borrowings	–	–	–	–
Derivative financial liabilities – interest rate swaps	(230)	(230)	(836)	(836)
Contingent consideration	(12,299)	(12,299)	(8,088)	(8,088)
Deferred consideration	(446)	(446)	(940)	(940)
12% unsecured loan notes	(9,339)	(9,339)	(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 swaps are determined by reference to market values for similar instruments.

Fair value hierarchy

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.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities.

2013	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	36,574	–	–	36,574
Liabilities measured at fair value				
Interest rate swap	230	–	230	–
Contingent consideration	12,299	–	–	12,299
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings:				
Floating rate borrowings	26,548	–	26,548	–
12% unsecured loan notes	9,339	–	9,339	–

Notes to the Group Financial Statements continued.

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29. Financial instruments – risk management (continued)

Fair value hierarchy (continued)

2012	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	11,773	–	–	11,773
Liabilities measured at fair value				
Interest rate swap	836	–	836	–
Contingent consideration	8,088	–	–	8,088
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings:				
Floating rate borrowings	26,037	–	26,037	–
12% unsecured loan notes	8,660	–	8,660	–

The Directors reviewed the fair value of the financial assets at 31st December 2013. The methods used to determine the fair value are disclosed in more detail in Note 16. The underlying value of the business will be driven by the profitability of these businesses. If this was to drop by 10%, the implied valuation is likely to also drop by around 10%, £3.7 million.

The contingent consideration relates to amounts payable in the future on acquisitions. The amounts payable are based on the amounts agreed in the contracts and based on the future profitability of each entity acquired. In valuing each provision, estimates have been made as to when the options are likely to be exercised and the future profitability of the entity at this date. Further details of these provisions are shown in Note 21. If the future profitability of the entities was to decline by 10%, the size of the contingent consideration would decrease by approximately £1.2 million.

Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31st December 2013 and 2012 was assessed to be insignificant.

30. Analysis of Net Bank Debt (excluding loan notes)

	2013 £'000	2012 £'000
Interest bearing loans and borrowings		
– Current	**5,113**	2,396
– Non-current	**43,749**	42,165
	48,862	44,561
Less: 12% unsecured loan notes	**(9,339)**	(8,660)
Add: cash and short-term deposits	**(469)**	(225)
Less: deferred and contingent consideration	**(12,745)**	(9,028)
Net bank debt at the end of the year	**26,309**	26,648

During the year, the Group has repaid £0.5m (2012: repaid £10.4m) 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 £100.0m facility (2012: £75.0m).

31. Related party transactions

Transactions with Cybele Solutions Holdings Limited and its subsidiaries

	2013 £'000	2012 £'000
Sales	113	128
Purchases	(12)	(20)
Year-end creditor balance	–	–

Transactions with TM Group and its subsidiaries

	2013 £'000	2012 £'000
Sales	934	633
Purchases	–	–
Year-end creditor balance	–	–

32. Capital commitments

	2013 £'000	2012 £'000
Capital expenditure contracted for but not provided	1,167	140

Notes to the Group Financial Statements continued.

for the year ended 31st December 2013

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.co.uk Ltd	Ordinary shares	100%	Estate Agency and Related Services
e.surv Ltd*	Ordinary shares	100%	Surveying and Valuation Services
Marsh & Parsons Ltd	Ordinary shares	100%	Estate Agency and Related Services
Marsh & Parsons Holdings Ltd*	'A' Ordinary shares	100%	Holding Company
	'B' Ordinary shares	0%	
	'C' Ordinary shares	0%	
First Complete Ltd*	Ordinary shares	100%	Financial Services
LSL Corporate Client Services Ltd*	Ordinary shares	100%	Asset Management
St Trinity Ltd *	Ordinary shares	100%	Asset Management
Reeds Rains Ltd*	Ordinary shares	100%	Estate Agency and Related Services
Linear Mortgage Network Ltd	Ordinary shares	76%	Financial Services
Chancellors Associates Ltd	Ordinary shares	100%	Surveying and Valuation Services
LSLi Ltd*	Ordinary shares	75%	Holding Company
ICIEA Ltd	Ordinary shares	87.5%	Estate Agency and Related Services
Davis Tate Ltd	Ordinary shares	51%	Estate Agency and Related Services
Lauristons Ltd	Ordinary shares	85%	Estate Agency and Related Services
GFEA Ltd	Ordinary shares	80.1%	Estate Agency and Related Services
Barnwoods Ltd*	Ordinary shares	100%	Surveying and Valuation Services
Lawlors Ltd	Ordinary shares	75%	Estate Agency and Related Services
David Frost Estate Agents Ltd	Ordinary shares	100%	Estate Agency and Related Services
	Non cumulative redeemable preference shares		
JNP (Estate Agents) Ltd	Ordinary shares		
	Ordinary 'B' shares	97.5%	Estate Agency and Related Services
	Ordinary 'C' shares		
Albany Insurance Company (Guernsey) Ltd*	Ordinary shares	100%	Captive insurer
Advanced Mortgage Funding Ltd*	Ordinary shares	100%	Financial Services
	Preference shares	100%	
Templeton LPA Limited	Ordinary shares	100%	LPA receiver
Cybele Solutions Holdings Ltd#	Ordinary 'A' Shares	33.82%	Conveyancing
TM Group (UK) Ltd#	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 Auditor's Report to the Members of LSL Property Services plc

We have audited the parent company financial statements of LSL Property Services plc for the year ended 31st December 2013 which the Parent Company Balance Sheet and the related Notes 1 to 14. 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 auditor
As explained more fully in the Directors' Responsibilities Statement set on page 123, 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 and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

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 2013;
- 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 Strategic Report and 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 2013.

Alistair Denton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor, Leeds
6th March 2014

Parent Company Balance Sheet

as at 31st December 2013

	Note	2013 £'000	2012 £'000
Fixed assets			
Tangible fixed assets	2	**28**	39
Investments	3	**201,697**	177,596
		201,725	177,635
Current assets			
Debtors	4	**33,485**	32,880
Creditors: amounts falling due within one year	5	**(134,612)**	(126,126)
Net current liabilities		**(101,127)**	(93,246)
Total assets less current liabilities		**100,598**	84,389
Creditors: amounts falling due after one year	6	**(24,000)**	(25,336)
Net Assets		**76,598**	59,053
Capital and reserves			
Called up share capital	9	**208**	208
Share premium account	10	**5,629**	5,629
Share-based payment reserve	10	**2,475**	1,526
Treasury shares	10	**(4,292)**	(2,691)
Fair value reserve	10	**33,163**	10,677
Profit and loss account	10	**39,415**	43,704
Shareholders' funds		**76,598**	59,053

The Financial Statements were approved by and signed on behalf of the Board by:

Steve Cooke
Group Finance Director
6th March 2014

Ian Crabb
Group Chief Executive Officer
6th March 2014

Notes to the Parent Company Financial Statements

for the year ended 31st December 2013

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 2013. 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. 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.

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.

1. Accounting policies (continued)

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.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification.

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

Interest bearing loans and borrowings

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

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

Borrowing costs are recognised as an expense when incurred.

Derivative financial instruments

The Company uses derivative financial instruments such as interest rate swaps 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 to 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.

Notes to the Parent Company Financial Statements continued.

for the year ended 31st December 2013

1. Accounting policies (continued)

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.

2. Tangible fixed assets

As at 31st December 2013

	Leasehold improvements £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
At 1st January 2013	49	93	**142**
Additions	6	–	**6**
At 31st December 2013	**55**	**93**	**148**
Depreciation			
At 1st January 2013	24	79	**103**
Charge for the year	11	6	**17**
At 31st December 2013	**35**	**85**	**120**
Carrying amount			
At 31st December 2013	**20**	**8**	**28**
At 1st January 2013	25	14	**39**

3. Investments

	2013 £'000	2012 £'000
Subsidiary undertakings	**165,163**	164,395
Other investments	**35,102**	11,769
Investments in joint ventures	**1,432**	1,432
	201,697	177,596

Subsidiary undertakings:

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

	2013 £'000	2012 £'000
At 1st January	**164,395**	159,335
Additions	**–**	4,495
Disposals	**(4)**	–
Adjustments for share-based payment	**772**	565
At 31st December	**165,163**	164,395

In 2013, an adjustment of £772,000 (2012: increase of £565,000) 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. The total contribution to date is £4,104,000 (2012: £3,332,000).

3. Investments (continued)

Other investments

	2013 £'000	2012 £'000
At Cost		
At 1st January	**11,769**	195
Additions	**847**	897
Revaluation uplift	**22,486**	10,677
At 31st December	**35,102**	11,769

Other investments represent investment in equity shares of private Ltd companies. In April 2012, the Group acquired a further 1.38% of Zoopla for £897k. In August 2012, Zoopla merged with Digital Property Group (DPG), owner of Findaproperty.com and Primelocation.com. As part of the merger, any warrants held in Zoopla were exercised so that the Group owned 4.81% of the post-merger entity.

On 22nd November 2013, the Group acquired 48,178 shares at £17.50 per share. The Group now owns 4.91% which based on £17.50 per share would be valued at £35.1m. There have been no share transactions since the 22nd November 2013. The Directors have reviewed the profitability of Zoopla over the last 12 months as well as appropriate valuation multiple at 31st December 2013 and no information has arisen which would indicate that the fair value of Zoopla at 31st December 2013 has changed from the price paid on 22nd November 2013. Therefore the Directors have now assessed the valuation of the Group's share in Zoopla Group to be £35.1m.

Investments in joint ventures

	2013 £'000	2012 £'000
At Cost		
At 1st January	**1,432**	1,422
Additions	**–**	10
At 31st December	**1,432**	1,432

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

4. Debtors

	2013 £'000	2012 £'000
Deferred tax asset (Note 7)	**142**	203
Group relief receivable	**14,112**	11,667
Prepayments	**1,088**	10
Amounts owed by Group undertakings	**18,143**	21,000
	33,485	32,880

5. Creditors: amounts falling due within one year

	2013 £'000	2012 £'000
Bank overdraft (Note 8)	**23,589**	22,516
Other taxes and social security payable	**219**	219
Accruals	**1,613**	994
Contingent consideration	**2,220**	1,868
Deferred consideration	**446**	450
Derivative financial liability - interest rate swap	**230**	-
Amounts owed to Group undertakings	**106,295**	100,079
	134,612	126,126

Notes to the Parent Company Financial Statements continued.

for the year ended 31st December 2013

5. Creditors: amounts falling due within one year (continued)

Deferred consideration

Deferred consideration of £446,000 (2012: £450,000) relates to 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 Ltd. No interest is payable on this.

Contingent consideration

£2,220,000 (2012: £1,868,000) of contingent consideration relates to the 'Growth Shares' issued to the 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 Shares 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.

6. Creditors: amounts falling due after one year

	2013 £'000	2012 £'000
Loans (Note 8)	**24,000**	24,500
Derivative financial liability - interest rate swap	**–**	836
	24,000	25,336

7. Deferred tax asset

	2013 £'000	2012 £'000
Deferred tax asset at 1st January	**203**	323
Deferred tax (charge)/credit in profit and loss account for the year	**(61)**	(120)
Deferred tax asset at 31st December	**142**	203

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

In March 2013, the UK government announced proposals to reduce the main rate of corporation tax to 20% from 1st April 2016. As of 31st December 2013 reductions to the main rate of corporation tax to 20% had been enacted. Accordingly this is the rate at which deferred tax has been provided.

No provision has been made for deferred tax on gains recognised on revaluing investments. Such tax would become payable only if the investment were sold. The total amount unprovided for is £6,633,000. At present, it is not envisaged that any tax will become payable in the foreseeable future.

8. Loans

	2013 £'000	2012 £'000
Amounts falling due		
In more than one year but not more than two years	**–**	24,500
In more than two years but not more than five years	**24,000**	–
	24,000	24,500

Bank loans – revolving credit facility and overdraft

The Group's bank loan totalling £24m (2012: £24.5m) and Group's overdraft total £2.5m (2012: £1.5m). The bank loan is secured via a cross guarantee issued from all of the Group's subsidiaries excluding the following subsidiaries, Lending Solutions, Homefast Property Services, Linear Mortgage Network, Linear Financial Services, Templeton LPA, AMF, BDS, Chancellors Associates and LSLi and its subsidiaries. The parent company overdraft is £23.6m but is offset by positive cash balances in the subsidiaries listed above.

The 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 £100m facility (2012: £75m). The Group's overdraft is also secured on the same facility but cannot exceed £5m and the combined overdraft and revolving credit facility cannot exceed £100m (2012: £75m). The banking facility was renewed in June 2013 for a further period until August 2017.

The interest rate applicable to the facility is LIBOR plus a margin rate of 1.50% (2012: 1.75%). The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

9. Called up share capital

	2013 Shares	2013 £'000	2012 Shares	2012 £'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

10. Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Treasury shares £'000	Fair value reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1st January 2012	**208**	**5,629**	**912**	**(2,747)**	**–**	**56,922**	**60,924**
Revaluation of financial assets	–	–	–	–	10,677	–	10,677
Share-based payments	–	–	647	–	–	–	647
Exercise of share options	–	–	(33)	56	–	(23)	–
Dividend paid	–	–	–	–	–	(9,261)	(9,261)
Loss for the year	–	–	–	–	–	(3,934)	(3,934)
Balance at 1st January 2013	**208**	**5,629**	**1,526**	**(2,691)**	**10,677**	**43,704**	**59,053**
Revaluation of financial assets	–	–	–	–	22,486	–	22,486
Share-based payments	–	–	1,323	–	–	–	1,323
Purchase of Treasury shares	–	–	–	(2,625)	–	–	(2,625)
Exercise of share options	–	–	(374)	1,024	–	434	1,084
Dividend paid	–	–	–	–	–	(9,985)	(9,985)
Profit for the year	–	–	–	–	–	5,262	5,262
Balance at 31st December 2013	**208**	**5,629**	**2,475**	**(4,292)**	**33,163**	**39,415**	**76,598**

For a description of the reserves refer to Note 25 to the Group Financial Statements.

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

Share-based payment reserve
This represents the amount provided in the year in respect of share awards. The Company operates Long Term Incentive Plan (including JSOP and CSOP) and a number of SAYE schemes for the employees in the Company and the Group. See Note 11 to the Financial Statements for details of the LTIP, JSOP, CSOP and the SAYE schemes.

Notes to the Parent Company Financial Statements continued.

for the year ended 31st December 2013

11. 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 £5,262,000 (2012: loss of £3,934,000).

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

The Company paid £43,000 (2012: £42,000) 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 9 to the Group Financial Statements.

12. Pensions costs and commitments

The Company operates defined contribution pension schemes for all its Directors and employees. The assets of the schemes are held separately from those of the Company in independently administered funds. The Company's contributions for 'old' members of the existing defined contribution section of the scheme (those members who have always been in this scheme) throughout 2008, were a maximum of 5% of pensionable salaries where members contribute and the cost of the death-in-service benefits. Contributions to the scheme were suspended in April 2009 and recommenced in 2010.

The Company's contributions for 'new' members of the defined contribution stakeholder scheme (those members who were part of the Aviva scheme until the Company left the Aviva group in 2004) was 5% of pensionable salaries where members contribute, and the cost of the death-in-service benefits. Contributions to the scheme were suspended in April 2009 and recommenced in 2010.Total contributions to the defined contribution schemes in the year were £69,696 (2012: £60,797). There were no outstanding amounts in respect of pensions as at 31st December 2013 (2012: £nil).

13. Capital commitments

The Company had no capital commitments as at 31st December 2013 (2012: none).

14. 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				
2013	–	–	52	–
2012	–	–	121	–
Linear Financial Services				
2013	–	–	277	–
2012	–	–	277	–
LSLi				
2013	–	–	11,720	–
2012	–	–	8,440	–
Intercounty				
2013	–	–	319	–
2012	–	–	249	–
JNP				
2013	–	–	–	583
2012	–	–	28	–
Goodfellows				
2013	–	–	208	–
2012	–	–	792	–
Intercounty Lettings Limited				
2013	–	–	29	–
2012	–	–	29	–
Marsh & Parsons Holdings Limited				
2013	–	–	1,422	–
2012	–	–	1,661	–
Marsh & Parsons				
2013	–	–	–	5,000
2012	–	–	–	–
Frosts				
2013	–	–	–	1,226
2012	–	–	–	701

Other Information

In this section

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 to the Financial Statements

"**AGM**" Annual General Meeting

"**AMF**" and "**Advance Mortgage Funding**" are trading names of Advance Mortgage Funding Limited

"**AMI**" Association of Mortgage Intermediaries "**ARLA**" Association of Residential Lettings Agents

"**ASA**" Advertising Standards Authority

"**Asset Management**" refers to LSL's repossessions asset management and property management for multi property landlords services

"**Audit Committee**" LSL's audit committee

"**Auditor Independence Policy**" LSL policy relating to non audit services provided by the external auditor

"**Basic Earnings Per Share**" is defined at Note 10 to the Financial Statements

"**BDS**" and "**BDS Mortgage Group**" are trading names of BDS Mortgage Group Limited

"**Board**" the Board of Directors of LSL

"**BSi**" British Standards Institute

"**Committees**" refers to LSL's Nominations Committee, the Audit Committee and the Remuneration Committee

"**Companies Act**" Companies Act 2006

"**Corporate Client Services**" comprising LSL Corporate Client Services Limited, Templeton LPA Limited and St Trinity Limited providing repossession, asset management and corporate letting services

"**Chancellors Associates**" trading name of Chancellors Associates Limited

"**Chairman**" Roger Matthews

"**Chairman of the Audit Committee**" Mark Morris

"**CML**" Council of Mortgage Lenders

"**Code**" UK Code of Corporate Governance by the Financial Reporting Council (September 2012)

"**Company Secretary**" Sapna B FitzGerald

"**Connells**" Connells Limited

"**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

"**DMGT**" trading name of Daily Mail and General Trust plc

"**EBITDA**" earnings, before interest, taxes, depreciation and amortisation

"**EPC**" energy performance certificate

"**EPS**" earnings per share

"**Ernst & Young**" Ernst & Young LLP

"**ESG**" environmental, social and governance

"**ESOT**" LSL's employee share trust

"**Estate Agency Division**" or "**Estate Agency**" includes LSL's Residential Sales, Lettings, Financial Services, LPA fixed charge receiver and Asset Management businesses

Definitions continued.

“**Estate Agency and Related Services**” refers to LSL’s Estate Agency Division

“**e.surv**” or “**e.surv Chartered Surveyors**” trading names of e.surv Limited

“**Executive Director(s)**” refers to Steve Cooke, Ian Crabb, Simon Embley and David Newnes.

“**FCA**” Financial Conduct Authority

“**Financial Services**” refers to LSL’s financial services (including mortgage and protection brokerage and the operation of intermediary networks

“**First Complete**” trading name of First Complete Limited

“**Financial Statements**” financial statements contained in this Report

“**FRC**” Financial Reporting Council

“**Frosts**” trading name of David Frost Estate Agents Limited

“**FSA**” Financial Services Authority

“**FSMA**” Financial Services and Markets Act 2000

“**Group**” LSL Property Services plc and its subsidiaries

“**Group Chief Executive Officer**” Ian Crabb

“**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**” trading name of GFEA Limited

“**HEAL**” or “**Halifax**” Halifax Estate Agencies Limited

“**HEAL Business**” HEAL branches and St Trinity Asset Management (formerly HEAL Corporate Services)

“**HEAL Corporate Services**” the asset management business operated by HEAL

“**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

“**IBNR**” incurred but not reported and relates to the Surveying Divisions’ PI claims

“**IFRS**” International Financial Reporting Standards

“**Intercounty**” trading name of ICIEA Limited

“**JNP**” trading name of JNP Estate Agents Limited

“**JSOP**” joint share ownership plan

“**KPI**” key performance indicators

“**Lauristons**” trading name of Lauristons Limited

“**Lawlors**” trading name of Lawlors Limited

“**Legal Marketing Services**” trading name of Cybele Solutions Holdings Limited

“**Lettings**” refers to LSL’s residential property lettings and property management services

“**Linear**” and “**Linear Financial Services**” are trading names of Linear Mortgage Network Limited and Linear Financial Services Limited

“**Lloyds Banking Group**” Lloyd 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, Goodfellows, Davis Tate, Lauristons and Lawlors

"**LSL**" LSL Property Services plc and its subsidiaries

"**LSL Corporate Client Department**" trading name of LSL Corporate Client Services Limited

"**LSL Land & New Homes**" trading style used by members of the Estate Agency Division

"**LTIP**" long term incentive plan

"**Lush Retail**" Lush Retail Limited

"**Management Team**" senior management teams within the Group including the Executive Directors

"**Marsh & Parsons**" trading name of Marsh & Parsons Limited

"**NAEA**" National Association of Estate Agents

"**NBS**" New Bridge Street Limited

"**Net Bank Debt**" see Note 30 to the Financial Statements

"**NFoPP**" National Federation of Property Professional

"**Non Executive Director**" refers to Helen Buck, Adrian Gill, Roger Matthews, Mark Morris and Bill Shannon (since January 2014) and in respect of 2013 Mark Pain.

"**Notice of Meeting**" the circular made available to shareholders setting out details of the AGM

"**Note**" refers to Notes to the Financial Statements

"**OCI**" refers to other comprehensive income

"**Openwork**" trading name of Openwork Limited

"**Ordinary Shares**" 0.2p ordinary shares in LSL

"**PI**" professional indemnity

"**PI Costs**" costs relating to ongoing and expected future legal claims relating to Surveying and Valuation Services

"**Pink Home Loans**" or "**Pink**" are trading names for Advance Mortgage Funding Limited and BDS Mortgage Group Limited

"**RCF**" revolving credit facility

"**Reeds Rains**" trading name of Reeds Rains Limited

"**Reeds Rains Financial Services**" trading name of Reeds Rains Financial Services Limited

"**Registered Office**" Newcastle House, Albany Court, Newcastle Business Park, NE4 7YB

"**Report**" LSL's annual report and accounts 2013

"**Residential Sales**" refers to LSL's services for residential property sales

"**RICS**" Royal Institution of Chartered Surveyors

"**Sainsbury's**" Sainsbury's Supermarkets Limited

"**SAYE**" save-as-you-earn

"**Senior Independent Non Executive Director**" Mark Morris

"**Shareholders**" shareholders of LSL

"**SIP**" share incentive plan

"**St Trinity Asset Management**" trading name of St Trinity Limited

"**Surveying Division**" or "**Surveying**" includes LSL's surveying and valuation businesses

"**Surveying and Valuation Services**" or "**Surveying Services**" refers to LSL's Surveying Division

Definitions continued.

“**Templeton**” trading name of Templeton LPA Limited

“**The Mortgage Alliance**” or “**TMA**” are trading names of First Completes’ mortgage club

“**TPO**” The Property Ombudsman

“**Trust**” or “**Employee Benefit Trust**” LSL Property Services plc Employee Benefit Trust

“**Trustees**” Capita Trustee Limited

“**TSI**” Trading Standards Institute

“**TSR**” total shareholder return

“**Underlying Operating Margin**” operating profit before exceptional costs, contingent consideration, amortisation and share based payments show as a percentage of turnover

“**Underlying Operating Profit/Loss**” before exceptional costs, contingent consideration, amortisation of intangible assets and share based payments

“**VEM**” Vibrant Energy matters Limited

“**Walker Fraser Steele**” a trading name of e.surv

“**Your Move**” trading name of your-move.co.uk Limited

“**Zoopla**” trading name of Zoopla Property Group 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
Head Office:
1 - 3 Sun Street, London, EC2A 2EP
Telephone: 0203 215 1015
Facsimile: 0207 920 9443
Email: 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: +44 208 664 0300
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

Provisional calendar of events

Preliminary Results Released	**6th March 2014**
AGM Proxy Form Deadline	**2.30pm 22nd April 2014**
AGM	**2.30pm 24th April 2014**

The AGM will be held at LSL's offices at 1-3 Sun Street, London EC2A 2EP. The Notice of Meeting details the proposed resolutions.

In accordance with its Articles of Association, LSL publishes shareholder information, including notice of AGMs and the Annual Report and Accounts on its website, www.lslps.co.uk. Reducing the number of communications sent by post not only results in cost savings to LSL, it also reduces the impact that unnecessary printing and distribution of reports has on the environment.

LSL's Articles of Association enable all communications between Shareholders and LSL to be made in electronic form (as permitted by the Companies Act 2006). Documents will be supplied via LSL's website to Shareholders who have not requested a hard copy, or provided an email address to which documents of information may be sent. Where a Shareholder has consented to receive information via the website, a letter will be sent to the Shareholder on release of any information directing them to the website.

If a Shareholder wishes to continue to receive hard copy documents they should contact Capita Registrars (details above).

Shareholder Notes

LSL Property Services plc

www.lslps.co.uk

Registered in England
(Company Number 5114014)
Registered Office:
Newcastle House
Albany Court
Newcastle Business Park
Newcastle upon Tyne
NE4 7YB
Tel: 020 3215 1015
Fax: 020 7920 9443
Email: enquiries@lslps.co.uk