LSL Property Services plc

Annual Report and Accounts

Year ended 31st December 2014

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

Your Move
Reeds Rains
Marsh & Parsons
LSLi
Davis Tate
Frost's
Goodfellows
Hawes & Co
Intercounty
Lauristons
Lawlors
The JNP Partnership
LSL Corporate Client Department
St Trinity Asset Management
Templeton LPA
First Complete
Pink Home Loans
The Mortgage Alliance
Embrance Mortgage Services
First2Protect
e.surv Chartered Surveyors
Walker Fraser Steele Chartered Surveyors

LSL Property Services plc
Annual Report and Accounts 2014

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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 30 and 31

Highlights 2014

Good progress in a changing market

Group

£287.5m
Group Revenue up 11%
2013: £258.6m

£42.0m
Group Underlying Operating Profit up 13%
2013: £37.1m

14.6%
Group Underlying Operating Margin
2013: 14.3%

£31.9m
Profit Before Tax up 87%
2013: £17.1m

30.5p
Adjusted Basic Earnings Per Share up 21%
2013: 25.3p

12.3p
Full Year Ordinary Dividend Per Share (excluding Special Dividend) up 17%
2013: 10.5p

16.5p
2014 Special Dividend Relating to Zoopla Share Disposal Per Share
2013: nil

Estate Agency and Related Services

£33.9m
Underlying Operating Profit up 16%
2013: £29.1m

Surveying and Valuation Services

£13.3m
Operating profit up 2%
2013: £13.1m

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Directors' Report and Corporate Governance Reports
Financial Statements
Other Information

	2014	2013	% Change
Group revenue £m	**287.5**	258.6	11
Group Underlying Operating Profit[1] £m	**42.0**	37.1	13
Group Underlying Operating Margin %	**14.6**	14.3	
Profit before tax £m	**31.9**	17.1	**87**
Underlying profit before tax	**39.8**	33.9	**17**
Basic Earnings Per Share – pence	**24.5**	13.6	**80**
Adjusted Basic Earnings Per Share – pence[2]	**30.5**	25.3	**21**
Net Bank Debt[3] at 31st December £m	**34.7**	26.3	
Final proposed ordinary dividend per share (excluding special dividend) – pence	**8.3**	7.2	
Full year ordinary dividend per share – pence	**12.3**	10.5	**17**
Special dividend per share – pence	**16.5**	-	-

- Underlying Operating Profit of £42.0m is a record result for the Group.
- Excellent progress in the Estate Agency Division.
- Strong market growth in the first half followed by slowing activity in the second half.
- Major contracts secured in the Surveying Division and on-going investment in capacity management.
- Excellent value creation from investment in Zoopla – total value created of £42.2m (as at IPO), £19.8m exceptional profit, special dividend of 16.5 pence per share and retention of 51% of original shareholding valued at £21.3m as at 31st December 2014.
- Exceptional charge of £24.6m related to PI provisions relating to the 2004 to 2008 high risk lending period. Balance sheet provision of £38.7m (2013: £25.9m).
- Strong operational cash flow, balance sheet and dividend growth.
- Acquisition of Hawes & Co and 10 lettings books during 2014 and the acquisition of Thomas Morris and six lettings books since the start of 2015.

[1] Underlying Operating Profit and underlying profit before tax is before exceptional gains and exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments

[2] Refer to Note 10 for the calculation

[3] Refer to Note 30 for the calculation

LSL Today

LSL has established leading positions in its market segments

Information included in this section of the Report is provided as at 31st December 2014.

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 539 branches (2013: 533) (including 4 virtual branches).
- 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 123 branches across Your Move, Reeds Rains, Davis Tate and Intercounty (2013: 133).
- Members of The Property Ombudsman (TPO) Redress Scheme, which operates a residential sales and lettings code of practice which is approved by the Trading Standards Institute (TSI) under its Consumer Codes Approval Scheme (CCAS).

YOUR MOVE

The largest single brand UK estate agency with 290 branches operating throughout the UK (2013: 293). Your Move has the most visited UK estate agency website[2].

www.your-move.co.uk

Reeds Rains

A predominantly northern based network of 169 branches (2013: 171).

www.reedsrains.co.uk

MARSH & PARSONS

Leading London premium brand estate agency operating in the prime Central, North West, West and South West London property markets out of 22 branches (2013: 18).

www.marshandparsons.co.uk

LSLi

goodfellows | LAWLORS | Intercounty | lauristons | Frost's www.frosts.co.uk | davis tate | JNP | Hawes & Co

LSLi

LSLi is the holding company for eight estate agency brands with a combined network of 58 branches (2013: 51).

www.lsli.co.uk

Asset Management

- Market leader.
- 5,815 repossessions in 2014 (2013: 9,800).
- Utilises network of up to 2,095 estate agency branches (2013: 4,244).

LSL Corporate Client Department

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

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
ALWAYS ACTING FAIRLY
CHARTERED SURVEYORS

Templeton LPA

Law of Property Act fixed charge receiver, joined the Group in 2010.

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.
- Multi-brand including First Complete, Pink Home Loans, The Mortgage Alliance, Your Move, Reeds Rains, Embrace Mortgage Services, First2Protect and Linear Financial Solutions.
- LSL's combined appointed representative network is the fourth largest in the UK.[3] Across the various brands the Group has 688 appointed representatives (2013: 682) and 1,382 advisors (2013: 1,311).
- Total value of mortgage completions arranged in 2014 was £11.6bn (2013: £7.6bn).

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

Your Move

An appointed representative of First Complete, Your Move provides financial services, including arranging mortgages, remortgages and life assurance products through employed financial consultants based in its estate agency branches and call centres.

www.your-move.co.uk

Reeds Rains

An appointed representative of First Complete, Reeds Rains provides financial services, including arranging mortgages, remortgages and life assurance products through employed financial consultants based in its estate agency branches and call centres.

www.reedsrains.co.uk

Embrace Mortgage Services

An appointed representative of First Complete, Embrace Mortgage Services is a trading name of LSLi and provides financial services, including arranging mortgages, remortgages and life assurance products through a network of financial consultants based in estate agency branches included within the LSLi group of companies.

www.embracemortgageservices.co.uk

First2Protect

Specialist call centre business arranging household insurance for customers of LSL's Estate Agency businesses and third party introducers.

Linear Financial Solutions

An appointed representative of Pink Home Loans and Openwork, Linear Financial Solutions, provides financial services including arranging mortgages, remortgages and life assurance products 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.
- 372,000 jobs completed in 2014 (2013: 396,000).
- 361 employed qualified surveyors at 31st December 2014 (2013: 386).

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

Walker Fraser Steele Chartered Surveyors

Division of e.surv operating in Scotland, providing Home Reports and professional inspections for home movers.

www.walkerfrasersteele.co.uk

[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 January 2015
[3] Source: Which Network – Network Performance Figures for 2014 showing the combined numbers for First Complete and Pink.

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

Milestones

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.

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+.

2012

Commencement of renewed Barclays Bank plc contract for valuation services.

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.

Completed 5 lettings book acquisitions.

2014

Commencement of a new contract with Lloyds Banking Group for valuation services.

Commencement of renewed contract with Barclays Bank PLC for valuation services.

Zoopla IPO and Special Dividend of 16.5 pence per share paid to Shareholders.

Acquisition of Hawes & Co.

Completed 10 lettings book acquisitions.

Chairman's Statement

Introduction

"I am very pleased to report that 2014 was a record year for the Group with underlying Operating Profit higher than LSL achieved in the property market peak of 2007. The year saw the orderly transition of senior management with Ian Crabb's first full year as Group CEO and Adrian Gill assuming responsibility for the Estate Agency Division. The year also saw the achievement of our profitability per branch target that we set in 2011 whilst Marsh & Parsons expanded its branch footprint in a difficult market. The Surveying division secured new contracts on improved margins.

I was also delighted that our investment in Zoopla delivered an exceptional return to shareholders.

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 capitalise on the changing market condition".

Simon Embley
Chairman

I am pleased to report that against a rapidly changing market backdrop the Group has continued to make good progress, reporting Group Underlying Operating Profit of £42.0m (2013: £37.1m) for the year. This Group Underlying Operating Profit is higher than LSL achieved in the property market peak of 2007. Group Revenue increased by 11% whilst Group Underlying Operating Profit increased by 13% compared to 2013. On a statutory basis, operating profit was £33.9m (2013: £19.6m), an increase of 73%. The first half of the year saw Group Underlying Operating Profit growth of 31% against the same period in 2013 with the second half showing a more muted performance against strong comparatives.

The Estate Agency Division, in particular, has delivered a strong performance. Residential Sales income increased by 15%, Financial Services income grew by 22% and Lettings income increased largely organically by 12%. In line with our stated strategy, we saw profitability per owned branch increase by 44% to £46,000 achieving our medium term target for profit per branch set in 2011. We acquired Hawes & Co within LSLi and added a further ten small lettings acquisitions across our Estate Agency businesses. The Surveying Division delivered a solid performance during 2014 with a number of efficiency initiatives significantly improving profitability in the second half of the year.

The UK residential property services market in 2014 was very much a story of two halves. The year started very strongly continuing the trend we saw in the second half of 2013 with house purchase approvals, as measured by the Bank of England, up 35% year on year in the first quarter of 2014 and by 19% in the first half for the year. Year on year growth then moderated in the second quarter before contracting by 16% in the final quarter of the year. April also saw the implementation of changes to mortgage application processing by lenders following the Mortgage Market Review (MMR). These changes impacted the market from the second quarter onwards. Changes to stamp duty introduced at

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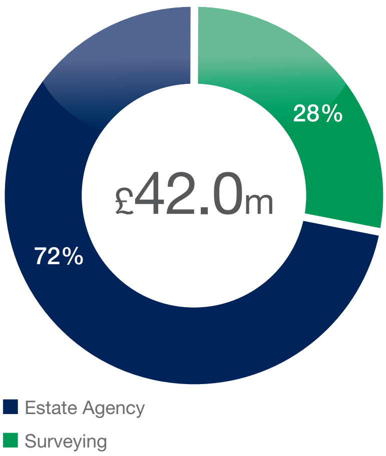
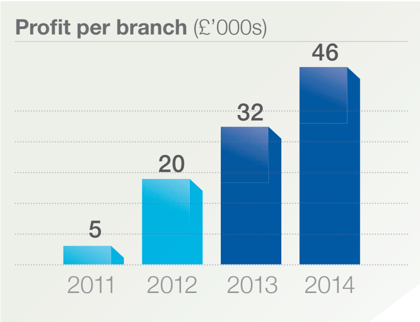
12.3p
Full Year Dividend Per Share (excluding special dividend) up 17%
2013: 10.5p

Chairman's Statement continued.

Full Year 2014 Operating Profit





the start of December 2014 also had an impact, particularly in prime Central London, but overall there was a general slowing of activity as consumer sentiment weakened in the second half of the year.

The business remains 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 15% to 8.3 pence per share (2013: 7.2 pence). This will result in the total dividend for the year, excluding the special dividend of 16.5 pence relating to our disposal of Zoopla shares, increasing by 17% to 12.3 pence per share (2013: 10.5 pence), recognising our confidence in the future earnings prospects of the business.

Financial Results

Group revenue increased by 11% to £287.5m (2013: £258.6m) and Group Underlying Operating Profit increased by 13% to £42.0m (2013: £37.1m) with the Group Underlying Operating Margin improving to 14.6% (2013: 14.3%).

The Estate Agency Division increased operating profit by 16% to £33.9m (2013: £29.1m). This performance was delivered in a market where house purchase approvals for the whole year increased by 5% to 769,000[1] (2013: 736,000). This moderate full year growth masked a changing market during the year with volume growth of 19% in first half of the year followed by a 7% contraction in the second half of 2014 against the prior year. Sequentially, the market in the first half of the year was 1% down on the second half of 2013 whilst the second half in 2014 was 6% lower than the first half. There was strong revenue growth in Residential Sales income, Financial Services and Lettings income. Marsh & Parsons continued its expansion strategy with four new branch openings and made good progress in a prime Central London market where market conditions were challenging in the second half of the year. In line with previous trends, repossession volumes fell by a further 27% to 21,000[2] in the year (2013: 28,900) which impacted revenue and profit in our asset management activities.

The Surveying Division faced a broadly flat market for mortgage approval transactions. Total mortgage approvals were 1,280,000[1] (2013: 1,286,000), including a 2% decrease in remortgages to 385,000 (2013: 393,000). Although the number of jobs completed reduced by 6% to 372,000, the revenue per job increased resulting in a 3% increase in total revenue to £62.2m. During the year, we were delighted to secure multi-year valuation services contracts with Barclays Bank PLC and Lloyds Banking Group. Subsequent to the year end, we secured a multi-year contract as lead valuer, this time with the mortgage division of Santander UK. These non-exclusive contracts are all on contract terms reflecting improved conditions in the mortgage valuation market.

Ian Crabb
Group Chief Executive Officer

[1] Source: Bank of England for "House Price Approvals 2014".
[2] Source: Council of Mortgage Lenders arrears and repossessions data relating to properties taken into possession by first-charge mortgage lenders for 2014.

Marsh & Parsons, Notting Hill.

Towards the end of the year, the Surveying Division concluded a project to improve operational performance and productivity whilst improving working practices, which includes the consolidation of all administrative functions at its Kettering location. The associated one off costs of this exercise of £0.7m will be recovered in savings during the first half of 2015. The one off costs are included as an exceptional item in 2014. Operating profit was marginally ahead at £13.3m (2013: £13.1m) with operating margin of 21.4% (2013: 21.7%).

As previously announced in December 2014, we have needed to further increase our PI provisions relating to the 2004 to 2008 high risk lending period. The announcement indicated a range of between £20.0m and £25.0m and following further work, we have provided an additional reserve of £24.6m which is included in 2014 as an exceptional item. Whilst the cause is a historic market issue relating to historic periods, it remains disappointing. The additional provision reflects a number of factors. Although we have seen the reduction in the rate of notification that we had expected during the year, and assumed in setting the previous level of provision, a greater proportion of the notifications are deteriorating into claims. Claims are also hardening with the more difficult and complex claims now being progressed. This is resulting in an increase in the average cost per claim, particularly in respect of legal costs reflecting the complexity of the arguments. 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 review was conducted with the overall aim of ensuring a high degree of confidence that the total PI provision will be adequate to cover the remaining risk relating to the 2004 to 2008 high lending period. The provision required is highly sensitive to the run rates of new claims and the costs per claim for both new and existing claims. Claims experience since the high risk lending period has significantly improved as a result of both structural changes in the market place and the overhaul of internal procedures.

Profit before tax, amortisation, share based payments, contingent consideration and exceptional costs increased by 17% to £39.8m (2013: £33.9m). Net exceptional operating costs of £6.2m (2013: £13.0m) included PI costs of £24.6m (2013: £12.0m) noted above. Exceptional operating income includes a £19.8m exceptional profit on the part disposal of the Group's investment in Zoopla. There was also a non-cash credit of £0.4m (2013: £2.8m charge) relating to employment related contingent consideration in acquisitions and amortisation of intangible assets during the year was £0.6m (2013: £0.4m). Profit before tax increased to £31.9m (2013: £17.1m) and profit after tax was £25.2m (2013: £14.0m). On an adjusted basis, earnings per share increased by 21% to 30.5 pence (2013: 25.3 pence). Unadjusted undiluted basic earnings per share were 24.5 pence (2013: 13.6 pence).

Cash generated from operations was £25.7m (2013: £26.9m). Operating cash flow included PI cash settlements of £13.3m (2013: £14.4m). Capital expenditure increased to £9.2m (2013: £7.9m) including investment in 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 2014 was £34.7m compared to £26.3m at 31st December 2013 after investing £9.7m in acquisitions, joint ventures and the settlement of deferred consideration (2013: £5.4m) and the purchase of LSL shares by LSL's Employee Benefit Trust. Net Bank Debt increased in the year primarily because of the increase in PI cash settlement costs. The Group has a £100m committed bank facility until August 2017.

Net assets decreased by £16.2m to £83.1m at 31st December 2014 (2013: £99.3m), as a result of the special dividend paid following the realisation of the investment in Zoopla on its initial public offering (IPO).

Dividend

As a result of the growth in underlying Group profitability and the Board's positive view of future prospects for the business, an increase in the final dividend of 15% to 8.3 pence per share (2013: 7.2 pence) will be proposed to Shareholders at the forthcoming AGM, increasing the total dividend for 2014, excluding the one off special dividend related to Zoopla of 16.5 pence, by 17% to 12.3 pence per share (2013: 10.5 pence per share). The proposed

Chairman's Statement continued.

dividend payment is at the upper end 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 2015 with a record date of 27th March 2015 and a payment date of 7th May 2015. 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

2014 has been another year of excellent progress combined with major investment in the Estate Agency Division. Profit per owned branch, excluding Marsh & Parsons, increased by 44% to £46,000 (2013: £32,000) compared to the medium term target of £30,000 to £50,000 which the Board set in 2011 when profit per owned branch was £5,000. The Board has accordingly reviewed the target for branch profitability and has increased the target to £80,000 to £100,000 per owned branch in the medium term on the expectation of longer term stability in the UK residential property sector. All key income streams in the Estate Agency Division other than our countercyclical Asset Management business have grown strongly and operating margin increased to 15.0% (2013: 14.7%).

Residential Sales exchange income, excluding Marsh & Parsons, increased by 20% to £76.8m (2013: £64.1m) driven mainly by improved mix and good progress increasing the average Estate Agency fee. The rate of income growth varied during the year in line with the fluctuations in the market. Our Lettings business has continued to perform well with Lettings income, excluding Marsh & Parsons, increasing by 10% to £43.3m (2013: £39.2m). We continue to invest in our Financial Services, Lettings and conveyancing activities as well as looking for ways to improve back office efficiency.

Marsh & Parsons made good progress in the volatile prime Central London market where stock levels remained challenging all year driving increased price expectations in the first half of the year which then ameliorated in the second half. Total revenue increased by 9% to £32.5m (2013: £29.9m) with Residential Sales broadly flat but with excellent Lettings growth of 18%. Operating profit was £6.5m (2013: £6.7m), impacted by the investment in opening four 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 22% during 2014 to £43.7m (2013: £35.8m). Activity levels are growing ahead of the market reflecting the breadth and depth of the Group's Financial Services offerings. The Group arranged total mortgage lending completions of £11.6bn in 2014 (2013: £7.6bn).

Asset Management delivered another solid result in a countercyclical market. Revenue declined by 18% to £11.7m (2013: £14.3m) in a market where repossession volumes reduced by 27% to 21,000 (2013: 28,900). Repossessions have now fallen for five years running by a total of 57%. The business is continuing to target new property management contracts.

Surveying Division

The underlying profit performance was maintained during the year as a result of contract wins and efficiency improvements offset by a decline in volumes. After a strong first half of the year, our Surveying Division's

Ian Crabb, Group Chief Executive Officer and Simon Embley, Chairman.

volumes declined in the second half of year resulting in a 6% reduction in our volumes year on year. Total mortgage approvals remained broadly flat year on year at 1.280m (2013: 1.286m).

The operating profit margin in the second half year was 24.5% (2013: 24.1%) and was achieved through improved efficiency and tight cost control. The operating profit of £7.6m (2013: £7.7m) in the second half of the year represented a 33% increase on the first half of the year. As reported last year, the Surveying Division reduced its focus on developing surveying services for private buyers to focus on higher margin valuation services for corporate clients. As a result the full year revenue from surveying services for private buyers reduced by 18% to £4.0m (2013: £4.9m).

Despite incurring the costs of recruiting graduates into the new surveyor training scheme, operating profit levels were maintained. Full year operating margin was maintained at 21.4% against a 2013 comparative of 21.7%.

Developments

During 2014, we have continued to invest in the business with the acquisition in March 2014 of Hawes & Co which is a South West London based agent with six branches offering Residential Sales and Lettings services. We have also purchased a further 10 small lettings books during 2014 for a total consideration of £1.8m. We will continue to look to acquire attractive businesses. Subsequent to the year end, we acquired Thomas Morris a multi award winning estate agency and lettings business with seven branches in Cambridgeshire, Bedfordshire and Hertfordshire together with a further six lettings books. In the Surveying business our graduate surveyor recruitment and training programme continues to be a success. In 2013 and 2014 we hired 43 and 60 new graduates respectively with the expectation that the graduates would take 12 months to train. The 2013 intake became productive midway through 2014.

During the year, Marsh & Parsons opened four branches in Shepherd's Bush, Camden, East Sheen and Richmond which are performing in line with management's expectations. The business remains committed to an opening programme of new branches which will result in doubling the number of branches which were acquired with the business in 2011 over the next four to five years.

David Newnes winning the "Outstanding Contribution to Estate Agency" award.

We were extremely pleased to announce in our interim statement that the IPO of Zoopla was successful and represented significant value creation for the Group. The cost of the investment was £1.9m and this had increased to a value of £44.1m on IPO. We took the decision to sell 48.9% of our shareholding in Zoopla at IPO. As a result, we have generated an £19.8m exceptional profit on disposal while still retaining a 2.6% shareholding which has been revalued in the balance sheet at £21.3m. In addition, we received a total dividend of £1.1m from Zoopla during the year (2013: £0.5m).

Board and Corporate Governance

In January 2014, we appointed Bill Shannon as an independent Non Executive Director and Chairman of the Remuneration Committee, and on 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. We would like to thank Mark for his significant contribution to LSL. Bill was subsequently appointed Non Executive Deputy Chairman and Senior Independent Director on 1st January 2015.

On 24th November 2014, as part of an orderly transition in the management of our Estate Agency business, Adrian Gill was appointed as Executive Director, Estate Agency and he took over from David Newnes on 1st January 2015 following a transition period. Adrian has considerable experience in the sector, having spent over 10 years as an Executive Director at Connells Limited, the national estate agency business of the Skipton Building Society and two years as an independent Non Executive Director of LSL. David Newnes retired from the Board on 31st December 2014 and we would like to thank David for his substantial contribution to the development of LSL over a long and distinguished career with the Group. In December 2014, David Newnes, in recognition of over 35 years' service to the estate agency industry, received the 'Outstanding Contribution to Estate Agency Award' at the prestigious Sunday Times Estate Agency of the Year Awards.

After many years of excellent service to the Group, Roger Matthews retired as Chairman on 31st December 2014. I would personally like to add my thanks to those of the Board for the guidance and support that Roger has provided since he joined the Board as Chairman on the IPO of the Group in 2006.

During the latter part of 2014, Roger Mathews as Chairman, consulted with a number of our major Shareholders regarding the future composition of the Board, including my change of role and

Your Move, Hampton Hill.

Bill Shannon's new responsibilities. Whilst as Chairman, I am not independent on appointment, Shareholders, the Nominations Committee and the Board supported my change of role as it facilitates an orderly succession and reflects the Board's desire to retain my knowledge and expertise of the residential property market, maintain contacts with key stakeholders and benefit from my record of delivering shareholder value.

Steve Cooke, the Group Finance Director, left the Board on 19th December 2014. Andrew Burchall was appointed as Interim Group Finance Director on 5th January 2015 and the search is on-going for a permanent Group Finance Director.

The Board remains committed to high levels of corporate governance. In respect of 2014, the Board has again 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.

In September 2014, the FRC updated the UK Corporate Governance Code (Code) and whilst this Report includes disclosures that reflect the 2012 edition of the Code, we have looking forward, ensured that for 2015 we are operating in accordance with the 2014 edition of the Code. This includes the implementation of our Remuneration Policy, further details of which are set out in the Directors' Remuneration Report.

The Board has during the year also reviewed its composition, which at the date of this Report includes three independent Non Executive Directors and two Executive Directors. We have also commenced a process to appoint an additional independent Non Executive director to the Board. Further, the Board continues to recognise the benefits of diversity in the boardroom, including gender and racial 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 and race.

LSL remains committed to promoting diversity throughout the Group and in 2014 we continued to build on the diversity reviews conducted during the previous 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.

People

The Group expanded significantly during 2013 through investment to build capacity and through a number of small bolt-on acquisitions in both lettings books and residential sales businesses. During 2014, headcount reduced towards the end of the year in light of the softening in the market. In total, the number of Group employees decreased to 5,222 (2013: 5,299).

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 2014 and I would like to thank all of our employees for their hard work and commitment which has contributed to this result and wish them well in their careers with LSL.

Current trading and outlook

The forthcoming year is expected to see uncertain market conditions in the first half with the potential for improved market conditions during the second half of the year. Year on year market comparatives in the first quarter are expected to be adverse in part due to the lower opening pipeline of activity following the weaker last quarter of 2014. Whilst we are seeing improvements in February, the second quarter is expected to be impacted by the upcoming general election.

Against this uncertain market backdrop, the Group remains committed to driving profitable organic growth across the business. In light of the changed market conditions, a review of headcount and other costs by business has been completed and the necessary actions are being taken. We will continue to evaluate selective acquisitions and will capitalise fully on the investments made in 2014 to optimise profitability.

The Group has started the year in line with management's expectations and through a series of internally generated initiatives and an expectation of a stronger market in the second half, the business is well placed to deliver a solid performance in 2015.

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 capitalise on the changing market conditions to increase Shareholder value.

Simon Embley
Chairman
12th March 2015

Strategic Report

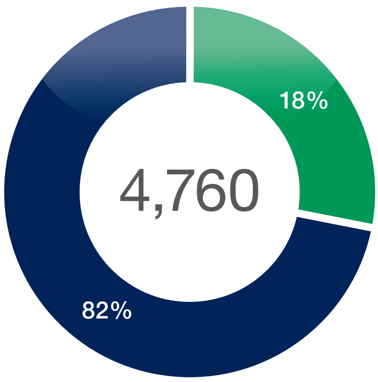
In this section

Marsh & Parsons, Marylebone.

Strategy

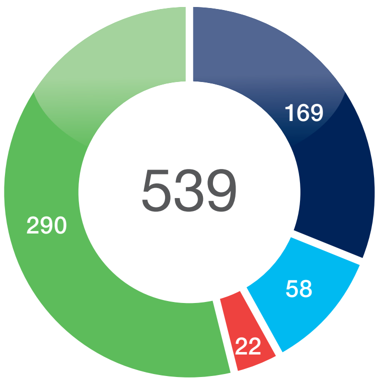
LSL is committed to delivering long term shareholder value by building market leading positions in the residential property services market through organic growth, selective acquisitions and the delivery of high quality service and appropriate outcomes for customers

Full Year 2014 Average FTE



- Estate Agency
- Surveying

Estate Agency Branches



- Your Move
- Reeds Rains
- LSLi
- Marsh & Parsons

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 LSL's presence in the prime Central London Residential Sales and Lettings markets); and
- Surveying and Valuation Services (retain key lender clients, grow capacity, manage risk and optimise efficiency).

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.

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 cost 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 on-going 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.

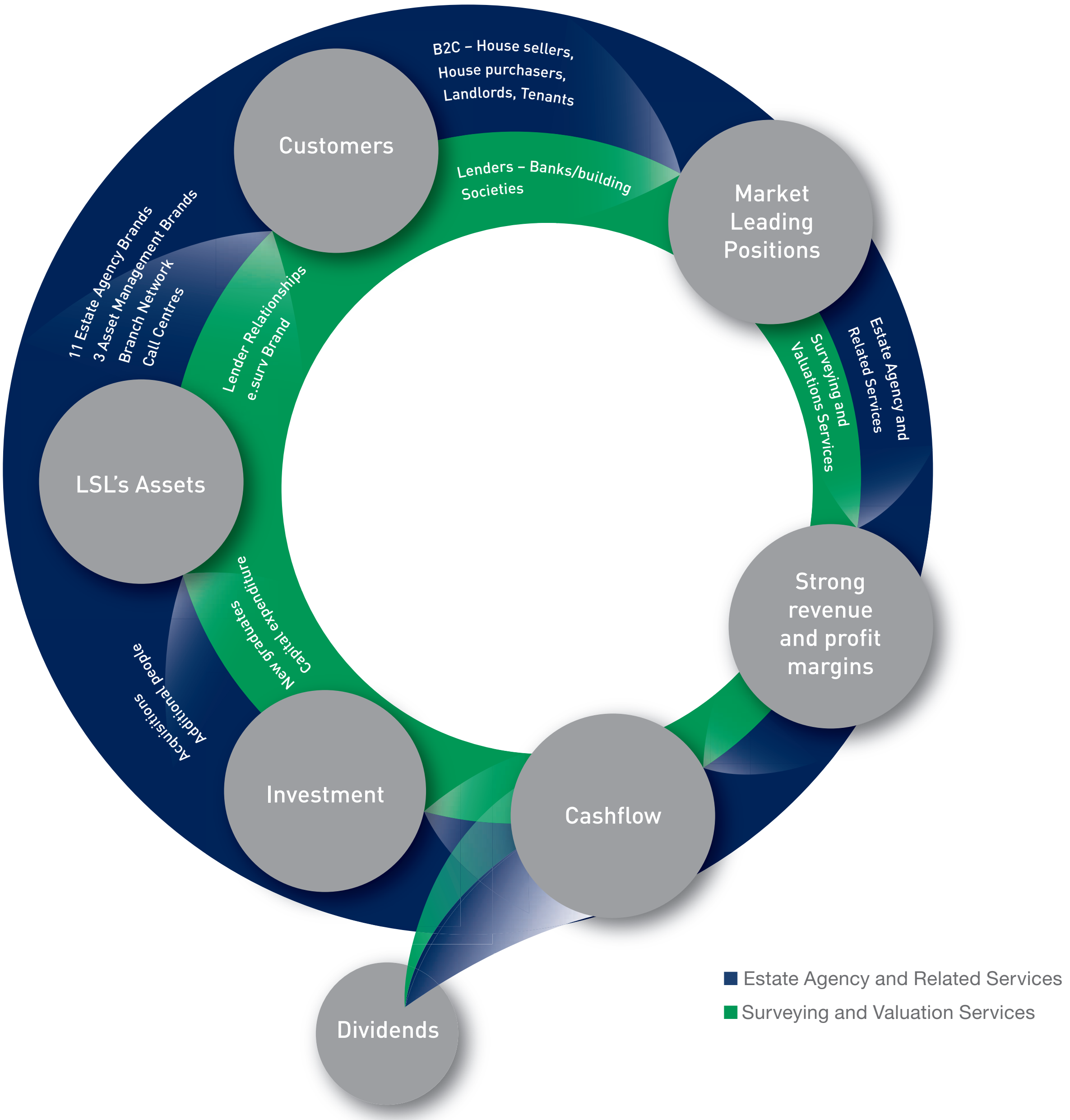
Acquisitions

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.

4,312
Estate Agency and Related Services headcount

910
Surveying headcount down 8%

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.

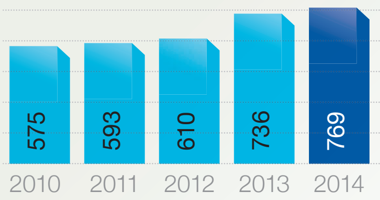
- LSL has **market leading positions** in residential property surveying, mortgage valuations, asset management, residential sales and lettings, which are highly fragmented markets.
- LSL serves **retail customers** in its Estate Agency businesses, such as house sellers and buyers, landlords and tenants.
- LSL serves **business customers** in its Surveying and Asset Management businesses, 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 outcomes for 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 LSL's 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

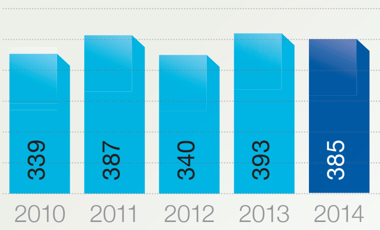
LSL operates across the residential property services value chain

Market Transaction Data

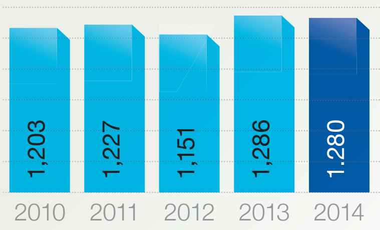
Total Mortgage Approvals for House Purchase[1]
'000



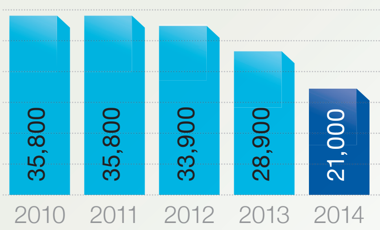
Remortgage Volumes[2]
'000



Total Mortgage Approvals[1]
'000



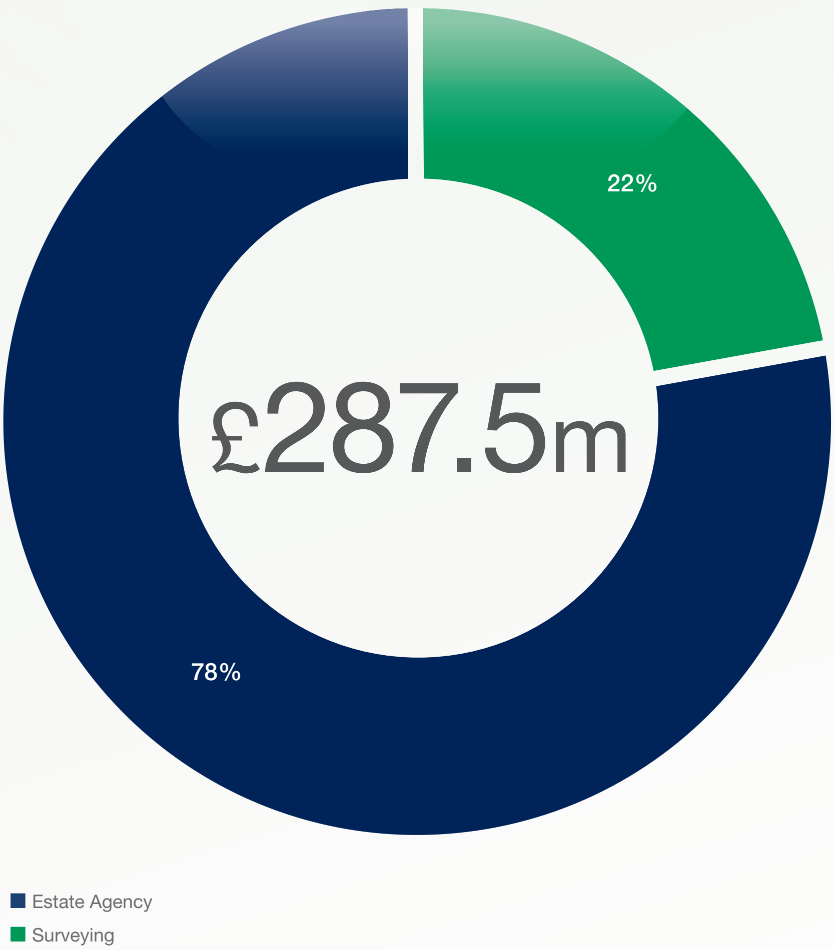
Repossesion Volumes[2]
'000



[1] Source: Bank of England for "House Purchase Approvals", "Remortgage approvals" and "Total Mortgage Approvals" 2014

[2] Source: Council of Mortgage Lenders arrears and repossessions data relating properties taken into possession by first-charge mortgage lenders for 2014.

Full Year 2014 Revenue



LSL's market can be categorised into two principal segments

Estate Agency and Related Services

Estate Agency and Related Services

78.4%

of Group revenue in 2014 (2013: 76.6%)

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

52.4%

of Group revenue in 2014 (2013: 51.1%)

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

In 2014 market transaction volumes increased strongly in the first half of the year, but declined markedly after the mid-year point. Transaction volumes remain well below the historic normalised levels of 1.2m per annum. Mortgage approvals for house purchase rose by 4.5% during the year to 769,000 (2013: 736,000).

Mortgage and Protection

15.2%

of Group revenue in 2014 (2013: 13.8%)

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

Asset Management

4.1%

of Group revenue in 2014 (2013: 5.5%)

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

Repossession volumes fell by 27% to 21,000 in 2014 (2013: 28,900)[2] and they have now fallen for five years running.

Other Income

6.7%

of Group revenue in 2014 (2013: 6.1%)

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

21.6%

of Group revenue in 2014 (2013: 23.4%)

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

- Valuation services for lenders for residential mortgage purposes.
- Surveying services for private house purchasers.
- Home Reports and professional services in Scotland.

In 2014 Total Mortgage Approvals were 1,280,000 (2013: 1,286,000)[1] including House Purchase Approvals of 769,000 (2013: 736,000)[2]. These volumes are roughly half normalised levels.

Remortgage volumes of 385,000 were down by 2% compared to 2013 (2013: 393,000)[1]. Total mortgage approvals were broadly flat at 1,280,000 (2013: 1,286,000)[1]. 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

+15%
Exchange Income
2013: +11%

+12%
Lettings Income
2013: +9%

+22%
Financial Services Income
2013: +13%

+3%
Fee per exchange unit
2013: +7%

15.0%
Operating Margin
2013: 14.7%

The Estate Agency Division delivered excellent profit growth

Financial	2014 £m	2013 £m	% change
Residential Sales exchange income	**92.1**	80.0	15
Lettings income	**58.5**	52.2	12
Asset Management income	**11.7**	14.3	(18)
Financial Services income	**43.7**	35.8	22
Other income[1]	**19.3**	15.9	21
Total income	**225.3**	198.2	14
Operating expenditure	**(191.4)**	(169.1)	13
Operating profit[2]	**33.9**	29.1	16
KPIs			
Exchange units	**29,704**	27,512	8
Exchange units[3]	**29,111**	27,352	6
Operating margin (%)	**15.0%**	14.7%	
Fees per unit	**3,101**	2,908	7
Fee per unit[3]	**2,968**	2,877	3
House purchases (000's)[4]	**769**	736	5
Repossessions[5]	**21,000**	28,900	(27)

[1] 'Other income' includes franchising income, conveyancing services, EPCs, Home Reports, utilities and other products and services to clients of the branch network.
[2] Operating profit is before exceptional items, contingent consideration, amortisation of intangible assets and share-based payments.
[3] Exchange units and fee per exchange are on a like-for-like basis (excluding branch openings and closures).
[4] Source: Bank of England for "House Purchase Approvals" 2014.
[5] Source: Council of Mortgage Lenders arrears and repossessions data relating to properties taken into possession by first-charge mortgage lenders for 2014.

Estate Agency Division Performance

The UK residential property services market in 2014 was very much a story of two halves. The year started very strongly continuing the trend seen in the second half of 2013 with house purchase approvals up 35% year on year in the first quarter of 2014 and by 19% in the first half for the year. Year on year growth then moderated in the second and third quarters before contracting by 16% in the final quarter of the year. April also saw the implementation of changes to mortgage application processing by lenders following the MMR. These changes impacted the market from the second quarter onwards. Changes to stamp duty introduced at the start of December 2014 also had an impact, particularly in prime Central London, but there was a general slowing of activity as consumer sentiment weakened in the second half of the year.

Allowing for this seasonal volatility, the total market, as measured by mortgage approvals for house purchases, for the full year increased by a modest 4.5% to 769,000 (2013: 736,000)[1] which compares to historic normalised levels of 1.2m approvals per annum. 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 11% to 677,000 (2013: 609,000)[1].

LSL has a balanced Estate Agency model and over the last seven years has significantly built its exposure to non-cyclical income and countercyclical streams such as Lettings and Asset Management income. These income streams have grown at a compound annual rate of 15% over the period, increasing from £40.4m in 2010 to £70.2m in 2014. Given expectations for the housing transaction volumes in the UK residential property market in 2015, the Group expects to continue to target these income streams through an active programme of organic growth and acquiring lettings books across the

UK portfolio. The Estate Agency Division delivered an excellent performance in 2014 with total income growing by 14% to £225.3m (2013: £198.2m). The benefit of operational gearing can be seen as 18% of the increase in revenue fell through to operating profit even after investment to support future growth. Operating profit increased by 16% to £33.9m (2013: £29.1m). The business therefore improved its operating profit margin to 15.0% (2013: 14.7%). As the market in 2015 tightens, particularly in the first half, the Group will be looking at further ways to improve efficiency.

Investment in the Estate Agency Division during 2014 included the recruitment of additional employees into Lettings and Financial Services which will allow the Estate Agency Division to capitalise on market opportunities in 2015. In addition, Marsh & Parsons opened four new branches which will allow it to grow in new geographies within the prime Central London market place.

Estate Agency Division Branches

Your Move, Reeds Rains and the LSLi brands all continued to perform well during the year. Residential Sales income increased by 15% to £92.1m (2013: £80.0m) due mainly to an improvement in volume and the average fee which increased by 7% to £3,101 (2013: £2,908) driven partly by improved mix. Excluding the impact of Marsh & Parsons, the average fee increased by 10% to £2,654 (2013: £2,407).

Marsh & Parsons

Marsh & Parsons delivered a solid performance in a challenging prime Central London market. Although there was significant house price appreciation in prime Central London in the first half of 2014, these conditions significantly ameliorated in the second half of the year. There continues to be a scarcity of stock for both residential sales exchanges and lettings in prime Central London markets. This has created pressure on volume growth although commission percentages have been maintained and the average fee per exchange has increased by 11% in the year. Against this backdrop, Marsh & Parsons revenue increased by 8.7% to £32.5m (2013: £29.9m) with Lettings growth of 18% which is a strong result. Operating profit was £6.5m (2013: £6.7m).

Operating profit reduced marginally year on year because of an increase in the cost base driven by further investment in new branch openings to give the business greater coverage of the prime Central London market and the capacity to further expand going forward. During 2014, four new branches were opened in Shepherd's Bush, Camden, East Sheen and Richmond which are performing in line with the Board's expectations. The Group is targeting further new branch openings in 2015.

Financial Services

Total Financial Services income delivered through the intermediary networks of First Complete and Pink Home Loans, the Estate Agency Division's branches and Linear Financial Solutions increased substantially by 22% during 2014 to £43.7m (2013: £35.8m). Revenue has continued to grow consistently since 2010 as a result of significant organic growth including the successful roll out of Financial Services to all Estate Agency branches and the acquisition of new intermediary networks. In total the Group arranged mortgage lending completions of £11.6bn during 2014 (2013: £7.6bn) 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

LSL continues to focus on growing Lettings income across all of its businesses through organic growth and through selective acquisitions of lettings books. LSL's on-going focus on growing Lettings income reflects the recurring nature of the revenue stream along with attractive economics. LSL is continuing to invest in acquiring lettings businesses and has recruited additional Lettings consultants during the year. Total Lettings income grew by 12% year on year, an improvement on the growth rate of 9% in the prior year. Growth was also consistent throughout the year with 12% growth sustained in both the first half and the second half of the year.

With the improvements in the economy and continued low interest rates, repossession volumes again fell. The rate of market contraction increased to 27% from 15% in 2013 with the total number of repossessions now down to 21,000 in 2014 (2013: 28,900)[2]. The market has now declined for each of the last five years and is now well below half of the total of 48,900 in 2009. During this period LSL's market share in Asset Management has increased. However, the acceleration in the decline in the size of the market in 2014 as well as continued fee pressure has resulted in an 18% reduction (2013: 8% reduction) in revenue to £11.7m (2013: £14.3m). Despite

[1] Source: Bank of England for "House Purchase Approvals", "Remortgage Approvals" and "Total Mortgage Approvals" 2014

[2] Source: Council of Mortgage Lenders arrears and repossessions data relating to properties taken into possession by first-charge mortgage lenders for 2014.

Business Review – Estate Agency Division continued.

this contraction, the Asset Management business is well positioned to capitalise on an increase in repossession volumes which may occur if and when interest rates start to rise.

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

The Group now benefits from total counter-cyclical income from Lettings and Asset Management of £70.2m compared to £66.5m in 2013, which represents 31% of the Estate Agency Division's revenue and 24% of Group revenue.

Developments

After many years with LSL, most recently as an Executive Director, David Newnes retired at the end of 2014. He was succeeded by Adrian Gill, who was, until November, a Non Executive Director of the Group. Adrian has considerable experience in the residential property sector, having spent over 10 years as Executive Director at Connells Limited, the national estate agency business of the Skipton Building Society. Over the next few months, Adrian as Executive Director, Estate Agency will be reviewing and updating the Group's strategy for the Estate Agency Division.

As well as investing in headcount in 2014 to increase Lettings and Financial Services capacity, LSL also continued a programme of investment in new front end systems in Your Move, Reeds Rains and the LSLi brands which was started in 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. This was successfully rolled out during 2014 and further upgrades are planned into 2015 to enhance the functionality and capabilities of the applications.

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

The MMR was implemented on 26th April 2014. The FCA's aim for the MMR was to deliver a 'sustainable market for all participants that is flexible for consumers'. In 2014, LSL has made substantial investment and took significant steps to prepare for the new requirements including the selection of and investment in new software and training of the employed and network employees as required. The implementation has gone well and the market has settled in to the new lending criteria regime.

At the start of 2015, the online property portal market saw the launch of 'OnTheMarket.com', the portal of Agents Mutual. LSL has not joined OnTheMarket.com and continues to use both Rightmove and Zoopla and their associated portals as LSL believes that this approach offers the best service to the Estate Agency customers.

During 2014, the Group has continued to make selective acquisitions and has added to the Estate Agency Division in the South East through the acquisitions of Hawes & Co and ten lettings books.

In 2015 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. Subsequent to the year end, LSL acquired Thomas Morris a multi award winning estate agency and lettings business with seven branches in Cambridgeshire, Bedfordshire and Hertfordshire together with a further six lettings books.

Hawes & Co, New Malden

Regulation – Financial Services

First Complete and Pink Home Loans (the trading name of Advance Mortgage Funding) are both directly authorised by the FCA in relation to the sale of mortgage, pure protection and general insurance products. Your Move, Reeds Rains Financial Services, Reeds Rains and Embrace Mortgage Services along with the LSLi subsidiaries are all appointed representatives of First Complete, while Linear Financial Solutions is an appointed representative of Advance Mortgage Funding for mortgage and insurance business and also an appointed representative of Openwork for investment business.

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

Regulation – Residential Sales and Lettings

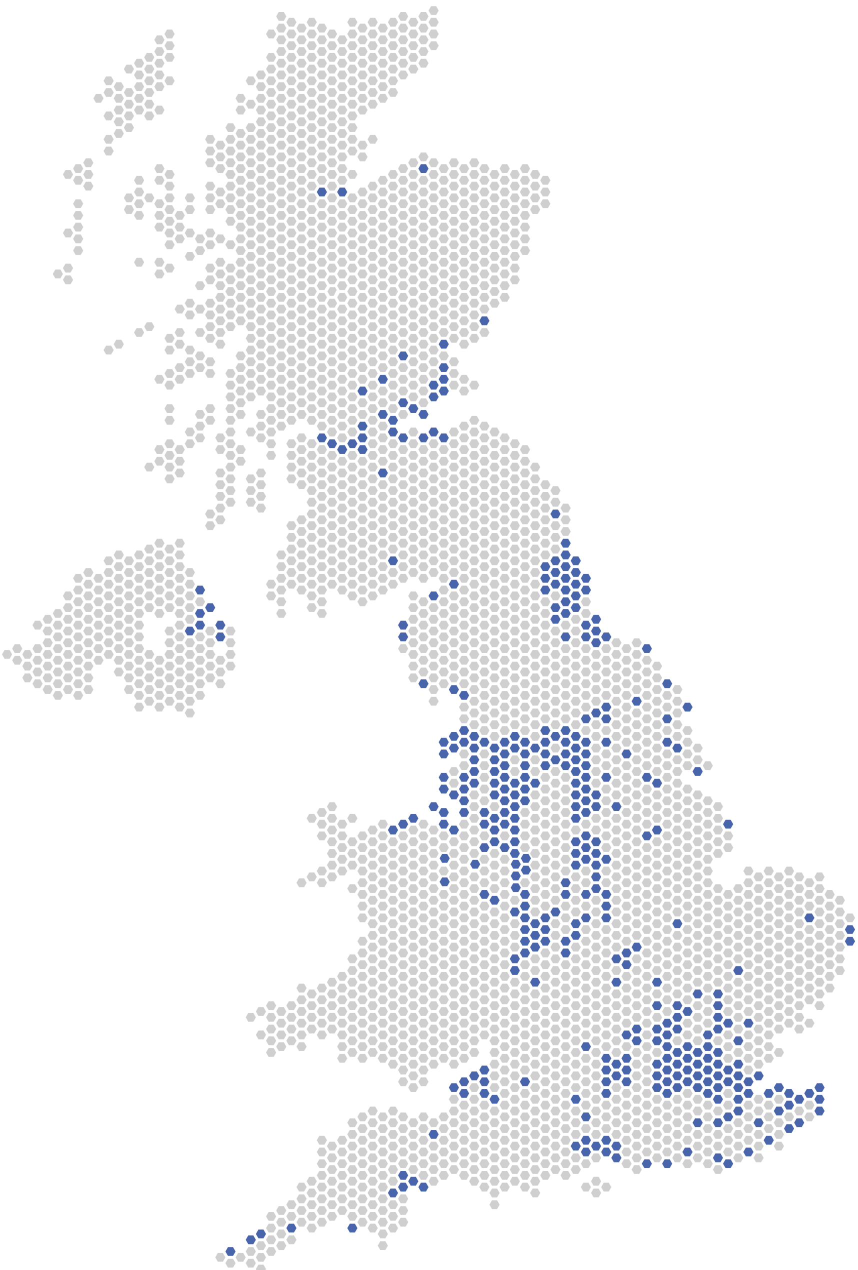
The LSL Estate Agency Division's branches adhere to the Codes of Practice issued by industry professional and regulatory bodies, The Property Ombudsman (TPO) and/or the Association of Residential Lettings Agents (ARLA). Further, in June 2014, Your Move's Lettings Director became the President of ARLA.

This is in addition to observing compliance with relevant legislation, such as the Consumer Protection Regulations, guidance material published by relevant regulators, including the Competition and Markets Authority (CMA) (and its predecessor the Office of Fair Trading (OFT)), the National Trading Standards Agency/Trading Standards Institute (TSI), HMRC and codes published by other relevant bodies, including the Advertising Standards Authority (ASA). LSL from time to time also enters into direct dialogue with the regulators and consumer groups, such as Which. During 2014, the CMA, TSI, HMRC and FCA took over responsibilities from the OFT in relation to Residential Sales and Lettings regulation (including Anti-Money Laundering) and Consumer Credit.

Branch numbers
Breakdown of Estate Agency branches as at 31st December 2014

	Owned	Franchised	Totals
Your Move	218	72	290
Reeds Rains	124	45	169
LSLi	52	6	58
Marsh & Parsons	22	–	22
Totals	**416**	**123**	**539**

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**

Estate Agency and Related Services Awards and Achievements 2014

Your Move

Estate Agency of the Year Awards 2014, sponsored by the Sunday Times:

- Best Marketing – Gold Award
- Best Innovation – Gold Award
- Best Financial Services – Gold Award
- Best Training and Development – Bronze Award
- Best National Estate Agent – Bronze Award

Five Your Move managers were also shortlisted in the individual awards category – the highest number shortlisted from an individual estate agency brand.

Lettings Agency of the Year Awards 2014, sponsored by the Sunday Times:

- Best Property Management – Silver Award

Reeds Rains

Estate Agency of the Year Awards 2014, sponsored by the Sunday Times:

- Best National Estate Agent – Silver Award
- Best Financial Services – Bronze Award

Lettings Agency of the Year Awards 2014, sponsored by the Sunday Times:

- Best Property Management – Gold Award
- Best National Lettings Agent – Silver Award

Intercounty

Lettings Agency of the Year Awards 2014, sponsored by the Sunday Times:

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

Marsh & Parsons

Estate Agency of the Year Awards 2014, sponsored by the Sunday Times:

- Best London Estate Agency (Medium) – Gold (for the fifth year running)

UK Property Awards 2014, sponsored by Rolls Royce Motor Cars:

- Best Lettings Agency in London
- Best Real Estate Agency in London
- Best UK Real Estate Agent

The International Property Awards, Sponsored by Rolls Royce Motor Cars:

- Best International Real Estate Agent

Pink Home Loans

Mortgage Strategy Awards 2014:

- Best Network (with less than 300 Appointed Representatives)

Financial Advisor Service Awards 2014:

- 5 star award

British Mortgage Awards 2014:

- Business Leader of the Year Award – Mark Graves

Money Marketing Awards 2014:

- Best Network Award – Runner up

Linear Financial Solutions

Mortgage Strategy Awards 2014

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

Money Marketing Awards 2014

- Best Broker for Mortgages – Shortlisted
- Best Broker for Protection – Shortlisted

First Complete

Mortgage Strategy Awards 2014:

- Best Network (with more than 300 Appointed Representatives) – Finalist

Money Marketing Awards 2014:

- Best Network Award – Runner Up

Group HR

CIPD North East 2014 Award for Innovation in Social Media or Technology (for PeopleMatters)

LSL Land & New Homes

ISO 9001 quality assurance accreditation by BSi

Surveying Division

Strong second half performance

+3%

Revenue

2013: -2.9%

+9%

Income per job

2013: +3%

21.4%

Profit Margin

2013: 21.7%

361

Profit Margin

2013: 386

	Total		
Financial	**2014 £m**	2013 £m	% Change
Revenue	**62.2**	60.4	3
Operating expenditure	**(48.9)**	(47.3)	3
Operating profit[1]	**13.3**	13.1	2
KPIs			
Profit margin (%)	**21.4**	21.7	
Jobs Performed ('000's)	**372**	396	(6)
Revenue from private surveys	**4.0**	4.9	(18)
Income per job (£)	**167**	153	9
PI insurance (Balance Sheet) provision at 31st December	**36.7**	25.9	
Number of qualified surveyors at 31st December	**361**	386	(6)
Mortgage approvals (000's)[2]	**1,280**	1,286	-

[1] Operating profit is before exceptional items, amortisation of intangible assets and share-based payments

[2] Bank of England for "Total Mortgage Approvals" 2014

Surveying Division Performance

Total mortgage approvals remained broadly flat year on year at 1.280m (2013: 1.286m) with growth in the first half followed by a 10% decrease in total mortgage approvals in the second half compared to the same period last year. This slowdown in the second half can be attributed to consumer sentiment and the impact of the MMR.

Surveying turnover was £62.2m (2013: £60.4m) an increase of 3% on last year and the total number of jobs performed was 372,000 (2013: 396,000). The reduction in volumes was driven by the slowdown of the mortgage market in the second half of the year, with volumes down by nearly 10% year on year. Additionally the decision of a major lender client to improve commercial terms but transfer some of their valuations to another provider of valuation services also impacted on the second half.

Despite a 1% reduction in the Surveying Division's turnover to £31.0m (2013: £32.0m) in the second half versus the first half of the year, the operating profit margin in the second half year was 24.5% (2013: 24.1%) through improved efficiency and tight cost control. The operating profit of £7.6m (2013: £7.7m) also represented a 33% increase on the first half of the year. As reported last year, the Surveying Division reduced the focus on developing surveying services for private buyers to focus on higher margin surveying for corporate clients. As a result the full year revenue from surveying services for private buyers reduced by 18% to £4.0m (2013: £4.9m).

As reported in 2013 in response to the surveying market's capacity constraints, the Group launched a new graduate recruitment and training programme. This represents a major investment for the business. In 2014 a further 60 graduates were hired in addition to 43 hired during 2013. The benefits of this investment commenced in the second half of the year and will be further realised in 2015. The constrained capacity in the first half of 2014 resulted in an improvement in the pricing environment and the benefits were realised in the longer term contracts renewed in the year and the major new contract won.

Operating profit was £13.3m (2013: £13.1m) and the operating profit margin was 21.4% (2013: 21.7%). These figures are stated after deducting the cost of investment in the graduate programme. Adjusting for this cost, on a like-for-like basis, operating profit increased to £15.4m (2013: £13.6m), an increase of 13.2% and the operating margin was 24.8% (2013: 22.5%).

Surveying Division Developments

The major initiative in the Surveying Division of investing in a new graduate recruitment and training programme to increase capacity has continued in 2014. Whilst the overall market conditions worsened in the second half of 2014, some geographically concentrated capacity constraints remain, particularly in London and the South East. The graduate programme has enabled LSL to respond to this challenge by moving surveyors around the country.

Surveying and Valuation Services Awards and Achievements 2014

e.surv

Mortgage Strategy Awards 2014:

- Valuer of the Year – Shortlisted

Equity Release Awards 2014:

- Equity Release Valuer of the Year

Re-awarded:

- ISO 9001:2008 quality assurance accreditation by BSi
- Investors in People Accreditation

e.surv has also achieved registration under the Royal Society for the Prevention of Accidents QSA Scheme.

In the final quarter of the year the Surveying Division concluded a project to optimise operational performance and productivity whilst improving its working practices; this included the consolidation of all administrative functions at its Kettering support services location. The associated one off costs of £0.7m associated with this exercise will be recovered in savings during the first half of 2015.

The Surveying Division serves key lender clients through both exclusive contracts and through panel management arrangements. LSL is continuing to invest in the business in order to maintain high service levels for all clients.

The Surveying Division had a number of contracts up for renewal in 2014 and all of the major contracts were successfully renewed with improved pricing. There will be fewer renewals and new opportunities in 2015 but the Surveying Division will vigorously pursue those available. The uncertain economic conditions, including any impact of the general election, may impact the overall housing market and consequently surveying volumes, nevertheless the renewal of existing major contracts in 2014 secures a significant proportion of expected revenues.

PI Costs

As previously announced on 19th December 2014, LSL has needed to further increase the PI provisions relating to the 2004 to 2008 high risk lending period. The announcement indicated a range of between £20.0m and £25.0m and following further work, including a case by case independent review by specialist external legal counsel, LSL has provided an additional reserve of £24.6m which is included in 2014 as an exceptional item. Whilst the cause is an historic market issue relating to historic periods, it remains disappointing. The additional provision reflects a number of factors. Although LSL has seen the reduction in the rate of notifications that had been expected during the year, and assumed in setting the previous level of provision, a greater proportion of the notifications are deteriorating into claims. Claims are also hardening with the more difficult and complex claims now being progressed. This is resulting in an increase in the average cost per claim, particularly in respect of legal costs reflecting the complexity of the arguments. 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 review was conducted with the overall aim of ensuring a high degree of confidence that the total PI provision will be adequate to cover the remaining risk relating to the 2004 to 2008 high lending period. The provision required is highly sensitive to the run rates of new claims and the costs per claim for both new and existing claims. Claims experience since the high risk lending period is substantially improved as a result of both structural changes in the market place and the overhaul of internal procedures.

Market Intelligence

LSL issues a number of market indices and reports and 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.

e.surv
Chartered Surveyors

Financial Review

The key drivers of the financial performance of LSL in 2014 are summarised below:

£287.5m
Group Revenue up 11.2%
2013: £258.6m

£37.1m
Group Underlying Operating Profit up 6%
2013: £37.1m

£42.0m
Operating Cashflow[1]
2013: £42.4m

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

Income statement

Revenue
Revenue increased by 11.2% to £287.5m in the year ended 31st December 2014 (2013: £258.6m).

Operating Expenses Excluding Exceptional Costs, Amortisation and Share Based Payment
Operating expenses increased by 10.5% to £249.3m (2013: £225.6m). This was mainly in the Estate Agency Division and included investment to support revenue growth in 2014 on the back of ten months of market growth seen in 2013. The average number of full time equivalent employees during the year was 4,760 (2013: 4,327).

Underlying Operating Profit
Group Underlying Operating Profit (before exceptional gains and exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments) increased by 13.2% to £42.0m (2013: £37.1m) with the Underlying Operating Profit Margin of 14.6% (2013: 14.3%). On a statutory basis, the Group operating profit increased by 72.7% to £33.9m (2013: £19.6m) with the Operating Profit Margin of 11.8% (2013: 7.6%).

Exceptional Items
Total net exceptional costs in 2014 were £6.2m (2013: £13.0m). The main exceptional costs in 2014 were comprised of PI Costs of £24.6m (for further details see Provision for PI claims and notifications below). The total exceptional cost also includes acquisition related costs (£0.4m) and restructuring, redundancy and other associated branch closure costs including onerous lease provisions (£1.1m). These exceptional costs were partly offset by a gain on the disposal of freehold properties (£35,000) and on the sale of part of LSL's investment in Zoopla on its IPO totalling £19.8m. In 2013 exceptional costs comprised of PI Costs of £12.0m, acquisitions related costs of £0.2m 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.

Provision for PI claims/notifications
Since early in 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. Following a further deterioration in claims experience in 2014, the provision for PI Costs was increased by £24.6 million in 2014. Further details are set out in the Surveying Division Business Review (at page 24) and in Note 7 to the Financial Statements.

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. These amounts are shown separately on the face of the Income Statement.

Contingent consideration relating to the 2011 acquisition of Marsh & Parsons has been treated as an expense of £2.3m (2013: £0.4m) in 2014. Further, LSLi has acquired a number of subsidiaries whereby the contingent consideration is also considered to be remuneration under IFRS 3. A credit of £2.7m (2013: £2.4m expense) was recorded in 2014 reflecting revisions to future earn out assumptions.

Net Financial Costs
Net financial costs (excluding exceptional finance costs) amounted to £2.2m (2013: £3.1m). The finance costs related principally to interest and fees on the revolving credit facility, however, £0.1m (2013: £0.7m) 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 21% from 1st April 2014 with a further reduction to 20% occurring on 1st April 2015. The effective rate of corporation tax for the year was 21.1% (2013: 21.4%) excluding prior year adjustments. The effective tax rate for 2014 and 2013 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 22.0% (2013: 24.0%). Income tax charged directly to other comprehensive income was £2.7m (2013: £4.4m); this is comprised of a credit of £4.1m and a charge of £1.4m and relates to the revaluation of financial assets (see Note 16 to the Financial Statements). Income tax credited directly to the share based payment reserve is £nil (2013: £nil).

Adjusted Basic Earnings Per Share
The Basic Earnings Per Share was 24.5 pence (2013: 13.6 pence). The Adjusted Basic Earnings Per Share (as calculated in Note 10 to the Financial Statements) is 30.5 pence (2013: 25.3 pence). 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 £8.5m (2013: £7.1m) and an additional £0.7m (2013: £0.7m) has been spent internally on developing new software which has been treated as an intangible asset.

Bank Facilities
LSL refinanced its bank facility in 2013 with a £100.0m revolving credit facility in place until August 2017 (2013: £100.0m). 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 to the Financial Statements. During the period under review, the Group complied with all of the financial covenants contained within the facility.

Net Bank Debt
As at 31st December 2014 Net Bank Debt was £34.7m (2013: £26.3m) and Shareholders' funds amounted to £83.1m (2013: £99.3m) giving balance sheet gearing of 41.8% (2013: 26.5%). The increase in Net Bank Debt arose as a result of the acquisitions and further investment in joint ventures and financial assets for various new

acquisitions by the Estate Agency Divisions and payment of PI claims of £13.3m (2013: £14.4m). Net Bank Debt represented 11.2% of the Group's market capitalisation at 31st December 2014, and 74.0% of the Group's adjusted EBITDA for the year (2013: 5.8% and 64.0% respectively).

Cash Flow
The Group generated £42.0m (2013: £42.4m) of operating cash flow which is before capital expenditure including software of £9.2m (2013: £7.9m) and before PI claims paid out of £13.3m (2013: £14.4m) and exceptional costs of £1.5m (2013: £1.1m). The marginal decrease was due to improved Group Underlying Operating Profit offset by investment in working capital. During the year the Group sold a number of freehold properties receiving net proceeds of £0.1m (2013: £1.4m) and generating an exceptional profit of £nil (2013: £0.1m).

Zoopla IPO
On 18th June 2014, Zoopla underwent an IPO and as part of this, LSL sold 48.9% of its stake in Zoopla for £20.8m, net of associated costs and £16.8m net of tax. The total gain on the sale of the shares was £19.8m net of associated costs. Zoopla's share price at 31st December 2014 was £1.965 per share. The fair value of the Group's remaining 2.6% stake in Zoopla is calculated to be £21.3m at 31st December 2014.

Frost's, St Albans

Net Assets

The Group's net assets as at 31st December 2014 were £83.1m (2013: £99.3m). The Group's investment in Zoopla had largely been revalued ahead of its realisation on IPO. Accordingly, the exceptional gain in the year had already been largely reflected in Group net assets and the £16.8m special dividend paid during the year therefore reduces net assets compared with December 2013.

Treasury and Risk Management

LSL has an active debt management policy. During the first half of 2014, the Group had interest rate swaps in place which fixes the interest on borrowings up to £25.0m at an average LIBOR rate of 2.93%, which provided a degree of predictability on finance costs. The interest rate swaps expired and were not renewed. LSL continues to review debt management policy and will consider additional hedging in due course. LSL does not hold or issue derivatives or other financial instruments for trading purposes.

Post Balance Sheet Events

Subsequent to the year end, LSL acquired Thomas Morris a multi award winning estate agency and lettings business with seven branches in Cambridgeshire, Bedfordshire and Hertfordshire for an initial consideration of £4.0m, and six small lettings book acquisitions for a total initial consideration of £1.8m. In addition, via LSLi, LSL acquired the remaining shares in JNP for a consideration of £53,625 and following the transaction, LSL holds 100% of the shares in JNP.

Management is in the process of allocating the purchase price in accordance with IFRS 3. As a result, the initial accounting for the acquisition is currently incomplete, so a fair value table of the identifiable assets and liabilities has not been presented.

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.

During 2014, in line with FRC guidance, LSL's risk management and internal controls framework included:

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 Group Finance;

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 identifies, reviews and evaluates the principal risks which may impact the Group as part of the planning and reporting cycle to ensure that such risks 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.

In line with 2014 edition of the Code and the FRC's 'Guidance on Risk Management, Internal Control and Related Financial and Business Report', which integrates and replaces the FRC's previous guidance ('Internal Control: Revised Guidance for Directors on the Combined Code' and 'Going Concern and Liquidity Risk Guidance for Directors of UK Companies') which was published in September 2014, LSL has adopted a Group-wide risk appetite statement and framework. The new framework will be applied during 2015, and LSL will report on its progress in the 2015 Report.

Listed overleaf are the risks which the Board has identified at the date of this Report as being therefore the principal risks and uncertainties faced by LSL at the date of this Report, together with details of key management and 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 overleaf. This may include some risks which are not currently known to the Group or that LSL currently deems as immaterial, or were included in previous Annual Report and Accounts and through changes in external factors and careful management, are no longer deemed to be material to the Group as a whole.

However, these risks may individually or cumulatively also have a material adverse effect together with other risk factors which are beyond the direct control of LSL, and may have a material adverse impact on LSL's business, results of operations and/or financial condition. The risk management framework and procedures in place can only provide reasonable but not absolute assurance that the principal risks and uncertainties are managed to an acceptable level.

Further information relating to how LSL managed these risks and uncertainties during 2014 is set out in the Audit Committee Report (Internal Controls) of this Report on page 60.

Principal Risks and Uncertainties

Description and Impact:	Management and Mitigation
Housing Market – UK: • The UK residential housing market in 2014 was a story in two halves, with some market improvement in the first quarter, followed by a weakening from the second quarter which continued for the remainder of the year. • Market trends in 2014 were linked in the first half of the year to the implementation of MMR, and in the second half of the year to the tightening of lending criteria together with some cooling of sentiment in the housing market generally. In addition, looking forward there is some short term political risk around the 2015 general election. Any impact on transaction volumes (both house purchase and remortgage) and house prices may adversely affect the profitability and cash flow of all 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 non-cyclical and countercyclical income streams, in particular Lettings, to offset any impact on residential transaction numbers. Further, regular reviews of trends in market volumes are undertaken and decisions made on any cost base reductions measures.
Housing Market – Central London: • LSL has an exposure to the prime 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 has an incentivised and established management team with a growth strategy. It operates in all segments of the prime Central London market and has opened four new branches in 2014 with further new openings planned for 2015 to improve geographical coverage. The Board closely monitors the company's performance.
Client Contracts: • A failure to secure or renew, key Valuation Services or Asset Management contracts, or any significant reduction in volumes combined with a pressure on fees, either as a result of adverse market conditions, market consolidation, competition or inadequate service delivery.	There continues to be investment in customer services to retain existing clients and to attract new ones. In addition, LSL continues to provide private survey services to provide a supplemental income stream to the core B2B arrangements. Group-wide relationship management arrangements are in place to ensure that LSL uses its networks to strengthen relationships with key lender clients.
Professional Services: • Liabilities arising from the provision of inaccurate professional services advice to clients (e.g. valuation services) arising from employee errors and/or a failure by LSL businesses to put in place and to maintain appropriate internal controls. • The period from 2004 to 2008 is identified as the high risk lending period and notifications relating to this period are still being received. Accordingly, the PI provisions disclosed in the Report is the Group's best estimate of likely claim costs, and this remains sensitive to the rate of new notifications and the average cost of current and future claims. • The costs and management resources applied in responding to claims and notifications diverts resources away from value adding activities. • Costs and losses arising from a failure to manage any actual or threatened legal claims.	Monitoring arrangements include oversight by the Board (including regular review of the PI provision relating to Surveying and Valuation Services) 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 includes a risk based criteria for the identification of transactions to be subject to enhanced review measures. During 2014 LSL completed a detailed review of its PI claims and the associated PI provision and further initiatives to improve internal controls and related reporting are continuing into 2015. The Board regularly review the PI provision to ensure that the cost per claim, number of notifications and the rate of deterioration from notifications to claims are in line with the parameters used to calculate the provision.

Description and Impact:	Management and Mitigation
Regulatory and Government: • Failure to comply with existing legislation/regulation or changes to legislation/regulation and/or Government/EU policy which may impact on business results or the UK housing market in general. • Changes in macro Government economic policy or specific initiatives in respect of the UK Residential Housing sector following the forthcoming election may impact upon the business.	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. The Board also monitors the impacts of changes and assess changes to business practices which may be required to respond to Government policy changes and to ensure compliance with any new legislation. Where necessary external specialists are engaged to provide advice to ensure that all laws and regulations are adhered to and that a culture of ensuring appropriate customer outcomes is embedded across the Group.
Financial Services Regulation (including FCA requirements): • Failure to comply with relevant legislation including FCA requirements or changes to Financial Services legislation which would result in a fine, adverse publicity, reputational damage and could result in loss of authorisations which would impact on business results. • The continued growth of LSL's Financial Services business in 2014 has resulted in increased interaction with the FCA.	The Group has improved its Financial Services compliance framework through the enhancement of technology solutions and the inception of new compliance roles operating across the breadth of Financial Services operations. LSL has a proactive engagement strategy with the FCA and the Board closely monitors the Financial Services business and receives regular updates on its communications with the FCA.
Acquisitions: • Failure to identify and secure appropriate targets for acquisition and once acquired, the businesses are not successfully integrated into the Group. • Liabilities arising from a failure to carry out appropriate due diligence prior to an acquisition.	Each Division has plans in place to identify acquisition opportunities and wherever necessary additional external consultants are hired to assist with this process. Further, the Group has in place dedicated teams to deliver, monitor and integrate acquisitions. Where opportunities arise, thorough due diligence is carried out and all significant acquisitions are approved by the Board, to ensure acquisitive growth is delivered within strategic financial parameters. Detailed 100 day integration plans are prepared by management and implemented once the business has been acquired. A post acquisition review is presented to the Board on the financial and operational success of each significant acquisition, the integration of the business within the Group and any learnings and improvements arising from the process.
IT Systems, Infrastructure and Security: • Failures, interruptions or security breaches of any Group IT services on which any business is reliant for operational performance and financial information.	Dedicated in-house IT departments with specialist staffing. Maintenance of Group policies, including 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.
Retention and Recruitment: • Failure to retain/recruit qualified or experienced individuals with the necessary skills and experience into the senior management team which is key to delivering the future growth strategy of the Group.	The executive team focuses on the 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. The Group HR Department includes a dedicated Talent Acquisition Team focusing on the recruitment of high quality employees. The Group also has in place a range of graduate recruitment and training schemes.

Corporate Social Responsibility

The Board has overall responsibility for establishing the Group's Corporate Social Responsibility (CSR) statement and associated policies with the 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 (including the Group HR on line service systems).

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

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

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

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

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

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

Charity Fundraising Ball in aid of Cancer Research.

LSL's 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 Communication (Employees) below.

Lisa Charles-Jones, Group HR Director running for Cancer Research.

LSL's 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 Estate Agency and Surveying 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. 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. Further the 2014 employee opinion survey results were reviewed in respect of age and gender diversity, see below for further details.

Since 2013, LSL has engaged an external consultant to assist with the annual employee surveys and this engagement allows LSL to not only generate an accurate picture of engagement across the Group, it also allow LSL's to assess the results and feedback received against similar organisations using the benchmarking data retained by the agency. The 2014 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 3,337 (67%) (2013: 3,114 (63%)) 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, the process will be repeated again in 2015 as LSL remains committed to the continual development and improvement of employee engagement across the Group. 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.

Corporate Social Responsibility continued.

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 suffer 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 Risk and Internal Audit team with regular reporting to the Board, which includes indicators such as staff turnover

Intercounty raising money for the Ice Bucket Challenge.

Age and Gender Diversity:
Since 2011, LSL has undertaken reviews in relation to gender diversity which was further explored in 2014 by the completion of an age and gender analysis of its 2014 employee opinion survey which revealed that whilst feedback from employees is consistent regardless of gender, there are differences in relation to age groups. This feedback will be taken into account in Group employee initiatives going forward.

The findings of the 2011, 2012 and 2013 reviews are set out in LSL's previous Annual Report and Accounts. For details of relevant gender diversity KPIs, see below

Disability:
LSL has in place policies and procedures to achieve its objective 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.

	2014	2013	2012	2011	2010
Total Employees at (31st December)	**5,222**	5,299	4,754	4,831	4,490
Total Employee turnover percentage (%)*	**27.8**	26.4	26.7	24.8	28.5

*Data excludes forced leavers.

Breakdown by Gender	**2014**	2013	2012	2011	2010
Male	**2,316**	2,318	2,052	2,065	1,838
Female	**2,906**	2,981	2,702	2,748	2,652

In accordance with reporting requirements, the gender split for the Board, senior management team and Group employees for 2014 and 2013 is as follows:

	Female		**Male**	
	2014	**2013**	**2014**	**2013**
Directors	**1**	1	**7**	8
Senior management team	**12**	12	**50**	44
Group employees	**2,906**	2,981	**2,316**	2,318

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 2014, 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 2014 e.surv continued with its Graduate Surveyor recruitment and a further intake of 50 employees were taken on to the programme. There are now in excess of 100 graduates in the business, many of whom have achieved AssocRICS qualifications, and it is expected that the remainder will qualify during 2015. e.surv continues to use the Mitre Training Academy to support the learning and development of the Central Operations staff. There are now 26 members of staff who are working towards NVQ accreditation at either Level 1, 2 or 3 in Business Administration, Customer Service, Team Leading, Management, and Business Improvement Techniques.

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.

Estate Agency and Related Services:

Across the Group's Estate Agency Division's branches, employees adhere to the Codes of Practice issued by 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 Competition and Markets Authority (CMA) (and its predecessor the Office of Fair Trading (OFT)), the National Trading Standards Agency/Trading Standards Institute (TSI), HMRC and codes published by other relevant bodies, including the Advertising Standards Authority (ASA). LSL from time to time also enters into direct dialogue with the regulators and consumer groups, such as Which. During 2014, the CMA, TSI, HMRC and FCA will took over responsibilities from the OFT in relation to Residential Sales and Lettings regulation (including Anti-Money Laundering) and Consumer Credit.

2014 continued to present regulatory changes, including the replacement of the OFT, the introduction of new cancellation regulations and new guidance for lettings professions published by the CMA. Further the Government has continued to review consumer legislation, and the Consumer Rights Bill, which seeks to simplify the UK's consumer legislation and implement the EU's Directive on Unfair Commercial Practices, has continued its passage through Parliament during 2014.

LSL monitors all relevant legislative changes, such as consumer rights and data protection reforms, and in response keeps under review its training programmes to ensure that employees receive specially designed training courses, with the quality of service monitored on a regular basis.

LSL's 'Talent Development Team' delivered training to a total of 5,341 employees during 2014, equating to the delivery of 9,330 training days. 2014 saw the implementation of 'Learning Matters', an online eLearning system which allows employees to complete eLearning training packages for compliance and regulatory purposes, and as a result of this system LSL are able to report upon compliance training completion rates in real-time.

HR Ski diving for Cancer Research

Reeds Rains Golf Day for Agents Giving.

Your Move raising money for Children in Need.

Intercounty supporting cazfest (Heart Risk)

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

Throughout the year a number of new learning initiatives were implemented including the launch of the Leadership Pathway – an accredited development programme for existing and future managers, apprenticeship programmes and various CPD workshops to support the development of new and tenured employees.

In relation to LSL's Financial Services business, 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 pages 20 and 21 of the Strategic Report, Business Review – Estate Agency Division in this Report.

During 2014, the Group training expenditure was:

Division	Expenditure 2014	Expenditure 2013
Estate Agency and Related Services (£)	**1,294,812**	1,460,499
Surveying and Valuation Services (£)	**937,725**	381,647
Total Expenditure	**2,232,537**	1,842,146

This includes in-house training costs of £1,950,795 (2013: £1,213,523). The increase in the Surveying and Valuation Services expenditure relates to e.surv's graduate training scheme which is referred to above and in the Surveying Division Business Review.

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

Since 2010, LSL's 'green' priorities have 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 2015, 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 opposite are examples of the environmental initiatives focused on in 2014.

Green Priorities and Environmental Initiatives:	Examples of Actions Continued in 2014:
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 121 trees (2013: 136 trees). • Across the Group various recycling schemes are in place with Iron Mountain, which delivered the following benefits: • 173 (2013: 133) cubic metre landfill reduction. • 761,457 (2013: 1,102) trees saved. • 50,030 kilos (2013: 58,859) kilos of recycled paper produced.
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 lighting installations including the installation of LED wall and window displays 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.
Remote Meetings	• LSL employees are geographically spread out across the UK and where possible, meetings are held by telephone conference facilities to avoid the need for travel which provides both financial and environmental benefits to the Group. • Implementation and utilization of on-line training arrangements (e.g. Learning Matters) to encourage remote training and minimise travel delivering financial and environmental benefits.
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 Part 7 of The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013:

Since 2012, 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 has commissioned an independent environmental consultancy, Carbon Credentials, to evaluate the Group's emissions quantification and reporting process. This is in order to ensure compliance with mandatory emissions reporting regulations and provide next steps for continuous improvement of Greenhouse Gas Emissions reporting activities.

In accordance with Part 7 of The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations, each year LSL reports on any targets and KPIs approved by the Board. For the period from 1st October 2013 to 30th September 2014, the LSL Group of companies'

Corporate Social Responsibility continued.

Your Move Camborne support the local Community.

emissions amounted to 9,614 tCO_2e (2013: 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 2013 to 30th September 2014 was 34 tCO_2e (2013: 37 tCO_2e) per £m of revenue and 2.1 tCO_2e (2013: 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.

In relation to 2015, the collation of energy data from across the business for the purposes of mandatory greenhouse gas reporting has prepared and placed LSL in a strong position to ensure compliance with new Energy Savings Opportunity Scheme (ESOS) regulations under Article 8 of the EU Energy Efficiency Directive.

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 local communities 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 opposite.

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 2014 LSL employees raised over £25,000. Over 199 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 (www.agentsgiving.org/):
During 2014, the Agents Giving initiative supported a total of 29 different charities, which included charities nominated by employees of LSL's Estate Agency Division. Agents Giving, which was launched originally in 2007 as "The Estate Agency Foundation" and then rebranded in 2014, has as its objectives:

1. encourage and support estate agents throughout the UK to raise funds for charitable causes;
2. bring together the whole industry to contribute to charitable causes throughout the UK; and
3. raise funds from supporters' activities and central fundraising events which will be distributed to established and recognised charities.

Agents Giving 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 Agents Giving initiative makes a significant contribution to communities.

Surveying
Within the Surveying Division, during 2014 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**).
- Alzemeimers Society (**www.alheimers.org.uk**)
- Help for Heroes (**www.helpforheroes.org.uk**)
- Race for Life (**www.raceforlife.cancerresearchuk.org**)
- Shelter in a Storm (**www.ihgshelterinastorm**)
- MS Trust (**www.mstructs.org.uk**)

Group HR
During the year, the Group HR Team undertook to organise a series of fund raising initiatives in aid of Cancer Research UK, which included a sky dive, a charity gala dinner, regular cake sales, car boot sales and the completion of marathons , which in total has raised £27,000. The money was raised in memory of a member of the Group HR Team, Christine Smith who passed away in 2014.

The Board

1. Mark Morris
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 21st November 2006 and he served as the Senior independent Non Executive Director from November 2006 until 31st December 2014. 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.

2. Simon Embley
Chairman

Simon was appointed Non Executive Chairman on 1st January 2015, having previously held the positions of Deputy Chairman and 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. Adrian Gill
Executive Director, Estate Agency

Adrian was appointed as the Executive Director, responsible for Estate Agency on 24th November 2014 having served as an independent Non Executive Director since September 2012. Adrian has overall responsibility for the performance, strategy and development of the Estate Agency Division across LSL. 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.

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) having been appointed as retail director in March 2012 and became business development director in May 2014 with responsibility for developing the business beyond the core, as well as Mobile by Sainsbury's, Sainsbury's Energy and Sainsbury's Online. Helen joined Sainsbury's in 2005 and, after spending four years running brand communications, moved to the trading division as business unit director, in 2009. Before joining Sainsbury's, Helen held a number of senior positions at Marks & Spencer Group plc, 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 50 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. Bill Shannon
Non Executive Director, Deputy Chairman, Senior Independent Director, and Chairman of the Remuneration Committee and Nominations Committee

Bill was appointed as an independent Non Executive Director and the Chairman of the Remuneration Committee on 7th January 2014 and on 1st January 2015, he took on the roles of Deputy Chairman, Senior Independent Director and Chairman of the Nominations Committee. 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 from 1974 and between 1994 and 2004, he was the divisional managing director. He has also served as non executive chairman of Aegon UK plc and non executive director of Rank Group plc, Barratt Developments plc, and Matalan plc.

7. Sapna FitzGerald
Legal Services Director 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.

8. Andrew Burchall
Interim Group Finance Director*

Andrew was appointed the Interim Group Finance Director on 5th January 2015. Andrew's previous roles include group finance director at The Corporate Services Group plc and Impellam Group plc. Andrew is a Chartered Accountant and qualified with PriceWaterhouseCoopers.

*Andrew Burchall and Sapna FitzGerald are not Directors of LSL

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

Ian Crabb

Group Chief Executive Officer
12th March 2015

Report of the Directors and Corporate Governance Reports

In this section

Intercounty, Dunmow.

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, the Report of the Directors, the Directors' Remuneration Report, the Audit Committee Report and the Corporate Governance Report 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 30th April 2015 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 growth in underlying Group profitability, more stable market conditions and the Board's positive view of future prospects for the business, an increase in the final dividend of 15% to 8.3 pence per share (2013: 7.2 pence per share) will be proposed to Shareholders at the forthcoming AGM, increasing the total dividend for 2014, excluding the one off special dividend related to Zoopla of 16.5 pence per share, by 17% to 12.3 pence per share (2013: 10.5 pence per share). The proposed dividend payment is at the upper end of LSL's 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 the Board's confidence in the future.

The ex dividend date for the final dividend is 26th March 2015 with a record date of 27th March 2015 and a payment date of 7th May 2015. 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 32 to 39 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 Part 7 of The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013

In accordance with Part 7 of The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, each year LSL reports on targets and KPIs approved by the Board within the Directors' Report in the Annual Report and Accounts. For the 2014 results, see pages 37 and 38 of this Report.

Directors

The current Directors are listed with their biographies in the Board at pages 40 and 41 of this Report. At the end of 2014, Simon Embley became a Non Executive Director and Chairman (with effect from 1st January 2015) following the retirement of Roger Matthews from the Board and its Committees on 31st December 2014.

In addition Steve Cooke (with effect from 19th December 2014) and David Newnes (with effect from 31st December 2014) departed from the Board and Adrian Gill changed his role from Non Executive Director to Executive Director on 24th November 2014.

At the same time Adrian Gill retired from the Board's Committees, Helen Buck joined the Remuneration and Nominations Committees.

On 7th January 2014, Mark Pain stepped down as a Non Executive Director and Chairman of the Remuneration Committee and was replaced in these roles by Bill Shannon, who also took on the role of Chairman of the Nominations Committee and Senior

Independent Director with effect from 1st January 2015. Mark Morris, who remains as the Audit Committee Chairman, ceased as the Senior Independent Director on 31st December 2014.

Full details of the current Directors are also detailed within the Directors' Remuneration Report.

Re-election and Election

All of the current Directors will each retire at the AGM and, being eligible, all existing Directors intend to stand for re-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. As all of the Directors were elected at the 2014 AGM, they will also stand for re-election at the 2015 AGM.

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 at the AGM.

The biographical details for all LSL Directors are set out on pages 40 and 41 of this Report.

During the 2014 Board effectiveness review, the performance of the Directors, who are all standing for re-election, was specifically evaluated and the Board confirmed that it values the experience and commitment to the business demonstrated by each of these individuals.

Directors' Interests

The interests of the current Directors in LSL are contained within the Directors' Remuneration Report at page 76. During the period between 31st December 2014 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 69 and 70 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 55.

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 60.

Share Capital

LSL 0.2 pence 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 2014. 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

Report of the Directors continued.

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 2014 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.

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 18 to 25. The financial position of the Group, its cash flows, liquidity position and the Group's policy for treasury and risk management are described in the Financial Review sections of the Strategic Report on pages 26 to 27. 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 29 to 31.

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 has a £100.0m facility which is committed for a period up to August 2017. As stated in Note 21 to the Financial Statements as at 31st December 2014 the Group had available £66.0m 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 considered the future profitability of the Group, forecast of future cash flows, banking covenants, liquidity of investments and joint ventures and the ability of the Group to re-finance any loans due to mature in the next 18 months (including the Group's facility which due to mature in August 2017) where necessary. Further the Directors considered the key judgments, assumptions and estimates underpinning the review.

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, 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 2014, LSL's issued share capital comprised 104,158,950 0.2 pence Ordinary Shares. The authorised share capital is 500,000,000 Ordinary Shares of 0.2 pence 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

As at 31st December 2014, the Trust held 2.2% (2013: 1.4%) 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

Subsequent to the year end, LSL acquired Thomas Morris a multi award winning estate agency and lettings business with seven branches in Cambridgeshire, Bedfordshire and Hertfordshire for an initial consideration of £4.0m, and six small lettings book acquisitions for a total initial consideration of £1.8m. In addition, via LSLi, LSL acquired the remaining shares in JNP for a consideration of £53,625 and following the transaction, LSL holds 100% of the shares in JNP.

Management is in the process of allocating the purchase price in accordance with IFRS 3. As a result the initial accounting for the acquisition is currently incomplete, so a fair value table of the identifiable assets and liabilities has not been presented.

Directors' Responsibility Statement

Each of the Directors who are listed in the Corporate Governance Report at page 49 and who hold office at the date of this Report, 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 the Strategy, the Business Model, the Business Reviews, the Financial Review, the Principal Risks and Uncertainties, Corporate Social Responsibility Report and the 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; and
- the Report (including the Financial Statements), taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess LSL's performance, business model and strategy.

Substantial Shareholding

As at 31st December 2014 and as at 11th March 2015, the Shareholders set out below have notified LSL of their interest under DTR 5:

		31st December 2014		11th March 2015	
Institution	Nature of holding	Number of 0.2 pence Ordinary Shares	% of issued shares	Number of 0.2 pence Ordinary Shares	% of issued shares
Kinney Asset Management, LLC	Beneficial	4,222,888	4.05	4,222,888	4.05
First Pacific Advisers, LLC	Beneficial	5,684,471	5.46	5,684,471	5.46
Harris L.P	Beneficial	11,585,233	11.12	11,585,233	11.12
The Capital Group Companies Inc	Beneficial	6,160,282	5.92	6,160,282	5.92
Henderson	Beneficial	4,182,818	4.01	4,182,818	4.01
SFM UK Management	Beneficial	5,119,902	4.91	5,119,902	4.91

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

Sapna B FitzGerald
Company Secretary
12th March 2015

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 how LSL has complied with the Code during 2014 and the corporate governance arrangements that are in place for 2015.

During 2014, LSL complied with the provisions of the Code in all respects.

During 2015, LSL will not comply with the following provisions of 2014 edition of the Code, which both relate to the appointment of Simon Embley as Chairman only:

a. A.3.1, which states that a chairman should on appointment meet the independence criteria set out in B.1.1. Further a chief executive should not go on to be chairman of the same company. However, if by exception the board decided that a chief executive should become chairman, the board should consult major shareholders in advance and set out its reasons to shareholders both at the time of the appointment and in the next annual report.

b. B.1.1, which stipulates the criteria for determining 'independence', namely that a director is not deemed independent if he has been an employee of the company/group within the last 5 years; has a significant shareholding; has participated in the company's share option/performance related pay scheme; or is a member of the pension scheme.

Prior to his appointment as Chairman, Simon Embley was an Executive Director in his roles as the Group's Chief Executive Officer and then Deputy Chairman. The changes in Simon's roles reflect the Board's continued desire to implement an orderly succession and their wish to retain Simon's knowledge and experience of the residential property market, maintain contacts with key stakeholders and benefit from his track record of delivering Shareholder value. Prior to Simon Embley's appointment as Chairman, LSL has consulted with major Shareholders and their feedback was taken into account. Looking forward and in accordance with the provisions of the 2014 Code, whilst Simon did not meet the independence criteria on appointment, following appointment the test of independence is not appropriate in relation to the role of chairman.

The Board

At the date of this Report, the Board has six members, whose details are set out below. Details of changes to the Board in 2014 and 2015 are set out below.

Director Name	Position(s)
Helen Buck	Independent Non Executive Director – member of Nominations Committee and Remuneration Committee
Ian Crabb	Executive Director – Group Chief Executive Officer
Simon Embley	Non Executive Director – Chairman
Adrian Gill	Executive Director – Estate Agency
Mark Morris	Independent Non Executive Director – Chairman of the Audit Committee and a member of the Nominations Committee and Remuneration Committee
Bill Shannon	Independent Non Executive Director – Deputy Chairman, Senior Independent Director, Chairman of the Remuneration Committee, Chairman of the Nominations Committee and a member of Audit Committee

During the year, the Nominations Committee and the Board considered at length a number of aspects regarding its composition and has had to respond to a number of changes. These changes comprise the departures of Mark Pain in January 2014, followed by Roger Matthews, David Newnes and Steve Cooke in December 2014.

Mark Pain retired on 7th January 2014 and was replaced by Bill Shannon, who joined the Board at that time as an independent Non-Executive Director and Chairman of the Remuneration Committee. Bill subsequently became Deputy Chairman, Chairman of the Nominations Committee (position held during 2014 by Roger Matthews) and the Senior Independent Director (position held during 2014 by Mark Morris) with effect from 1st January 2015.

With effect from 24th November 2014, Adrian Gill moved from his role as an independent Non Executive Director into the role of Executive Director, Estate Agency to ensure an orderly transition from David Newnes, who retired from the Board on 31st December 2014 having served the Group for over 20 years.

With effect from 1st January 2015, Simon Embley moved into the role of Chairman, having been Deputy Chairman during 2014. He replaced Roger Matthews, who retired from the LSL Board on 31st December 2014. The Board wish to put on record their appreciation to

Corporate Governance Report continued.

Roger who has served the Group as Chairman since LSL listed on the London Stock Exchange in 2006.

Finally, Steve Cooke left the Board on 19th December 2014 as Group Finance Director and a process is on-going to appoint a suitable successor. In addition, as announced in November 2014 at the time of Adrian Gill's change of role, LSL has also commenced a process to appoint an additional independent non executive director to the Board.

Further details on all Board changes are set out in this Corporate Governance Report (see pages 49 to 54) and all of the Directors are listed with their biographies in the Board at pages 40 and 41 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.

Excluding the Chairman, all of the Non Executive Directors are independent of management and are determined to be independent in accordance with B.1.1 of the Code. The current Non Executive Directors together have a range of experience which is described in more detail overleaf in the Nominations Committee section.

As stated above, Simon Embley was not deemed to be independent prior to this appointment as Chairman. Other than an appointment to a small estate management company, Simon does not hold any other directorships.

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 and race) to ensure that the Directors remain individually and collectively effective.

The evaluation process in 2014 involved discussions between each Director and the Chairman, meetings of the Board and discussions between the Non Executive Directors. As in previous years the Non Executive Directors have also evaluated the Chairman's performance, after taking into account the views of the Executive Directors and this evaluation exercise included the evaluation of the performance of Roger Matthews, as the Chairman during 2014.

Whilst no significant issues requiring action arose from the 2014 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 its meeting arrangements to ensure that the Board is able to focus on the development and execution of LSL's strategy in a recovering housing market, as well as monitoring performance and governance matters.

LSL continues to recognise the benefits of diversity (including gender and race) 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, both the Chairman of the Board and the Chairman of the Nominations Committee ensure that all searches take into account diversity, including gender and race.

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 and any training needs are also discussed as part of the annual evaluation exercise.

During 2014 the Board held 12 scheduled meetings (including a three year planning 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 2015 the Board is scheduled to meet 12 times, including a strategy meeting and additional meetings will be held as required.

During 2014 the Non Executive Directors collectively met three times without the Executive Directors being present and it is the intention that this will be repeated in 2015. In addition, the Non Executive Directors intend to meet at least once in the year without the Chairman being present.

Board and Committee Attendance 2014

Director	Board (including 3 year planning meeting)	Audit Committee	Remuneration Committee	Nominations Committee	Notes
Helen Buck	10	-	1	2	1
Steve Cooke	11	-	-	-	
Ian Crabb	12	-	-	-	
Simon Embley	12	-	-	-	
Adrian Gill	12	2	2	3	2
Roger Matthews	12	-	3	7	
Mark Morris	12	3	3	7	
David Newnes	11	-	-	-	3
Mark Pain	-	-	-	-	4
Bill Shannon	11	3	3	6	5

Notes:

1 Helen Buck joined the Remuneration and Nomination Committees on 24th November 2014 and therefore her attendance is only recorded for meetings taking place after her appointment.

2 Adrian Gill became an Executive Director on 24th November 2014 and retired from the Audit, Remuneration and Nominations Committees at the same time. Adrian did not participate in any Nomination Committee meetings where his change of role was discussed and further he did not attend any Committee meetings following his change of role.

3 David Newnes was not present at one of the scheduled Board meetings during 2014. He received the papers and provided his comments and queries to the Chairman and the Group Chief Executive Officer for raising at the meeting.

4 Mark Pain retired from the LSL Board on 7th January 2014.

5 Bill Shannon was not present at one of the scheduled Board and Nominations Committee meetings during 2014. He received the papers and provided his comments and queries to the Chairman and the Group Chief Executive Officer for raising at the meetings.

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, since 2012 LSL has in accordance with best practice and by an amendment to the Nominations Committee Terms of Reference, chosen to adopt annual elections for all Directors and in accordance with this policy, all of the Directors will stand for re-election 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(s).

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 Corporate Social Responsibility is necessary to support responsibly-grounded business decision-making that considers the broad impact of corporate actions on people, communities, and the environment. Accordingly, the Board takes account of the significance of environmental, social and governance matters (ESG) when making decisions. Further details of LSL's CSR objectives can be found in the CSR or report at pages 32 to 39 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.

Corporate Governance Report continued.

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 2014, the Board reviewed the Terms of Reference for each of the Committees. It is the intention that Bill Shannon as Chairman of the Nominations Committee and Remuneration Committee and Mark Morris as Chairman of the Audit Committee will both attend the AGM to answer any questions.

Nominations Committee

Bill Shannon is the Chairman of the Nominations Committee and, as at the date of this Report the other members of the Committee are Helen Buck (appointed 24th November 2014) and Mark Morris.

During 2014, the Committee members also included Roger Matthews (retired on 31st December 2014), Adrian Gill (until 24th November 2014) and, Mark Pain (retired on 7th January 2014).

The Committee met seven times in 2014 and the Group Chief Executive Officer, Deputy Chairman, Group HR Director and Company Secretary also attended some of these 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 2015 to reflect the September 2014 edition of the Code and its role includes:

a. to regularly review the structure, size and composition (including skills, knowledge and experience) required of the Board and make recommendations to the Board with regard to any changes;

b. prior to recommending any appointments, evaluate the balance of skills, experience, independence and knowledge on the Board, its diversity, including gender and race and in light of this evaluation, prepare a description of the role and capabilities required for each particular appointment;

c. to give full consideration to succession planning for the Directors and senior management (as specified by the Board), 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 orderly succession for appointments to the Board and to senior management, so that LSL maintains an appropriate balance of skills and experience within the Group and on the Board to ensure progressive refreshing of the Board;

d. to recommend to the Board as a whole 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 race;

e. report on the nomination of all new Board appointments and undertake an annual performance evaluation to ensure that all members of the Board have devoted sufficient time to their duties;

f. to keep under 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;

g. to ensure that as part of the process for nominating candidates for any appointments, details are obtained and reviewed of any interests that the candidate may have which conflict or may conflict with the interest of LSL; and

h. to ensure that prior to the appointment of the Chairman, a job description is prepared which includes an assessment of the time commitment expected for the role.

As part of its discussions in 2014, the Nominations Committee considered the composition of the Board and the balance of skills and experience required. These discussions included diversity, and in particular gender and race. In particular the Nominations Committee considered and, where appropriate made recommendations to the Board on the following matters during 2014:

a. The appointment of Simon Embley into the role of Non Executive Chairman with effect from 1st January 2015 to replace Roger Matthews, who retired from the Board on 31st December 2014. The changes in Simon's roles reflect the Board's continued desire to implement an orderly succession and their wish to retain Simon's knowledge and experience of the residential property market, maintain contacts with key stakeholders and benefit from his track record of delivering Shareholder value;

b. The appointment of Adrian Gill as Executive Director, Estate Agency, who has relevant industry experience, on 24th November 2014 to effect an orderly transition from David Newnes, who retired from the Board on 31st December 2014;

c. The appointment of Bill Shannon as Non Executive Deputy Chairman, Senior Independent Director and Chairman of the Nominations Committee, all with effect from 1st January 2015. These appointments are in addition to Bill Shannon's existing roles as a member of the Audit Committee and chairman of the Remuneration Committee; and

d. The departure of Steve Cooke with effect from 19th December 2014.

Whilst an executive search agency assisted in the recruitment of Adrian Gill and is assisting in the recruitment of the Group Finance

Director, the Nominations Committee did not require the services of any agency in the appointment of Simon Embley as Chairman nor did it consider any other candidates for this role. The Committee conducted a series of consultations with major Shareholders which began prior to Simon Embley moving from the role of Group Chief Executive Officer to Deputy Chairman, and was repeated by Roger Matthews, prior to Simon's appointment as Non Executive Chairman.

Following the changes in 2014, the LSL Board 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. In previous years, LSL has reported on studies undertaken in relation to gender diversity. Whilst the recommendations flowing from these studies continue to be implemented in 2014, LSL undertook an age and gender analysis of its employee opinion survey which revealed that whilst feedback from employees is consistent regardless of gender, there are differences in relation to age groups. This feedback will be taken into account in Group employee initiatives going forward.

Further details of the study together with key performance indicators are set out in LSL's CSR statements on pages 32 to 39.

Remuneration Committee

The Remuneration Committee is chaired by Bill Shannon and at the date of this Report its other members are Mark Morris and Helen Buck. Helen Buck joined the Committee in November 2014 and replaced Adrian Gill. Mark Pain and Roger Matthews were also members of the Committee during 2014.

The Committee met three times during the year and the Group Chief Executive Officer, the Deputy Chairman (Simon Embley), the Group HR Director and the Company Secretary were also invited to attend meetings and assist 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 2015 following the publication by the FRC of the revised Code in September 2014. The Terms of Reference of the Remuneration Committee are available from the Company Secretary or LSL's website **www.lslps.co.uk**.

The Remuneration Committee has responsibility for determining LSL's policy on the remuneration of Executive Directors and selected senior managers, including pension rights and any 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 62 of this Report.

The Remuneration Committee is responsible for ensuring that the Executive Directors' and selected senior managers remuneration is designed to promote the long-term success of LSL and for 2015 they have again recommended performance-related elements which are transparent, stretching and rigorously applied. In discharging its duties, the Remuneration Committee considers LSL's peers and 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.

During 2014, the Remuneration Committee's overall purpose was to ensure that the levels of remuneration were sufficient to attract, retain and motivate Directors of the quality required to run LSL successfully. In addition, it was responsible for reviewing and making recommendations to the Board on any remuneration arrangements for Executive Directors departed from the Board during the year.

Details of any remuneration consultants engaged by the Remuneration Committee during the year are set out in the Directors' Remuneration Report on pages 62 to 79.

None of the current Remuneration Committee members have and nor did the 2014 Remuneration Committee members have any personal financial interest (other than as Shareholders), any conflicts of interest arising from cross directorships; or any day to day involvement in running the business. The Remuneration Committee recognises and manages conflicts of interest when receiving views from the Executive Directors (including the Group Chief Executive Officer) or senior managers about any proposals. The Remuneration Committee makes recommendations to the Board and no Director is permitted to participate in any discussion about their remuneration.

The Remuneration Committee may, in exercising its discretion in relation to the remuneration of Executive Directors and selected senior managers, take into account LSL's performance on governance (including regulatory compliance) and CSR related issues and it ensures that the incentive schemes put in place 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 member is Bill Shannon. During the year, Roger Matthews was also a member of the Committee (until 31st December 2014). The Board is satisfied that Mark Morris, the Committee Chairman, has recent and relevant financial experience as is required by the Code.

Corporate Governance Report continued.

The Committee met on three occasions in 2014. 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 2014.

Further details of the duty and responsibilities of the Audit Committee are shown on page 56 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 2014, Roger Matthews consulted with a number of major Shareholders regarding the future composition of the Board and specifically, to discuss the appointment of Simon Embley as Non Executive Chairman and Bill Shannon as Non Executive Deputy Chairman and Senior Independent Director.

In addition each year all of the Non Executive Directors, including the Chairman and the Senior 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 153 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 Report of the Directors. Please refer to page 46 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
12th March 2015

Audit Committee Report

Dear Shareholder

I am pleased to report on the activities of the Audit Committee during the 2014 financial year. The Audit Committee, on behalf of the Board, has ensured 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.

Members of the Audit Committee have continued to take an active role in understanding 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 PI provision); the continued review of LSL's valuation controls; and the controls around the more acquisitive parts of the Group.

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 the Risk and Internal Audit Team to ensure we have in place effective control and risk management processes.

Mark Morris
Chairman of the Audit Committee
12th March 2015

Audit Committee Report continued.

Roles and Responsibilities of the Audit Committee

The duties of the Audit Committee include:

a. to make recommendations to the Board (for it to put to the Shareholders for their approval 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;

b. 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 ;

c. to ensure that the Group's accounting and financial policies and controls are regularly reviewed, proper, effective and adequate;

d. 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;

e. to review the effectiveness of the internal control and risk management systems (including the overall risk management framework and its underlying financial, operational and compliance related controls);

f. to oversee the composition of the Internal Audit programme and to assess the effectiveness of the Risk and Internal Audit function (including the appointment/removal of the Group's Head of Risk and Internal Audit);

g. 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;

h. to review procedures for handling any internal allegations involving potential misconduct;

i. 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

j. 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 reference 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 2014:

The Audit Committee met three times in 2014, during which time the Committee:

a. reviewed the interim and year end results and preliminary announcement;

b. 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 and annual financial statements, 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 external 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 external auditor and an on-going assessment of the impact of future accounting developments on the Group;

c. considered this 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 2014 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;

d. considered the effectiveness and independence of the external audit and recommended to the Board for approval by Shareholders at the forthcoming AGM, the re-appointment of Ernst & Young as external auditor;

e. 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, plus engagement with external consultants on specialist areas as appropriate;

f. received and considered regular reports from the Risk and Internal Audit Team with regard to the control environment of the Group;

g. 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 principal risks and uncertainties was presented to the Audit Committee for discussion at each meeting;

h. reviewed a Group Risk Framework policy which was developed to articulate and support the continuation of a '3-lines of defence' model of risk management within the Group, and following approval of this reviewed and recommended to the Board for adoption a Risk Appetite Statement for the Group;

i. evaluated areas for further development within financial control structures, with particular emphasis on the reporting of PI claims; the role and effectiveness of the group finance function; and the resourcing and control suite in the finance function of LSLi;
j. reviewed the appropriateness of the systems and controls in place with regard to valuations carried out by the Surveying Division, including a review of the effectiveness of second-line structures;
k. reviewed the effectiveness of the Group's whistleblowing policy, including logs of any whistleblowing-related incidents;
l. reviewed the Audit Committee's composition and confirmed that there is sufficient expertise and resource for the Audit Committee to fulfil its responsibilities effectively;
m. reviewed the Audit Committee's Terms of Reference; and
n. carried out an annual review of the Audit Committee's performance.

Audit Committee Report continued.

Significant issues considered in relation to the Financial Statements

During the year the Audit Committee, the Management Team, the Head of Risk and Internal Audit together with 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 Judgments in Financial Reporting for 2014	How the Audit Committee Addressed these Judgments
Appropriateness of the provision for PI Costs relating to valuation services	Given the materiality of the PI provision, the Board receives monthly updates on the status of the provision which includes the status of existing claims and the number and nature of new claims. In light of the deteriorating claims experience relating to the 2004 to 2008 high risk lending period during the final quarter of 2014, the Management Team undertook a detailed review on a case-by-case basis of all notifications and claims relating to this period and a number of material issues were identified. The review has included an assessment of the claims and notifications on a case by case basis by specialist external legal counsel and it has identified that a greater proportion of existing notifications are deteriorating into claims, that the average cost per claim is greater than anticipated due to higher legal costs and that a higher number of larger notifications and claims had been received than previously estimated. Additionally, despite the end of the primary limitation period and the fact that the run rate of new notifications has reduced significantly and in line with expectations, LSL now expects to receive new notifications and claims relating to the high risk period in 2015 and beyond. The Committee also commissioned an internal audit review of this work. It also became apparent that the reporting of the status of claims and notifications, whilst comprehensive, required further improvements, which have been implemented. The results of the review were discussed at length at the December 2014 Board meeting and at the February 2015 Audit Committee and Board meetings. In particular the Committee's focus was on the key judgements made on assessing the current level of the provision, and on the sensitivities of three key risk factors: • average cost per claim; • the rate of future claims being received; and • the rate of deterioration of notifications into claims. Following the reviews, the Audit Committee resolved to recommend to the Board the inclusion of an additional exceptional charge in the Group's financial accounts for the year ending 31st December 2014 of £24.6m and this is included in the Financial Statements which have been approved by the Board.
Other Financial Statement Matters considered by the Committee	**How the Audit Committee Addressed these Judgments**
Going concern	The Management Team 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, liquidity of investments and joint ventures and the ability of the Group to re-finance any loans (including the Group's facility which due to mature in August 2017) where necessary. The key judgments, assumptions and estimates underpinning this review were discussed and considered. Following the review, the Audit Committee was able to conclude that the adoption of the going concern principle was justified 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 2014. Further information is provided in the Notes to the Financial Statements.

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Other Financial Statement Matters considered by the Committee	How the Audit Committee Addressed these Judgments
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 2014 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 £82.6m as at 31st December 2014 (31st December 2013 - £73.7 million). 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 now reconciled at regular intervals including daily for larger businesses. The Risk and Internal Audit Team perform regular client account audits and findings were reported to the Audit Committee. In addition, as required by ARLA, some of these accounts were audited externally in 2014.
Acquisition accounting including both the fair values of assets acquired and the treatment of associated contingent consideration	In 2014, the Board approved a number of acquisitions including Hawes & Co and ten lettings books. Subsequent to the 2014 year end, the Board has approved the acquisition of Thomas Morris and six small lettings books. During the year, in relation to the acquisition accounting, the Audit Committee has reviewed the way in which intangibles have been identified in the allocation of consideration and reviewed the basis of the calculation (including the underlying assumptions) of contingent consideration.
A review of the accounting treatment of the Zoopla financial asset	In June 2014, Zoopla completed its IPO on to the London Stock Exchange. Disposal of shares by LSL resulted in profits of £19.8m before tax, which has been disclosed as an exceptional item. At 31st December 2014, the remaining holding was revalued in line with the quoted price for the Zoopla shares as at that date. In relation to these transactions, the Audit Committee reviewed the accounting treatment and concluded that it was appropriate.

Appointment of External Auditor

Whilst the Audit Committee has not undertaken a tendering exercise in 2014, 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, acting on behalf of the Directors, concluded that Ernst & Young is effective, independent and objective. Based on this conclusion, the Board will recommend to Shareholders the reappointment of Ernst & Young as external 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 adopt 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.

During 2014, the European Parliament and Council adopted measures which will reform the statutory audit market and impact all UK listed companies. The new Directive (which amends the existing 2006 Directive), must be implemented into UK law by 16th June 2016, requiring UK listed companies to change their external auditor every 10 years with effect from 2016. Under this scenario, LSL's re-tendering exercise undertaken in 2007 is disregarded for the purposes of calculating the maximum permitted term resulting in a requirement to re-tender earlier than 2018.

Further, in its implementation, the new Directive permits transitional provisions which, BIS is currently consulting on. These could allow a company to permit an appointment to continue for up to 20 years, provided that retendering takes place at least every ten years. The BIS consultation (issued in December 2014) closes on 19th March 2015. The FRC also issued a consultation in December 2014 ("Auditing and Ethical Standards") which closes on 20th March 2015.

As a result, LSL's re-tendering plans are subject to the implementation of the new Directive. For example, in the event that the UK adopts transitional arrangements as per the BIS consultation, LSL would be obliged to tender before 16th June 2016, and to appoint a new firm to replace Ernst & Young as its external auditor for the audit of the next period commencing after that date (being 1st January 2017 onwards). LSL will continue to monitor the legislative reform and ensure it complies with any change of law.

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.

Audit Committee Report continued.

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:

a. any fee for specific non-audit services which exceed £25,000;

b. any fee which has a contingent element; and

c. 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 2014 appears at Note 9 to the Financial Statements. The non-audit fees amount to £83,000 (2013: £82,000) compared with audit fees and other assurance related services fees of £271,000 (2013: £336,000). 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 on-going process of change and improvement, and was originally designed in accordance with the guidance of the Turnbull Committee on Internal Controls and it is regularly reviewed and updated to ensure that it remains in line with FRC Guidance.

The arrangements in place for 2014 sought to identify, evaluate and manage significant risks faced by LSL. The system aimed 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 both Shareholder investment and LSL's assets.

In order to discharge this responsibility, the Board has established the procedures necessary to apply both the Code and relevant FRC guidance, including clear operating procedures, distinct lines of responsibility and delegated authorities. 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.

During 2015 LSL will take into account the guidance set out in the September 2014 FRC "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting".

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

a. Risk assessment

b. Control environment

c. Control activities

d. Monitoring

e. 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 2014 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 2014 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 Internal Audit Team regularly submits reports to the Audit Committee and this, together with the internal controls system and risk management process in place within LSL, allows the Board to monitor financial and operational performance and compliance with controls on a continuing basis and to identify and respond to business risks as they arise.

During the year, the significant issues considered by the Audit Committee, included detailed reviews of:

a. The reporting, monitoring and management of valuation claims and, in conjunction with the Board, a review of the current suite of valuation controls;

b. The Group's acquisition framework, covering both pre- and post-acquisition arrangements and the financial controls relating to the same; and

c. The effectiveness of the control regime exercised by the Group finance function;

Recommendations arising from the reviews referred to above are being implemented and will be monitored by the Audit Committee during 2015.

The principal risks and uncertainties facing LSL together with details of key mitigation initiatives is set out in the Strategic Report on pages 30 and 31.

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

Mark Morris
Chairman of the Audit Committee
12th March 2015

Directors' Remuneration Report

Annual Statement

Dear Shareholder

This report sets out the remuneration policy for the Directors of LSL and discloses amounts paid to individuals who were members of the Board over the course of the financial year ended 2014. This Directors' Remuneration Report is 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 that has applied since 1st January 2014; and
- **Annual Report on Remuneration**: setting out the remuneration earned by the Directors in the year ended 31st December 2014 and how the Directors' Remuneration Policy will be implemented in 2015.

The Directors' Remuneration Policy (referred to in this Directors' Remuneration Report as the Policy) is subject to a binding vote every three years (sooner if changes are made to the Policy) and the Annual Report on Remuneration, which is subject to an annual Shareholder advisory vote and will be presented to Shareholders at the 2015 AGM.

The Policy was submitted to and was approved by Shareholders at the 2014 AGM and, as no changes to the Policy have been proposed, it is not being submitted for Shareholder approval at the 2015 AGM although changes introduced by the 2014 Code have been taken into account in the implementation of the Policy during 2015 (see The Annual Report on Remuneration for further details).

Summary of LSL's performance in the year

In 2014 LSL made good progress against a backdrop of rapidly changing market conditions and the 2014 Executive Directors' bonus awards reflect this. The 2014 bonus scheme was made up of 80% based on LSL's financial performance plus 20% based on individually agreed non-financial measures. The Executive Directors bonus scheme is subject to a 100% of basic salary cap.

Based on LSL's performance in 2014, eligible Executive Directors received an annual bonus equivalent to 40% of salary in respect of the financial performance element and between 10% and 15% of the available 20% of salary for performance against individual non financial measures.

Further, Simon Embley and David Newnes are expected to receive 70% of their 2012 LTIP in accordance with the challenging performance conditions attached to these awards which are based on the EPS and TSR performance conditions of the three years to 31st March 2015. The 2012 LTIP which is due to vest in April 2015 is expected to deliver based on the EPS element of the targets only. For details of the 2014 bonus arrangements please see page 73 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 LSL's strategy in the past and who will be key to delivering sustainable earnings growth and Shareholder return in the future. The Remuneration Committee's most recent conclusions are that the existing senior executive remuneration policy remains appropriate and should continue to operate for 2015. Specifically, the Remuneration Committee felt that:

a. base salary levels are considered to be broadly appropriate and in line with the Policy. Details of any base salary adjustments are set out at the start of the Annual Report on Remuneration;

b. whilst overall the structure and quantum of the annual bonus scheme works well, the Committee have, taking into consideration the rapidly changing market conditions experienced in 2014, recommended the reduction in the percentage of bonus payable for any below budget performance in accordance with the Policy; and

c. the long-term incentive grant policy, whereby nil-cost awards are granted annually up to a maximum normal limit of 100% of salary (200% in exceptional circumstances) 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.

In addition to the above, and in relation to the Board changes which took place during 2014, the Remuneration Committee has also dealt with the remuneration arrangements relating to the retirement and recruitment of Directors, namely

a. The appointment of Adrian Gill as an Executive Director for the Estate Agency Division, who replaced David Newnes, who retired from the Board on 31st December 2014.

b. The change in role for Simon Embley from Deputy Chairman to Non Executive Chairman with effect from 1st January 2015, to replace Roger Matthews who retired from the Board on 31st December 2014.

c. The taking on of additional responsibilities by Bill Shannon, namely the role of Deputy Chairman, Senior Independent Director and Chairman of the Nominations Committee.

d. The departure of Steve Cooke on 19th December 2014.

Further details of the remuneration packages recommended and received are described in the Annual Report on Remuneration.

In relation to the remuneration arrangements for the Executive Directors and senior managers, the Remuneration Committee ensures that they are aligned to the LSL's strategic goals and key performance indicators. Further, the Remuneration Committee believes that the current remuneration policy continues to promote the long-term success of the Company and to incentivise the delivery of strong yet sustainable financial results with the creation of Shareholder value.

Bill Shannon
Chairman of the Remuneration Committee
12th March 2015

Directors' Remuneration Report continued.

Directors' Remuneration Policy (Policy)

Introduction and Overview

The Policy, which was approved by Shareholders in 2014, has been developed taking into account the principles of the Code. The Policy was applied in 2014 based on the 2012 edition of the Code. During 2014 the Code was updated and LSL will take the 2014 edition of the Code into account when applying the Policy in 2015. In applying the 2014 edition of the Code the Remuneration Committee is not recommending any amendments to the Policy, which was approved by Shareholders at the 2014 AGM.

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.

LSL's policy 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.

As noted in the Remuneration Committee Chairman's Letter on page 62, the Policy has not been updated from that approved by Shareholders at the 2014 AGM, but it is included here for information; and minor factual changes have been made to the wording to assist comprehension:

a. the chart showing remuneration scenarios on page 68 has been updated to reflect proposed 2015 remuneration levels;

b. details of external appointments of Executive Directors on page 69 has been updated to reflect current appointments; and

c. the tables summarising the terms of Directors' service contracts have been updated to reflect changes to the composition of the Board during 2014.

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 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 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.

Directors' Remuneration Report continued.

Summary of Remuneration Policy continued

Element	How component supports corporate strategy	Operation	Maximum	Performance metrics and period
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:

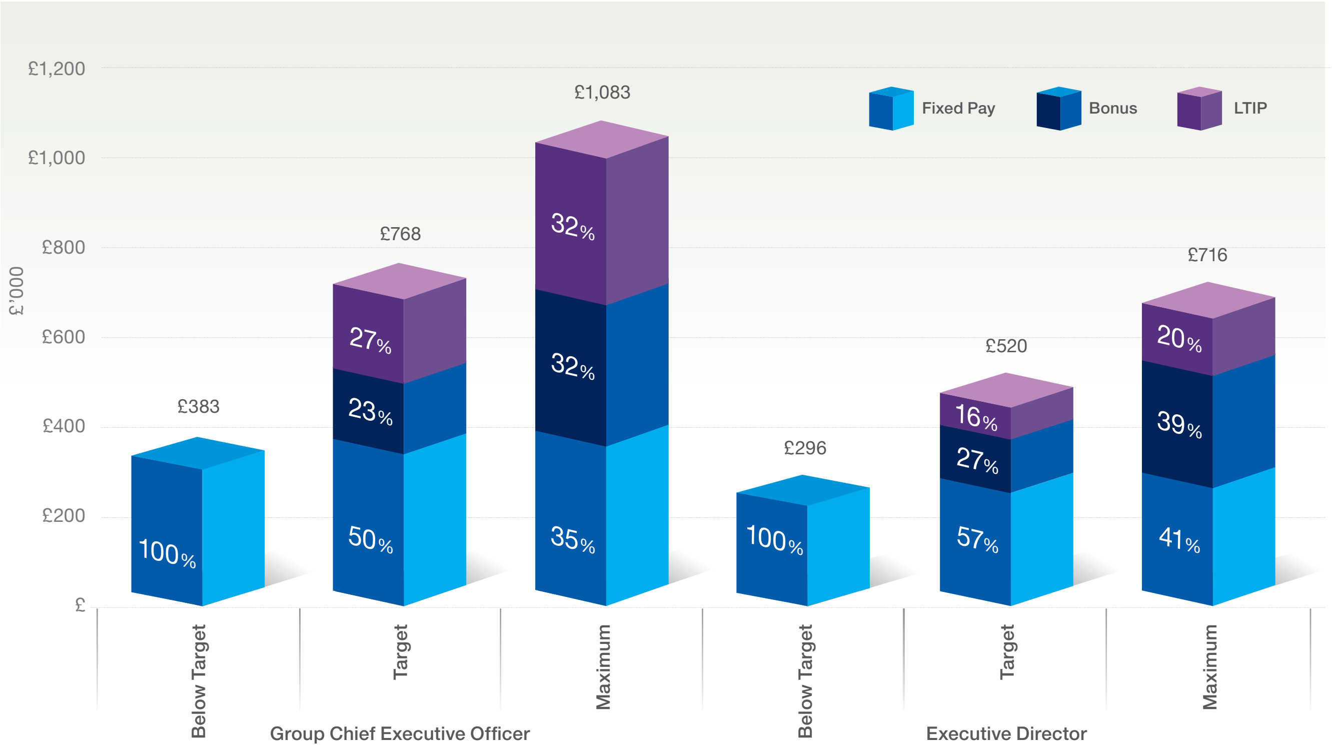
1. A description of how LSL implements the Policy set out in the table from the 2014 AGM is set out in the Annual Report on Remuneration.
2. The following differences exist between LSL's Policy for the remuneration of Executive Directors as set out in the table and its approach to the payment of Group 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 share save schemes: save as you earn (SAYE), self invested plan/ buy as you earn (SIP/BAYE) and/or company share ownership plan (CSOPs), 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, the above listed 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 selected 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 Remuneration 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 employee sharesave schemes (SAYE, SIP/BAYE and CSOP) do not include any performance conditions.
8. For the avoidance of doubt, in approving the 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 remuneration packages, as applicable for each of the Executive Directors who are currently holding office and how each varies at different levels of performance under the Policy set out overleaf, 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, applying from 1st January 2015;
   b. pension, as per the Policy; 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.
5. As a result of rounding some numbers may not add up to 100%.

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, 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 the 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 for each of the Executive Directors in place at the date of this Report 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
Ian Crabb	9th September 2013	9 months
Adrian Gill	24th November 2014	9 months

At the Remuneration Committee's recommendation and at 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 at 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. During 2014, other than Simon Embley's appointment to a small estate management company for which no remuneration is paid, and Adrian Gill's appointment as a non executive director of Lifetime Legal Limited for which he receives a fee, 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 in place at the date of this Report:

Director	Date Original Term Commenced	Date Current Term Commenced	Expected Expiry Date of Current Term
Helen Buck	1st December 2011	1st December 2014	30th November 2017
Simon Embley	1st January 2015	–	31st December 2018
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 2015 (unaudited information)

This section of the Directors' Remuneration Report sets out how the Policy will be implemented for the year ending 31st December 2015.

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.

Following the departure of the Group Finance Director in December 2014, LSL has commenced a process to appoint a successor into this role and the remuneration arrangements for the role, which will be set in accordance with the Policy, are expected to be in line with previous arrangements subject to prevailing market conditions.

Basic salary levels as at 1st January 2015 and 2014 for the current Executive Directors are set out below:

Director	Role	From 1st January 2015 (or effective from date) (£)	From 1st January 2014 (or date of appointment) (£)
Ian Crabb	Group Chief Executive Officer	370,000[1]	350,000
Adrian Gill	Executive Director, Estate Agency	280,000	280,000

[1] Ian Crabb's 2015 salary is effective from 1st April 2015, in line with salary reviews for Group employees.

Adrian Gill's salary is from the date of his appointment as an Executive Director and has not been increased for 2015. At appointment Ian Crabb's salary was positioned at the lower end of the market to reflect his experience with the intention to be brought up to market over time. Based on this and Ian's performance in 2014, the Remuneration Committee has approved an increase to £370,000 from 1st January 2015. The Remuneration Committee is satisfied that the Executive Directors basic salaries are in line with the Policy.

Annual Bonus Payments 2015

The Remuneration Committee will operate an annual bonus plan for Executive Directors during 2015 in line with that operated in 2014. The maximum bonus continues to be capped at 100% of base salary.

For 2015, whilst the overall structure of the annual bonus will remain broadly similar to that operated in 2014, 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 measures, the Committee has recommended a reduced percentage of bonus to be payable for any below budget performance.

LSL has not disclosed any specific non financial measures or targets (and the relative weighting within the 20%) because these details are considered to be commercially sensitive. However, taking into account best practice, the Remuneration Committee supports some limited disclosure of the types of measures that are included in the applicable scheme, being regulatory compliance and divisional performance. Further, the Remuneration Committee has confirmed that it is satisfied that individual measures are challenging and demanding, and reflect LSL's on-going business expectations and have a clear link to LSL's strategy. The financial performance element of the scheme require LSL's performance to be 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 2015 to the Executive Directors and selected senior management will be made over shares worth up to 100% of salary.

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

1. 25% of the Adjusted Basic EPS part of the award will vest for threshold Adjusted Basic EPS growth increasing pro-rata to full vesting for stretch Adjusted Basic EPS growth. The precise targets will be disclosed in full when the awards are granted.
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). For any of the TSR part of the award to vest, 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 whilst 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.

Following Adrian Gill's change of role on 24th November 2014, LSL has commenced a process to appoint an additional non executive director to the Board. The remuneration arrangement for the role will be set in accordance with the Policy and subject to prevailing market conditions.

A summary of fees for the current Non Executive Directors is as follows:

Director	Notes	2015 (£)	2014 (£)
Helen Buck		40,000	40,000
Simon Embley	1	130,000	–
Mark Morris	2	47,000	47,000
Bill Shannon	3	70,000	45,000

Notes to summary of fees for the Non Executive Directors:

1 Simon Embley became Non Executive Chairman on 1st January 2015. For details of the remuneration received in 2014 for his previous role as Deputy Chairman, see the Directors' Remuneration table.

2 Mark Morris' fee reflects his role as both Non Executive Director and Chairman of the Audit Committee.

3 Bill Shannon's 2015 fee reflects increased responsibilities in his roles as Senior Independent Director and Chairman of the Nominations Committee and the Remuneration Committee. He is also a member of the Audit Committee.

Directors' Remuneration Report continued.

Audited Information

Directors' Remuneration

The Remuneration of the Directors for 2014 was as follows:

	Notes		Basic salary or fees £	Benefits[8] £	Pension contributions £	Annual bonus[9] £	Gain on share Awards[10 & 11] £	Other[12] £	Total £
Chairman									
Roger Matthews		2014	100,000	-	-	-	-	-	100,000
		2013	100,000	-	-	-	-	-	100,000
Executive Directors									
Steve Cooke	1	2014	240,000	16,597	12,000	-	-	5,126	273,723
		2013	226,600	16,572	11,330	207,717	-	-	462,219
Ian Crabb	2	2014	350,000	15,000	17,500	189,000	-	-	571,500
		2013	109,035	4,654	5,833	-	-	-	119,522
Simon Embley	3	2014	150,000	15,946	7,500	-	174,416	5,126	352,988
		2013	239,583	29,682	11,979	219,618	-	-	500,862
Adrian Gill	4	2014	64,571	1,538	-	-	-	-	66,109
		2013	40,000	-	-	-	-	-	40,000
David Newnes	5	2014	210,000	16,032	10,500	101,500	97,672	5,126	440,830
		2013	175,000	14,233	8,493	160,417	-	-	358,143
Non Executive Directors									
Helen Buck		2014	40,000	-	-	-	-	-	40,000
		2013	40,000	-	-	-	-	-	40,000
Mark Morris		2014	47,000	-	-	-	-	-	47,000
		2013	46,667	-	-	-	-	-	46,667
Mark Pain	6	2014	3,750	-	-	-	-	-	3,750
		2013	44,667	-	-	-	-	-	44,667
Bill Shannon	7	2014	45,000	-	-	-	-	-	45,000
		2013	-	-	-	-	-	-	-
Total		2014	1,250,321	65,113	47,500	290,500	272,088	15,378	1,940,900
		2013	1,021,552	65,141	37,635	587,752	-	-	1,712,080

Notes to Directors Remuneration table:

1. Steve Cooke departed from the Board on 19th December 2014. For details of Steve Cooke's remuneration arrangements following his departure, see Payments for Loss of Office.
2. Ian Crabb was appointed as Group Chief Executive Officer on 9th September 2013.
3. Simon Embley moved from Group Chief Executive Officer to Deputy Chairman on 9th September 2013 and then into the role of Non-Executive Chairman on 1st January 2015. Simon's bonus for 2013 was calculated on a pro rata basis to reflect his lower salary from 1st November 2013.
4. Adrian Gill was appointed to the Board as an Executive Director on 24th November 2014. His 2013 fee and £35,854 of his 2014 remuneration relate to his role as a Non Executive Director. The 2014 fee includes £1,079 paid in respect of consultancy services to the Estate Agency Division. There were no additional consultancy fees in 2013.
5. David Newnes retired from the Board on 31st December 2014. For details of David Newnes' remuneration arrangements relating to his retirement, see Payments for Loss of Office.
6. Mark Pain retired from the Board on 7th January 2014 and continued to provide assistance in relation to the 2013 year-end and the finalising of the 2013 Annual Report & Accounts.
7. Bill Shannon was appointed to the Board on 7th January 2014.
8. "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 for 2013 and 2014.
9. LSL's performance in 2014 results in the Executive Directors earning an annual bonus of 40% of their basic salary in relation to the financial performance element of the scheme. In comparison, LSL's performance in 2013 resulted in the Executive Directors at the time, earning the maximum annual bonus for the financial performance element of the scheme and total bonuses were capped at 100% of basic salary. See the Directors' Remuneration table for a summary of the 2014 and 2013 bonus payments.

10. The gain on share award values for 2014 presented in the table were based on the 2012 LTIP award, which will vest in part during 2015 based on performance of the EPS for the three years ended 31st December 2014. As disclosed in the 2013 Annual Report on Remuneration, the gain on share award values for 2013 presented in the table were based on the 2011 JSOP award, which lapsed during 2014 based on performance for the three years ended 31st December 2013.
11. The figure shown for the gain on share award values for 2014 reflects the expected level of vesting for the 2012 LTIP award, at LSL's average share price from 1st October 2014 to 31st December 2014 (299 pence). Based on EPS performance for the three-year performance to 31st December 2014, 100% of this element (representing 70% of the award) will vest on 2nd April 2015. TSR performance will be tested over the three-year period to 30th March 2015; based on TSR performance to 30th March 2015 it is expected that 0% of this element (representing 30% of the award) will vest on 2nd April 2015. These figures will be restated in the 2015 Directors' Remuneration Report to reflect the actual level of vesting. As disclosed in the 2013 Directors' Remuneration Report, the gain on share award values for 2013 presented in the table were based on the 2011 JSOP award, which lapsed during 2014 based on performance for the three years ended 31st December 2013.
12. SAYE 2011 awards became exercisable on 1st May 2014. The value shown in the table reflects the difference between the exercise price of the SAYE option (257 pence) and LSL's Share price on the date they became exercisable (403 pence).

Annual Bonus

Annual Bonus Payments 2014 – audited

Set out in the table below is a summary of the Executive Directors' bonus scheme for 2014 (excluding the Deputy Chairman and Adrian Gill, who did not participate in the bonus scheme):

Bonus Element	Targets for 2014	Performance against targets for 2014	Bonus Achieved for 2014
Group Underlying Operating Profit up to 80% of base salary	Sliding scale from threshold of £40.9m (20%) of this part is payable increasing to £49.8m (100%) of this part is payable.	A bonus of 50% of this element (based on Underlying Operating Profit of £42m) was awarded to Ian Crabb and David Newnes (i.e. 40% of basic salary) and no payment was made to Steve Cooke.	Ian Crabb received a total bonus of 54% of base salary. David Newnes received a total bonus of 48% of base salary.
Non financial measures up to 20% of base salary	Four targets aligned to the longer term goals of the group.	A bonus of 14% of this element was awarded to Ian Crabb and 8% to David Newnes, with regard to these measures, and no payment was made to Steve Cooke.	

Whilst LSL has not disclosed specific targets for (and the relative weighting within the 20%) or actual outcomes for the 2014 non-financial measures as they are considered to be commercially sensitive, the Remuneration Committee supports the disclosure of the types of measures, which include regulatory compliance and divisional performance. In relation to these measures, the Remuneration Committee confirms that it is satisfied that the measures were demanding and the financial performance element of the schemes require performance significantly better than budget for full payout. Further, the Remuneration Committee supports disclosure of these measures in the event that they are no longer commercially sensitive.

2011 JSOP Awards

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

Notes to 2011 JSOP Awards:

[1] Based on the share price at 3 month average share price to 31st December 2013 (437 pence) less the effective exercise price (245 pence).

[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 vested during the year.

Directors' Remuneration Report continued.

2012 LTIP Awards (nil cost options)

Director	Date of grant	Basis of award (% of salary)	Number of share options	Face value of awards at grant date[1]	Vesting at threshold	Vesting at maximum	Performance period	Expected vesting % in 2015[2]	Expected gain on share awards [3]
Steve Cooke[4]	30th March 2012	100	80,000	£216,800	25% (EPS) 35% (TSR)	100%	TSR: three years from grant date EPS: three years to 31st December 2014	Nil	Nil
Simon Embley[5]			90,909	£246,363				70	£174,416
David Newnes[6]			50,909	£137,963				70	£97,672

Notes to 2012 LTIP Awards

[1] Based on the number of shares granted multiplied by the share price at the grant date (271 pence).

[2] Actual EPS growth for the three years ended 31st March 2015 was 12% (the maximum vesting criteria) and the TSR element is currently not expected vest, therefore resulting in 70% of the award vesting in 2015.

[3] The expected gain on share award for the 2012 LTIP is calculated using LSL's average share price from 1st October 2014 to 31st December 2014 (299 pence).

[4] For details of Steve Cooke's remuneration arrangements following his departure, see Payment for Loss of Office.

[5] Simon Embley's shares awards have been pro-rated to reflect his change of role on 1st January 2015 and his 'good leaver' status under the scheme rules as at the 31st December 2014.

[6] David Newnes shares awards are being pro-rated to reflect his departure on 31st December 2014 and his 'good leaver' status under the scheme rules (see Outstanding Shares Awards table for further details).

Share Awards Granted During 2014

2014 LTIP Awards (nil cost options)

Details of LTIP awards granted in 2014 are as follows:

Director	Date of grant	Basis of award (% of salary)	Number of share options	Face value at grant date [1]	Vesting at threshold	Vesting at maximum	Performance period
Steve Cooke[2]	10th April 2014	100%	55,813	£239,995	25% (EPS) 35% (TSR)	100%	TSR: three years from grant date EPS: three years to 31st December 2016
Ian Crabb	10th April 2014	100%	81,395	£349,998			
David Newnes[3]	10th April 2014	100%	48,837	£209,999			

Notes to 2014 LTIP Awards

[1] Based on the number of shares granted multiplied by the share price at grant date (430 pence).

[2] For details of the Steve Cooke's remuneration arrangements following his departure, see Payment for Loss of Office.

[3] David Newnes shares awards are being pro-rated to reflect his departure on 31st December 2014 and his 'good leaver' status under the scheme rules (see Outstanding Shares Awards table for further details).

For awards presented above:

1. For 70% of awards: 25% of this part of an award will vest for Adjusted Basic EPS growth of 12.5% p.a. increasing pro-rata to 100% of this part of an award vesting for Adjusted Basic EPS growth of 20% p.a. for the three years ending 31st December 2016. There is no vesting for Adjusted Basic EPS growth less than 12.5% 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.

Payments for Loss of Office

No payments were made to any Directors relating to loss of office during the year ended 31st December 2014. For details of all payments received by Directors who held office during the year, see the Directors' Remuneration Table.

Steve Cooke left the Board on 19th December 2014 and he continued to receive his basic salary, pension contribution and benefits until 31st December 2014. No amounts have been paid in respect of the 2014 bonus, share awards or other payment in lieu of notice or for loss of office.

David Newnes received contractual payments in lieu of notice of £80,000 and £7,922 in relation to holiday pay in December 2014 and no amounts have been paid for loss of office.

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 2014	Awards granted	Awards lapsed	Awards exercised	Awards vested	As at 31st December 2014	Exercise period
Steve Cooke	JSOP	31st March 2011	245.00p	280.00p	89,613	–	(89,613)	–	–	–	31st March 2014 to 31st March 2021
	SAYE	5th April 2011	245.00p	257.00p	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
	LTIP	10th April 2014	430.00p	nil	–	55,813	–	–	–	55,813	10th April 2017 to 10th April 2024
Ian Crabb	LTIP	23rd September 2013	479.00p	nil	73,684	–	–	–	–	73,684	23rd September 2016 to 23rd September 2023
	LTIP	10th April 2014	430.00p	nil	–	81,395	–	–	–	81,395	10th April 2017 to 10th April 2024
Simon Embley	JSOP	1st June 2010	271.00p	280.00p	83,929	–	–	–	83,928	83,928	1st June 2013 to 1st June 2020
	CSOP	11th June 2010	237.50p	240.00p	12,500	–	–	–	12,500	12,500	11th June 2013 to 11th June 2020
	JSOP	31st March 2011	245.00p	280.00p	203,665	–	(203,665)	–	–	–	31st March 2014 to 31st March 2021
	SAYE	5th April 2011	245.00p	257.00p	3,502	–	–	(3,502)	–	–	5th April 2014 to 5th October 2014
	LTIP	2nd April 2012	271.00p	nil	90,909	–	(7,576)	–	–	83,333	2nd April 2015 to 2nd April 2022
	LTIP	2nd April 2013	337.00p	nil	85,833	–	(38,148)	–	–	47,685	2nd April 2016 to 2nd April 2023
David Newnes	JSOP	1st June 2010	271.00p	280.00p	39,286	–	–	–	39,286	39,286	1st June 2013 to 1st June 2020
	CSOP	11th June 2010	237.50p	240.00p	12,500	–	–	–	12,500	12,500	11th June 2013 to 11th June 2020
	JSOP	31st March 2011	245.00p	280.00p	57,026	–	(57,026)	–	–	–	31st March 2014 to 31st March 2021
	SAYE	5th April 2011	245.00p	257.00p	3,502	–	–	(3,502)	–	–	5th April 2014 to 5th October 2014
	LTIP	2nd April 2012	271.00p	nil	50,909	–	(4,243)	–	–	46,666	2nd April 2015 to 2nd April 2022
	LTIP	2nd April 2013	343.50p	nil	58,333	–	(25,926)	–	–	32,407	2nd April 2016 to 2nd April 2023
	LTIP	10th April 2014	430.00p	nil	–	48,837	(37,985)	–	–	10,852	10th April 2017 to 10th April 2024

Directors' Remuneration Report continued.

Notes Outstanding Share Awards

1. All of the above are scheme interests. Details of long-term incentive awards granted in 2014 are presented in a separate paragraph while details of past awards are presented in last year's Directors' Remuneration Report and are included in Note 12 to the Financial Statements.
2. The aggregate of gains made by the Executive Directors on the exercise of any options in the year was £15,378 (2013: £159,355).
3. The Ordinary Share mid-market price ranged from 270 pence to 480 pence and averaged 381 pence during 2014. The share price on 31st December 2014 was 298 pence compared to 449.75 pence on 1st January 2014.
4. David Newnes shares awards have been pro-rated to reflect his departure on 31st December 2014 and his 'good leaver' status under the scheme rules at that date.
5. Simon Embley's shares awards have been pro-rated to reflect his change of role on 1st January 2015 and his 'good leaver' status under the scheme rules as at the 31st December 2014.
6. For details of Steve Cooke's remuneration arrangements following his departure, see Payment for Loss of Office.

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	Executive Director Shareholding guideline[1]
Director	31st December 2014	31st December 2013	Unvested	Vested but unexercised	31st December 2014	(% of base salary)
Roger Matthews[2]	86,882	86,882	-	-	86,882	NA
Ian Crabb[3]	531	59	155,079	-	155,079	0.4
Steve Cooke[4]	43,511	40,000	-	-	43,511	54
Simon Embley[5]	6,069,509	6,065,998	131,019	96,428	6,213,028	12,058
David Newnes[6]	3,458,259	3,454,748	89,925	51,786	3,560,684	4,907
Mark Pain[7]	-	-	-	-	-	NA
Mark Morris	53,972	53,972	-	-	53,972	NA
Helen Buck	-	-	-	-	-	NA
Adrian Gill	-	-	-	-	-	Nil
Bill Shannon[8]	20,561	-	-	-	20,561	NA

Notes on Directors' Interest in Shares

1. 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 (shareholding guidelines). Calculated based on shares owned at 31st December 2014, share price at 31st December 2014 of 298 pence per share and the Executive Director's base salary at 31st December 2014.
2. Roger Matthews holding includes shares held by his wife. Roger Matthews retired from the Board on 31st December 2014.
3. 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.
4. Steve Cooke departed from the Board on 19th December 2014 and his percentage of base salary is as at 19th December 2014.
5. Simon Embley's shares awards have been pro-rated to reflect his change of roles on 1st January 2014 and 1st January 2015 and his 'good leaver' status under the scheme rules as at the 31st December 2014.
6. David Newnes shares awards have been pro-rated to reflect his departure on 31st December 2014 and his 'good leaver' status under the scheme rules as at that date.
7. Mark Pain retired from the Board on 7th January 2014.
8. Bill Shannon joined the Board on 7th January 2014.

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 2015 and the date of this Report.

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 financial year.

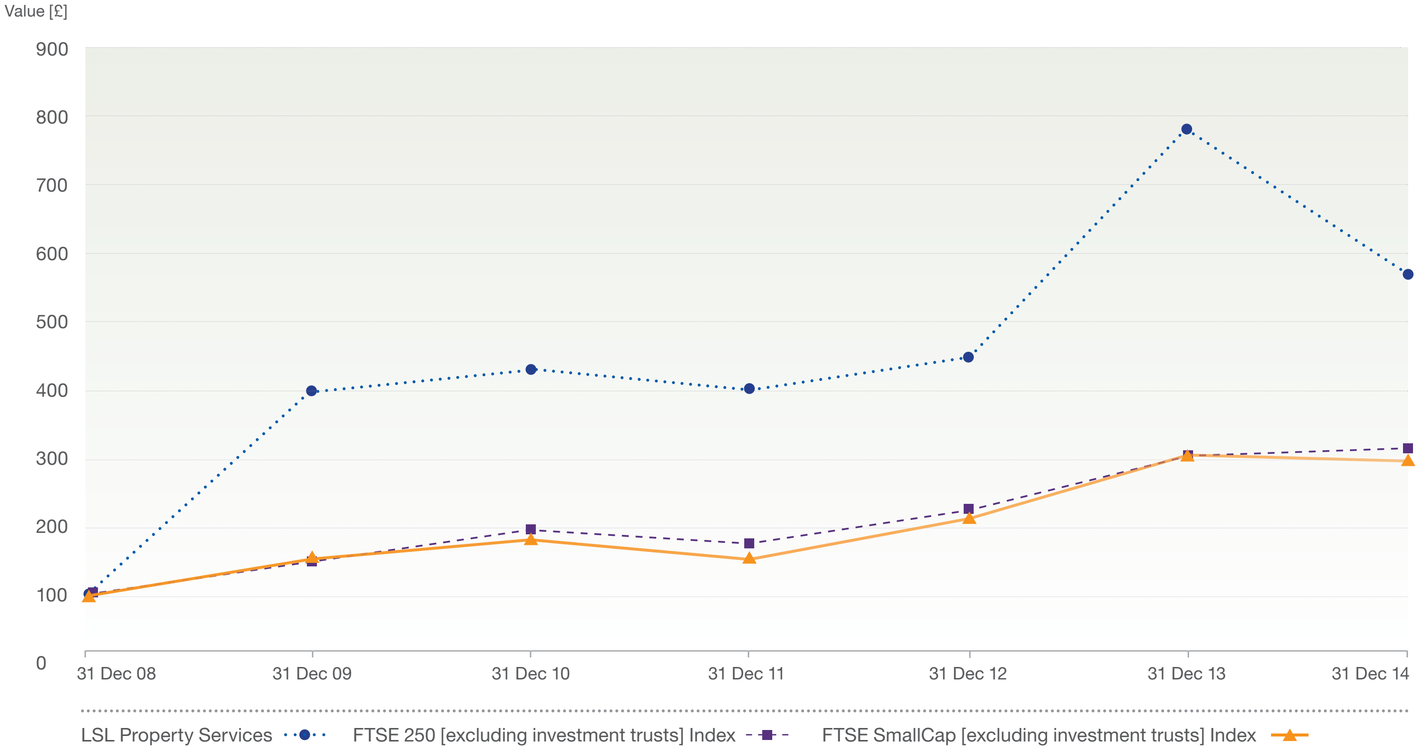
Unaudited Information

Performance Graph and Table

The following graph shows the value, by the 31st December 2014, 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 the 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 six 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	2014
Total remuneration	£373,754	£517,716	£308,747	£525,018	£500,862[1]	£119,522	£571,500
Annual bonus	100%	97.5%	9.6%	60%	91.7%	N/A	54%
LTI vesting	N/A	N/A	N/A	55%	0%	N/A	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.

Directors' Remuneration Report continued.

Percentage Change in Group Chief Executive Officer'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 2013 and 2014, compared to that of the total remuneration for all employees of the Group for each of these elements of pay.

	Salary change	Benefits change	Bonus change (%)
Group Chief Executive Officer	+8%	Nil	(17.5)
All employees[1]	+2%	Nil	(52)
Average number of employees[2]	5,137		

Notes on Percentage Change in Group Chief Executive Officer's Remuneration:

[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.

	2014 (£m)	2013 (£m)	Change (%)
Staff cost[1]	167.6	150.2	10.4
Dividends (excluding the special dividend)	12.3	10.8	13.6
Profit after tax	25.2	14.0	44.2
Adjusted Profit after tax (see Note 10 to the Financial Statements)	31.2	26.1	16.3

[1] See Note 12 of the Financial Statements for calculation of staff costs.

Statement of shareholder voting

The Directors' Remuneration Report for the financial year ending 31st December 2013 and the forward-looking Directors' Remuneration Policy were put to Shareholders at the AGM held on 24th April 2014. The voting outcomes were as follows:

	Directors' Remuneration Report		Directors' Remuneration Policy	
Votes cast in favour	81,281,392	95.40%	84,325,873	98.97%
Votes cast against	3,992,496	4.60%	878,015	1.03%
Total votes cast	85,273,888	100%	85,203,888	100%
Abstentions	2,000	–	2,000	–

Remuneration Committee

Role and membership

Details of the Remuneration Committee's composition and responsibilities are set out in the Corporate Governance Report at page 53 of this Report. During 2014 the Remuneration Committee was chaired by Bill Shannon and its other members were Adrian Gill, Mark Morris, Roger Matthews, Mark Pain and Helen Buck. Adrian Gill ceased to be a member on 24th November 2014 and was replaced by Helen Buck. Mark Pain retired from the Committee on 7th January 2014 and Roger Matthews retired from the Committee on 31st December 2014.

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) on matters relating to senior executive remuneration. NBS was appointed by the Remuneration Committee with regard to the disclosures required in the annual report. NBS provided no other advice to LSL during the year and their fee for 2014 was £13,716. NBS 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
12th March 2015

Financial Statements

In this section

Reeds Rains Catford

Independent Auditor's Report

for the year ended 31st December 2014

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LSL PROPERTY SERVICES PLC

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31st December 2014 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

We have audited the financial statements of LSL Property Services plc for the year ended 31st December 2014 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, the related Notes to the Group Financial Statements 1 to 34, the Parent Company Balance Sheet and the related notes to the Company Financial Statements 1 to 14. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 Statements set out on page 43 and on page 137, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). 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 and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Report 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.

Independent Auditor's Report continued.

for the year ended 31st December 2014

Our assessment of risk of material misstatement and response to that risk

The table below shows the risks we identified 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 together with our audit response to the risk:

Risk	Response
Recognition and measurement of professional indemnity ("PI") liabilities for inaccurate valuations	
This is an area of significant judgement and estimation. In particular the Group has historically experienced a high level of claims relating to the 2004 to 2008 period, and valuations work undertaken during this period continues to result in claims being made against the Group. There is a risk that the provision for these claims is significantly different as a result of variations from key assumptions, in particular the incidence of claims, the propensity for claims to result in financial loss and the resultant loss per claim. During the year, the Group has recognised an additional £26.1m charge for provision for PI claims/notifications (of which £24.6m, which relates to the high risk 2004 to 2008 period is reported as an exceptional charge) Refer also to page 55 (Audit Committee Report), page 92 (Accounting policies – Judgments and Estimates), page 104 (Note 7 – Exceptional Items) and page 123 (Note 22 – Provisions for liabilities).	We understood and performed procedures to understand key processes used to determine the PI provision; including an understanding of the assistance management had received from PI lawyers and the nature of review work undertaken by Group internal audit. We picked a sample of cases and agreed the information in management's claims database to source documentation including letters of claim, external legal correspondence and bordereaux submissions received from the law firms dealing with the claims. This work also included reperforming a sample of the procedures undertaken by Group internal audit to verify the integrity of the claims database. We held discussions with the Group's PI lawyers to understand the work that they had undertaken to assist management in determining the best estimate of each individual claim liability based on the likelihood of a claim succeeding, their assessment of the amount claimed, the actual loss incurred and the likely claimants costs. These discussions included consideration of specific cases and groups of cases that were selected for testing and was supplemented by review of legal documentation for certain claims. We reviewed the current run rate of new claims being received based on those received in the period prior to the year end, which together with our understanding of the average cost of settling closed claims allowed us to assess management's assumptions about the level of provision that was required for incurred but not reported cases (IBNR). We also agreed a sample of claim settlements in the year to bank statements and to legal invoices and claims settlements. We assessed the accuracy of amounts provided by reference to post year end settlements where applicable. We assessed the appropriateness of the key sensitivities disclosed within Note 22 and verified the quantum of the disclosed financial consequence.
Revenue recognition	
The Group offers a number of different services and products and operates in multiple locations throughout the UK. There is therefore a risk that revenue is not appropriately recognised. In addition the Group earns commissions acting as an agent for the sale of financial services policies. If these policies are subsequently cancelled by the customer then an element of the commission earned has to be repaid. The Group is required to make an estimate based on historical experience of the amount of commission earned that it expects to be repaid as a result of the lapse of policies that have been sold, which is recognised as a reduction in revenue.	We understood and performed procedures to understand key processes used to record revenue transactions. At certain locations we identified and performed testing over key revenue controls. We performed substantive analytical review of revenue, comparing amounts recognised with our expectations. We examined material journal entries that were posted to revenue accounts.

	We performed detailed cut off testing of revenue transactions either side of the Balance Sheet date. For the estimate of repayable commissions we obtained management's workings and checked the underlying calculations for arithmetical accuracy. Inherent in these workings was a historical lapse rate, which we tested the integrity of by selecting a sample of policies that had lapsed and vouching them to claims from the lender and bank statements. We then ensured that each item in our sample had been correctly included in the historical lapse rate calculation.
Accounting for acquisitions The Group is acquisitive in nature, and acquisitions frequently include earn-out arrangements in respect of key employees. There is a risk that the accounting for acquisitions, including the allocation of the purchase price, the recognition of intangible assets and goodwill and the treatment of contingent consideration and earn-out arrangements is not performed in accordance with IFRS 3. During the year the Group made a number of acquisitions, including the acquisition of Hawes & Co and a number of smaller lettings businesses. At 31st December 2014, the Group holds £13.7m as contingent consideration on the balance sheet. Refer also to page 104 (Note 7 – Exceptional items and contingent consideration), page 121 (Note 21 – Financial Liabilities) and page 125 (Note 27 – Acquisitions during the year).	For acquisitions in the period we obtained and understood sales and purchase agreements. We ensured 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. We validated the contingent consideration calculations performed by management with reference to sale and purchase agreements, actual and forecast financial results. For acquisitions that arose in prior periods we tested the subsequent measurement of contingent consideration liabilities with reference to sale and purchase agreements, actual and forecast financial results.
Client monies At 31st December 2014, the Group held cash balances on behalf of Estate Agency clients of £82.6m. These amounts do not belong to the Group and are held on behalf of clients. There is a risk of loss or misappropriation of monies held which, if it arose, would result in a financial cost to the Group. Refer also to page 129 (Note 28 – Client monies)	We performed testing on client account reconciliations and followed up any material reconciling items. This included vouching the amounts held on behalf of clients to underlying lettings records and obtaining bank confirmations in order to confirm the amounts being held. We performed cash book reviews of the trading bank accounts, with a particular focus on the appropriateness and cut off of transfers to and from client accounts.

Independent Auditor's Report continued.

for the year ended 31st December 2014

Our application of materiality

We determined materiality for the Group to be £0.5 million (2013 – £0.8 million), which is approximately 5% (2013 – 5%) of adjusted pre-tax profit. We used pre-tax profits adjusted for the non-recurring gain on the disposal of Zoopla shares (disclosed as exceptional in the financial statements), as we determined this to be the most relevant measure of profitability. 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 50% (2013 – 75%) of planning materiality, namely £0.3 million (2013 – £0.6 million). 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.

Audit work at individual components is undertaken based on a percentage of our total performance materiality. The performance materiality set for each component is based on the relative size of the component and our view of the risk of misstatement at that component. In the current year the range of performance materiality allocated to components was £0.1 million to £0.2 million.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £0.03 million (2013 – £0.04 million), as well as differences below that threshold that, in our view warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in the light of other relevant qualitative considerations.

An overview of the scope of our audit

Following our assessment of the risk of material misstatement to the Group financial statements, we selected 11 components which represent the principal business units within the Group’s two reportable segments and account for 98% of the Group’s total revenue, 97% of the Group’s profit before tax and 92% of the Group’s profit before tax adjusted for the Zoopla gain. 6 of these were subject to a full audit, whilst at the remaining 5 specific audit procedures were performed including full audit of the accounts that were impacted by our assessed risks of material misstatement and the materiality of the Group’s business operations at those locations. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

The audit work at the 11 locations where full or specific audit procedures were performed was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and which reflected the risk and relative size of each location.

In addition to performing full audit or specific audit procedures at 11 components, we also performed review procedures at the remaining 6 components to confirm there were no significant risks of material misstatement in the Group financial statements. These account for a further 2% of the Group’s total revenue, 3% of the Group’s profit before tax and 8% of the Group’s profit before tax adjusted for the Zoopla gain.

All of the locations subject to audit are based in the United Kingdom and are the responsibility of the Group audit team.

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 financial statements;
- the information given in the Corporate Governance Statement(s) set out on pages 49 to 54 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 and Accounts is fair, balanced and understandable and whether the Annual Report and Accounts appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required 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; or
- a Corporate Governance Report has not been prepared by the Company.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 46, in relation to going concern; and
- the part of the Corporate Governance Report relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review.

Signature

Alistair Denton

For and on behalf of Ernst & Young LLP, (Senior statutory auditor)
Leeds

12th March 2015

Group Income Statement

for the year ended 31st December 2014

	Note	2014 £'000	2013 £'000
Revenue	3	**287,498**	258,603
Operating expenses:			
Employee and subcontractor costs	12	**(167,581)**	(150,158)
Establishment costs		**(18,852)**	(19,386)
Depreciation on property, plant and equipment	15	**(4,918)**	(3,977)
Other		**(57,938)**	(52,125)
		(249,289)	(225,646)
Other operating income	3	**2,404**	2,376
Gain on sale of property, plant and equipment		**13**	38
Group's share of profit after tax in joint ventures	17	**1,383**	1,731
Group operating profit before contingent consideration, exceptional items, amortisation and share-based payments		**42,009**	37,102
Share-based payments	12	**(1,775)**	(1,323)
Amortisation of intangible assets	14	**(565)**	(375)
Exceptional gains	7	**19,841**	134
Exceptional cost	7	**(26,035)**	(13,124)
Contingent consideration	7	**405**	(2,793)
Group operating profit	4	**33,880**	19,621
Finance income	5	**14**	7
Finance costs	6	**(2,181)**	(3,154)
Exceptional finance credits	7	**230**	606
Net financial costs		**(1,937)**	(2,541)
Profit before tax	8	**31,943**	17,080
Taxation			
– related to exceptional items and contingent consideration		**1,146**	2,879
– others		**(7,931)**	(5,945)
	13	**(6,785)**	(3,066)
Profit for the year		**25,158**	14,014
Attributable to			
– Owners of the parent		**25,103**	14,001
– Non-controlling interest		**55**	13
Earnings per share expressed in pence per share:			
Basic	10	**24.5**	13.6
Diluted	10	**24.3**	13.5
Adjusted – basic	10	**30.5**	25.3
Adjusted – diluted	10	**30.2**	25.2

Group Statement of Comprehensive Income

for the year ended 31st December 2014

	Note	2014 £'000	2013 £'000
Profit for the year		**25,158**	14,014
Items to be reclassified to profit and loss in subsequent periods:			
Reclassification adjustments for disposal of financial assets	16	**(20,568)**	–
Income tax effect	13	**4,114**	–
Revaluation of financial assets	16	**6,903**	23,806
Income tax effect	13	**(1,381)**	(4,380)
Net other comprehensive income to be reclassified to profit and loss in subsequent periods:		**(10,932)**	19,426
Total other comprehensive income for the year, net of tax		**(10,932)**	19,426
Total comprehensive income for the year, net of tax		**14,226**	33,440
Attributable to			
– Owners of the parent		**14,171**	33,427
– Non-controlling interest		**55**	13

Group Balance Sheet

for the year ended 31st December 2014

Company No. 05114014

	Note	2014 £'000	2013 £'000
Non-current assets			
Goodwill	14	**131,560**	125,642
Other intangible assets	14	**20,110**	19,080
Property, plant and equipment	15	**20,272**	16,230
Financial assets	16	**23,033**	36,574
Investments in joint ventures	17	**9,121**	3,239
Total non-current assets		**204,096**	200,765
Current assets			
Trade and other receivables	18	**36,165**	35,340
Current tax receivables		**–**	771
Cash and cash equivalents	19	**–**	469
Total current assets		**36,165**	36,580
Non-current assets held for sale	15	**–**	276
Total assets		**240,261**	237,621
Current liabilities			
Financial liabilities	21	**(4,659)**	(5,113)
Trade and other payables	20	**(50,336)**	(54,090)
Current tax liabilities		**(373)**	–
Provisions for liabilities	22	**(16,539)**	(8,458)
Total current liabilities		**(71,907)**	(67,661)
Non-current liabilities			
Financial liabilities	21	**(56,420)**	(43,749)
Deferred tax liability	13	**(6,462)**	(9,014)
Provisions for liabilities	22	**(22,372)**	(17,881)
Total non-current liabilities		**(85,254)**	(70,644)
Total Liabilities		**(157,161)**	(138,305)
Net assets		**83,100**	99,316
Equity			
Share capital	24	**208**	208
Share premium account	25	**5,629**	5,629
Share-based payment reserve	25	**3,498**	2,475
Treasury shares	25	**(7,922)**	(4,292)
Fair value reserve	25	**16,715**	27,647
Retained earnings		**64,835**	67,567
Equity attributable to owners of parent		**82,963**	99,234
Non-controlling interests		**137**	82
Total equity		**83,100**	99,316

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

Ian Crabb
Group Chief Executive Officer
12th March 2015

Group Statement of Cash Flows

for the year ended 31st December 2014

	Note	31st December 2014 £'000	31st December 2014 £'000	31st December 2013 £'000	31st December 2013 £'000
Cash generated from operating activities					
Profit before tax			**31,943**		17,080
Adjustments to reconcile profit before tax to net cash from operating activities					
Exceptional operating items and contingent consideration (non-cash)	7	**4,324**		15,491	
Amortisation of intangible assets	14	**565**		375	
Finance income	5	**(14)**		(7)	
Finance costs	6	**2,181**		3,580	
Exceptional finance (credit)	7	**(230)**		(606)	
Share-based payments	12	**1,775**		1,323	
Total adjustments			**8,601**		20,156
Group operating profit before amortisation and share-based payments			**40,544**		37,236
Depreciation	15	**4,918**		3,977	
Dividend income		**(1,579)**		(1,141)	
Share of results of joint ventures		**(1,383)**		(1,731)	
Gain on sale of property, plant and equipment	8	**(48)**		(172)	
			1,908		933
Increase in trade and other receivables		**(449)**		(4,656)	
(Decrease)/increase in trade and other payables		**(4,263)**		4,881	
Decrease in provisions		**(12,075)**		(11,544)	
			(16,787)		(11,319)
Cash generated from operations			**25,665**		26,850
Interest paid		**(1,764)**		(2,142)	
Payment of contingent consideration relating to remuneration		**(1,426)**		–	
Loan refinance costs paid		**–**		(1,128)	
Tax paid		**(1,339)**		(2,537)	
			(4,529)		(5,807)
Net cash generated from operating activities			**21,136**		21,043

Group Statement of Cash Flows continued.

for the year ended 31st December 2014

	Note	31st December 2014 £'000	31st December 2014 £'000	31st December 2013 £'000	31st December 2013 £'000
Cash flows from investment activities					
Cash acquired on purchase of subsidiary undertaking	27	**250**		24	
Acquisitions of subsidiaries and other businesses	27	**(4,963)**		(3,515)	
Payment of contingent consideration		**–**		(520)	
Investment in joint venture	17	**(2,422)**		–	
Investment in financial assets	16	**(1,155)**		(847)	
Cash received on sale of financial assets		**20,838**		–	
Tax on Sale of Zoopla		**(4,015)**			
Dividends received from joint venture		**1,302**		805	
Dividends received from financial assets		**1,579**		1,141	
Interest received	5	**14**		7	
Purchase of property, plant and equipment and intangible assets	14,15	**(9,244)**		(7,859)	
Proceeds from sale of property, plant and equipment	15	**195**		1,475	
Net cash generated/(expended) on investing activities			**2,379**		(9,289)
Cash flows from financing activities					
Drawdown of loans		**8,233**		510	
Payment of deferred consideration		**–**		(494)	
Purchase of LSL shares by the employee benefit trust (EBT) (Treasury Shares)		**(5,621)**		(2,625)	
Proceeds from exercise of share options		**1,690**		1,084	
Dividends paid	11	**(28,286)**		(9,985)	
Net cash used in financing activities			**(23,984)**		(11,510)
Net (decrease)/increase in cash and cash equivalents			**(469)**		244
Cash and cash equivalents at the beginning of the year			**469**		225
Cash and cash equivalents at the end of the year	19		**–**		469

Group Statement of Changes in Equity

for the year ended 31st December 2014

Year ended 31st December 2014

	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 2014	**208**	**5,629**	**2,475**	**(4,292)**	**27,647**	**67,567**	**99,234**	**82**	**99,316**
Disposal of financial assets (net of tax)	–	–	–	–	(16,454)	–	(16,454)	–	(16,454)
Revaluation of financial assets (net of tax)	–	–	–	–	5,522	–	5,522	–	5,522
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**(10,932)**	**–**	**(10,932)**	**–**	**(10,932)**
Profit for the year	–	–	–	–	–	25,103	25,103	55	25,158
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(10,932)**	**25,103**	**14,171**	**55**	**14,226**
Investment in Treasury Shares	–	–	–	(5,621)	–	–	(5,621)	–	(5,621)
Exercise of options	–	–	(752)	1,991	–	451	1,690	–	1,690
Share-based payments	–	–	1,775	–	–	–	1,775	–	1,775
Tax on share based payments	–	–	–	–	–	–	–	–	–
Dividend payment	–	–	–	–	–	(28,286)	(28,286)	–	(28,286)
At 31st December 2014	**208**	**5,629**	**3,498**	**(7,922)**	**16,715**	**64,835**	**82,963**	**137**	**83,100**

During the year ended 31st December 2014, the Trust acquired 1,485,000 LSL Shares for £5,621,000. In addition, during the period 669,077 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received £1,690,000 on exercise of these options.

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
Revaluation of financial assets (net of tax)	–	–	–	–	19,426	–	19,426	–	19,426
Other comprehensive income for the year	–	–	–	–	19,426	–	19,426	–	19,426
Profit for the year	–	–	–	–	–	14,001	14,001	13	14,014
Total comprehensive income for the year	–	–	–	–	19,426	14,001	33,427	13	33,440
Investment in Treasury Shares	–	–	–	(2,625)	–	–	(2,625)	–	(2,625)
Exercise of options	–	–	(374)	1,024	–	434	1,084	–	1,084
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

During the year ended 31st December 2013, the Trust acquired 640,485 LSL Shares for £2,625,000. In addition, during the period 442,625 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received £1,084,000 on exercise of these options.

Notes to the Group Financial Statements

for the year ended 31st December 2014

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 2014 were authorised for issue by the Board of the Directors on 12th March 2015 and the balance sheet was signed on the Board's behalf by Ian Crabb. LSL is a listed company, in London, 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 2014. 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 2014, the Group has adopted a number of new IFRS, IAS or amendments issued by the IASB or interpretations issued by the IFRS Interpretations Committee which have had a significant impact on the Group's consolidated financial statements. These are as follows:

IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance in circumstances where control is difficult to assess. The standard has had no impact on the Group's financial position or performance.

IFRS 11 Joint Arrangements

IFRS 11 focuses on the rights and obligations of the parties to the arrangement rather than its legal form. There are two types of joint arrangement; joint operations and joint ventures. Joint operations arise where the investors have rights to the assets and obligations for the liabilities of the arrangement and is accounted for by the investor recognising its share of the assets and liabilities. A joint venture arises where the investor has a right to a share of the assets of the arrangement and is accounted for under the equity method. Proportional consolidation is no longer allowed. The standard has had no impact on the Group's financial position or performance.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 includes the disclosure for all interests in other entities including joint arrangements, associates, structured entities and other off balance sheet vehicles. The standard has had no impact on the Group's financial position or performance.

The issuance of IFRS 10,11 and 12 has resulted in the revision of IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures. Again the adoption of these standards has had no impact on the Group's financial position or performance.

IFRIC 21 Levies

IFRIC 21 sets out the accounting for an obligation to pay a levy that is not income tax. The Group is not subject to significant levies and so adoption of this standard has had no impact on the Group's financial position or performance.

Amendments to IAS 32 Offsetting Financial Assets and Liabilities

The revised standard sets out under what circumstances financial assets and liabilities can be offset and disclosed on a net basis. Again the adoption of these standards has had no impact on the Group's financial position or performance.

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.

2. Accounting policies (continued)

The estimates and underlying assumptions are reviewed on an on going 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:

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 22.

Valuations in acquisitions
The measurement of intangible assets other than goodwill on a business combination involves the estimation of future cashflows 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 cashflows 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.

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, or require 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 listed and 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 is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns.

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.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

2. Accounting policies (continued)

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction.

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 non-controlling interests 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 Joint Ventures
The Group's investments in its joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment individually.

The statement of profit or loss reflects the Group's share of the results of operations of the joint venture. In addition, when there has been a change recognised directly in the equity of the joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Group's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture. The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its joint ventures. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognises the loss as 'Share of profit of a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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.

2. Accounting policies (continued)

Intangible assets (continued)
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.

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 31stDecember 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.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

2. Accounting policies (continued)

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

Amortisation

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

Customer contracts:	
Estate Agency customer contracts	– three to ten years
Surveying customer contracts	– between three and five years
Lettings contracts	– up to 36 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.

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 fifty 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. The Management Team 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.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

2. Accounting policies (continued)

Share-based payment transactions

Equity-settled transactions

The equity share option programmes allow Group employees to acquire LSL Shares. 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 LSL Shares to Executive Directors and selected senior employees. Shares in LSL 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 ESOT and the Trusts are charged to the income statement. Dividends earned on shares held in the ESOT and 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.

Pensions

The Group operates a defined contribution pension scheme for employees in certain Group companies. The assets of the scheme are invested and managed independently of the finances of the Group. The pension cost charge represents contributions payable in the year.

Provisions

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

Financial instruments

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

The subsequent measurement of financial assets depends on their classification.

2. Accounting policies (continued)

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 in other comprehensive income and 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 re-measured 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.

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.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

2. Accounting policies (continued)

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 lettings, asset management and 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 2014 and have not been early adopted:

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 9	Financial Instruments: Classification and Measurement	1st January 2018
IFRS 15	Revenue from Contracts with Customers	1st January 2017
Amendment to IAS 1	Presentation of Financial Statements	1st January 2016

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

3. Revenue

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:

	2014 £'000	2013 £'000
Revenue from services	287,498	258,603
Operating Revenue	287,498	258,603
Rental Income	825	1,235
Dividend Income	1,579	1,141
Other operating income	2,404	2,376
Finance income	14	7
Total revenue	289,916	260,986

Dividend income was received in the year from the Group's investments in Zoopla, VEM and GPEA Limited. 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 segment 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 Estate Agency Division also provides marketing and arranges conveyancing services. In addition, it provides repossession asset management services to a range of lenders. It also arranges mortgages for a number of lenders and arranges pure protection and general insurance policies for a panel of insurance companies via the estate agency branches, Pink Homes Loans, First Complete, Embrace Mortgage Services, First2Protect and Linear Financial Services. The financial services segment included within the Estate Agency division includes two mortgage and insurance distribution networks providing products and services for sale via financial intermediaries. The results of this financial services segment, does not meet the quantitative criteria for separate reporting under IFRS and has therefore 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 lenders and individual customers.

Each segment has various products and services and the revenue from these products and services are disclosed on pages 16 to 17 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 2014 and financial year ended 31st December 2013 respectively:

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

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

Year ended 31st December 2014

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Income statement information				
Segmental revenue	225,274	62,224	–	**287,498**
Segmental result:				
– before exceptional costs, contingent consideration, amortisation and share-based payments	33,892	13,331	(5,214)	**42,009**
– after exceptional costs, contingent consideration, amortisation and share-based payments	52,310	(12,611)	(5,819)	**33,880**
Finance income				**14**
Finance costs				**(2,181)**
Exceptional finance credits				**230**
Profit before tax				**31,943**
Taxation				**(6,785)**
Profit for the year				**25,158**

	Estate Agency and Related activities £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Balance sheet information				
Segment assets – intangible	140,786	10,884	–	**151,670**
Segment assets – other	77,317	10,319	955	**88,591**
Total Segment assets	218,103	21,203	955	**240,261**
Total Segment liabilities	(47,507)	(52,711)	(56,943)	**(157,161)**
Net assets/(liabilities)	170,596	(31,508)	(55,988)	**83,100**
Other segment items				
Capital expenditure including intangible assets	(9,063)	(181)	–	**(9,244)**
Depreciation	(4,425)	(493)	–	**(4,918)**
Amortisation of intangible assets	(559)	(6)	–	**(565)**
Share of results of joint venture	1,383	–	–	**1,383**
Professional indemnity claim provision	–	(26,126)	–	**(26,126)**
Onerous leases provision	217	–	–	**217**
Share based payment	(683)	(653)	(439)	**(1,775)**

Unallocated net liabilities comprise certain property, plant and equipment (£31,000), other assets (£924,000), accruals (£2,329,000), financial liabilities (£13,060,000), deferred and current tax liabilities (£6,836,000), overdraft of (£718,000), Revolving Credit Facility (£34,000,000).

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 credits				**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 2014

5. Finance income

	2014 £'000	2013 £'000
Interest receivable on funds invested	14	7

6. Finance costs

	2014 £'000	2013 £'000
Interest on revolving credit facility and overdraft	1,764	2,142
Interest on loan notes	342	329
Unwinding of discount on professional indemnity provision	75	683
	2,181	3,154

7. Exceptional items and contingent consideration

	2014 £'000	2013 £'000
Exceptional costs:		
Branch closure and restructuring costs including redundancy costs	1,092	924
Acquisition related costs	373	200
Provision for professional indemnity claims/notifications	24,570	12,000
	26,035	13,124
Contingent consideration on acquisitions	(405)	2,793
Exceptional gains:		
Gain on disposal of freehold properties	(35)	(134)
Gain on disposal of financial assets	(19,806)	–
	(19,841)	(134)
Exceptional finance credits:		
Movement in fair value of interest rate swap	(230)	(606)
	5,559	15,177

Contingent consideration

The expense for contingent consideration on the acquisition (in 2011) of Marsh & Parsons amounted to £2,281,000 (2013: £352,000). The exceptional contingent consideration credit recognised in the year relating to other acquisitions, primarily by LSLi, is £2,686,000 (2013: expense of £2,441,000). See Notes 21 and 27 for more details.

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, by £12.0m in November 2013 and again by £24.6m in December 2014.

The PI Costs provision at 31st December 2014 was made up of a 'Specific Provision' and 'Incurred But Not Reported' (IBNR). The Specific Provision was based on the Group's review of notifications or claims that had been made against the Group as at 31st December 2014, where a loss has been quantified and where activity is current. 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 interest 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 notifications and claims which would be received in the future with regard to work completed before 31st December 2014. The Directors have then applied an average cost per case, based on historical averages, to estimate the IBNR provision.

A number of risks and uncertainties remain, in particular the actual monthly run rate of new claims 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 Directors' estimates, which could result in a further provision being required.

7. Exceptional items and contingent consideration (continued)

At 31st December 2014 the total provision for PI Costs was £38.7m, of which 90% relates to the high risk lending period. The Directors have considered sensitivity analysis on the key risks and uncertainties discussed which is set out in note 22. The Group has continued to maintain 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.

Freehold properties

During the period, freehold properties with a book value totalling £30,000 (2013: £1,227,000) were sold for net proceeds of £65,000 (2013: £1,361,000) resulting in a gain on disposal of £35,000 (2013: £134,000).

Gain on disposal of financial assets

On 18th June 2014, Zoopla underwent an IPO and successfully completed a listing on the London Stock Exchange. The total gain on the sale of shares during the period was £19.8m, net of associated costs. LSL estimates that it will pay tax of £4.0 on sale of these shares. Further details on the transaction are disclosed in Note 16.

8. Profit before tax

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

	2014 £'000	2013 £'000
Auditors' remuneration (Note 9)	354	418
Operating lease rentals:		
Land and buildings	11,440	10,767
Plant and machinery	4,661	3,908
(Gain) on sale of property, plant and equipment	(48)	(172)

9. Auditors' remuneration

The remuneration of the auditors is further analysed as follows:

	2014 £'000	2013 £'000
Audit of the Financial Statements	46	43
Audit of subsidiaries	222	290
Total Audit	268	333
Audit related assurance services (interim results review fee)	16	16
Other assurance services	3	3
Tax compliance services	59	66
Tax advisory services	8	
	354	418

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

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.

	Profit after tax £'000	Weighted average number of shares	2014 Per share amount Pence	Profit after tax £'000	Weighted average number of shares	2013 Per share amount Pence
Basic EPS	**25,103**	**102,479,989**	**24.5**	14,001	102,955,662	13.6
Effect of dilutive share options	**–**	**925,536**	**–**	–	410,999	–
Diluted EPS	**25,103**	**103,405,525**	**24.3**	14,001	103,366,661	13.5

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:

	2014 £'000	2013 £'000
Group operating profit before contingent consideration, exceptional items, share-based payments and amortisation (excluding non-controlling interest):	**41,954**	37,089
Net finance costs (excluding exceptional items)	**(2,167)**	(3,147)
Normalised taxation	**(8,554)**	(7,892)
Adjusted profit after tax[1] before exceptional items, share-based payments and amortisation	**31,233**	26,050

Adjusted basic and diluted EPS

	Adjusted profit after tax[1] £'000	Weighted average number of shares	2014 Per share amount Pence	Adjusted profit after tax[1] £'000	Weighted average number of shares	2013 Per share amount Pence
Adjusted Basic EPS	**31,233**	**102,479,989**	**30.5**	26,050	102,955,662	25.3
Effect of dilutive share options	**–**	**925,536**	**–**	–	410,999	–
Adjusted Diluted EPS	**31,233**	**103,405,525**	**30.2**	26,050	103,366,661	25.2

[1] This represents adjusted profit after tax attributable to equity holders of the parent. Effective tax rate considered to calculate normalised taxation in 2014 is 21.5% (2013: 23.25%).

11. Dividends paid and proposed

	2014 £'000	2013 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
2012 Final: 6.4p	–	6,584
2013 Interim: 3.3p	–	3,401
2013 Final: 7.2p	7,406	–
2014 Interim: 4.0p	4,074	–
2014 Special dividend: 16.5p	16,806	
	28,286	9,985
Dividends on Ordinary Shares proposed (not recognised as a liability as at 31st December):		
Equity dividends on Ordinary Shares:		
Dividend: 8.3p per share (2013: 7.2p)	8,453	7,395

12. Directors and employees

Remuneration of Directors

	2014 £'000	2013 £'000
Directors' remuneration (short-term benefits)*	1,625	1,685
Contributions to money purchase pensions schemes (post-employment benefits)	47	38
Share-based payments	397	419
	2,069	2,142

* included within this amount is accrued bonuses of £291,000 (2013: £588,000).

The number of Directors who were members of Group money purchase pension schemes during the year totalled 4 (2013:4). During the year the Directors exercised nil (2013: 11,870) CSOP options, nil (2013: 70,764), JSOP options 10,506 (2013: nil), SAYE options and made a gain of £15,378 (2013: £159,355) on exercise of these options.

In addition to the above, David Newnes received a payment in lieu of notice of £80,000.

Employee numbers and costs

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

	2014 £'000	2013 £'000
Wages and salaries	147,754	132,488
Social security costs	15,238	13,213
Pension costs	2,335	1,745
Total employee costs	165,327	147,446
Subcontractor costs	2,254	2,712
Total employee and subcontractor costs[1]	167,581	150,158
Share-based payment expense (see below)	1,775	1,323

[1] The total employee and subcontractor costs exclude employees redundancy costs of £1,032,000 (2013 – £932,000), which have been shown under Exceptional costs (see Note 7).

The monthly staff numbers (including Directors) during the year averaged 4,760 (2013 – 4,327).

	2014	2013
Estate Agency and Related Services	3,923	3,547
Surveying and Valuation Services	837	780
	4,760	4,327

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

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 2014 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 >20% pa – 100% vest;
- If growth is 12.5% pa – 25% vest;
- Straight line vesting between 12.5% pa and 20% pa; and
- If growth is below 12.5% pa no options vest.

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 is over 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.

12. Directors and employees (continued)

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 is over 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.

	2014		2013	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	–	1,019,483	–	435,622
Granted during the year	–	419,970	–	599,739
Lapsed during the year	–	(303,882)	–	(15,878)
Outstanding at 31st December	–	1,135,571	–	1,019,483

There were no options exercisable at the end of the year or the prior year. The weighted average remaining contractual life is 1.27 years (2013: 1.84 years). The weighted average fair value of options granted during the year was £3.92 (2013: £3.31).

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 was not met and as such these options did not vest in March 2014.

	2014		2013	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	3.20	829,836	3.20	1,099,306
Exercised during the year	3.20	–	3.20	(89,246)
Lapsed during the year	3.20	(700,372)	3.20	(180,224)
Outstanding at 31st December	3.20	129,464	3.20	829,836

There were 129,464 options exercisable at the end of the year (2013: 129,464). The weighted average remaining contractual life is nil (2013: 0.21 years). The average market value at the date of exercise was £nil (£4.37).

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

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.

	2014		2013	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	2.60	607,594	2.53	1,114,077
Granted during the year	4.16	930,839	–	–
Exercised during the year	2.49	(206,512)	2.40	(348,825)
Lapsed during the year	2.75	(17,675)	2.54	(157,658)
Outstanding at 31st December	3.72	1,314,246	2.60	607,594

There were 128,078 options exercisable at the end of the year (2013: 66,660). The average market value at the date of exercise was £4.32 (£3.68).

The weighted average fair value of options granted during the year was £2.44 (2013: Nil). The weighted average remaining contractual life is 1.75 years (2013: 0.67 years).

Save-As-You-Earn scheme

The Group has offered options under the SAYE scheme in each of 2011 to 2014 years. 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.

	2014		2013	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	2.69	1,008,008	2.59	887,842
Granted during the year	4.16	567,052	3.00	238,155
Exercised	2.57	(462,565)	2.58	(4,554)
Lapsed during the year due to employees withdrawal	2.84	(95,368)	2.59	(113,435)
Outstanding at 31st December	3.56	1,017,127	2.69	1,008,008

The weighted average fair value of options granted during the year was £2.45 (2013: £1.68) and the weighted average remaining contractual life was 1.6 years (2013: 1.41 years). The average market value at the date of exercise was £4.00 (2013: £4.64).

There were nil (2013: nil) options exercisable at the end of the year.

Equity-settled transactions

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

	LTIP 2014	SAYE 2014	CSOP 2014
Option pricing model used	BlackScholes	BlackScholes	BlackScholes
Weighted average share price at grant date (£)	4.30	4.35	4.16
Exercise price (£)	–	4.16	4.16
Expected life of options (years)	3 years	3 years	3 years
Expected volatility	100%	100%	100%
Expected dividend yield	3.0%	3.0%	3.0%
Risk free interest rate	1.84%	1.84%	1.84%

12. Directors and employees (continued)

	LTIP 2013	SAYE 2013
Option pricing model used	BlackScholes	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%

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

	2014 £'000	2013 £'000
Share-based payment charged during the year	**1,775**	1,323

A charge of £439,000 (2013: £551,000) 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:

		2014 £'000	2013 £'000
UK corporation tax	– current year	**6,460**	4,474
	– adjustment in respect of prior years	**144**	(574)
		6,604	3,900
Deferred tax:			
Origination and reversal of temporary differences		**98**	(814)
Adjustment in respect of prior year		**83**	(20)
Total deferred tax expense/(credit)		**181**	(834)
Total tax charge in the income statement		**6,785**	3,066

The UK standard corporation tax rate has reduced from 28% as at 1st January 2011 to 21% from 1st April 2014 with a further reduction to 20% occurring on 1st April 2015. The effective rate of corporation tax for the year was 21.1% (2013: 21.4%) excluding prior year adjustments. The effective tax rate for 2014 and 2013 was impacted by non-taxable income for joint ventures and dividends, the impact of a rate change on the deferred tax liability, contingent consideration and the impact of temporary differences on certain non-qualifying properties no longer being recognised. Excluding these impacts the effective tax rate is 22.0% (2013: 24.0%). Income tax credited directly to other comprehensive income is £2.7m (2013: charge of £4.4m); this is comprised of a credit of £4.1m and a charge of £1.4m and relates to the disposal and revaluation of financial assets (see Note 16 to the Financial Statements). Income tax credited directly to the share based payment reserve is £nil (2013: £nil).

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 2014 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.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

13. Taxation (continued)

(b) Factors affecting tax charge for the year

The tax assessed in the profit and loss account is lower (2013: lower) than the standard UK corporation tax rate, because of the following factors:

	2014 £'000	2013 £'000
Profit on ordinary activities before tax	**31,943**	17,080
Tax calculated at UK standard rate of corporation tax rate of 21.5% (2013 – 23.25%)	**6,868**	3,971
Non taxable goodwill	**–**	(127)
Non taxable income from joint ventures and dividends	**(641)**	(667)
Benefit of deferred tax asset and brought forward losses not previously recognised	**(249)**	(62)
Disallowable expenses	**394**	248
Impact of movement in contingent consideration (credited)/charged to the Income Statement	**(87)**	650
Share-based payment relief	**281**	62
Temporary differences on non-qualifying properties no longer recognised	**–**	(94)
Impact of rate change on deferred tax	**(8)**	(321)
	6,558	3,660
Prior period adjustments – current tax	**144**	(574)
Prior period adjustment – deferred tax	**83**	(20)
Total taxation charge	**6,785**	3,066

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

	2014 £'000	2013 £'000
Unrecognised deferred tax asset relating to:		
Losses	**2,500**	2,810
	2,500	2,810

Nil (2013: £nil) unrecognised deferred tax on losses carried forward relates to acquisitions during the year. The deferred tax assets 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:

	2014 £'000	2013 £'000
Net deferred tax liability at 1st January	**9,014**	5,464
Deferred tax liability arising on business combinations	**–**	4
Deferred tax (credit)/charge recognised directly in other comprehensive income	**(2,733)**	4,380
Deferred tax expense/(credit) in income statement for the year (Note 13a)	**181**	(834)
Net deferred tax liability at 31st December	**6,462**	9,014

13. Taxation (continued)

Analysed as:

	2014 £'000	2013 £'000
Accelerated capital allowances	(702)	(754)
Deferred tax liability on separately identifiable intangible assets on business combinations	3,583	3,554
Deferred tax on financial assets	4,105	6,836
Deferred tax on share options	(225)	(346)
Deferred tax on interest rate swap	–	(46)
Other short-term temporary differences	(188)	(119)
Trading losses recognised	(111)	(111)
	6,462	9,014

Deferred tax (expense)/credit in income statement relates to the following:

	2014 £'000	2013 £'000
Intangible assets recognised on business combinations	(11)	584
Accelerated capital allowance	(55)	167
Deferred tax on share options	(121)	191
Other temporary differences	6	(219)
Trading losses recognised	–	111
	(181)	834

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

	2014 £'000	2013 £'000
Cost		
At 1st January	125,642	120,361
Arising on acquisitions during the year	5,918	5,339
Adjustment in respect of change in contingent consideration	–	(58)
At 31st December	131,560	125,642

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

14. Intangible assets (continued)

	2014 £'000	2013 £'000
Carrying amount of goodwill by operating unit		
Estate Agency and Related Services companies		
Marsh & Parsons	**40,307**	40,307
Your Move	**40,191**	39,463
Reeds Rains	**16,047**	15,279
LSLi	**18,160**	13,738
Pink Home Loans	**2,604**	2,604
First Complete	**3,998**	3,998
Templeton LPA	**336**	336
Others	**348**	348
	121,991	116,073
Surveying and Valuation Services company		
e.surv	**9,569**	9,569
	131,560	125,642

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:

	2014 £'000	2013 £'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	**1,413**	1,136
Pink Home Loans	**180**	180
	17,068	16,791
Surveying and Valuation Services company		
e.surv	**1,305**	1,305
	18,373	18,096

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 Intercounty, Frosts, JNP, Goodfellows, Davis Tate, Lauristons, Lawlors and Hawes & Co[1]
  - Pink Home Loans
  - Templeton LPA
  - First Complete
- Surveying and Valuation Services company
  - e.surv

[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.

14. Intangible assets (continued)

Goodwill (continued)

Estate Agency and Related Services companies
The recoverable amount of the Estate Agency and Related Services companies has been determined based on a value in use calculation using cashflow projections based on financial budgets approved by the Board and three year plan. The discount rate applied to cashflow projections is 10.6% (2013:11.4%) and cashflows beyond the three year plan are extrapolated using a nil (2013: nil) growth rate.

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 10.6% (2013:11.4%). The growth rate used to extrapolate the cash flows of the Surveying and Valuation Services company beyond the three-year plan is nil (2013: nil).

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 10.6%. This is the benchmark used by management to assess operating performance and to evaluate future acquisition proposals.

Market share and market growth assumptions are important because, as well as using industry data for growth rates (as noted below) management assess how LSLi's relative position to its competitors might change over the budget period. The Estate Agency and Surveying markets both showed significant recovery in the first half of 2014 but the market has softened in the second half of 2014.The calculations supporting the impairment test are a 5% p.a. decline in the housing market in 2015 and flat thereafter.

Growth rate conservatively estimated at nil (2013: nil) after the end of the three year plan. Given the housing and mortgage markets are currently considered to be at a low point in the cycle, with transaction volumes at approximately half the long term average, this estimate is considered 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.

Notes to the Group Financial Statements continued.

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14. Intangible assets (continued)

Other intangible assets

As at 31st December 2014

	Brand Names £'000	Customer Contracts £'000	Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Other * £'000	Total £'000
Cost							
At 1st January 2014	18,287	17,501	5,612	2,246	5,451	2,105	51,202
Additions	–	–	–	–	–	653	653
Arising on acquisition during the year	277	97	–	568	–	–	942
At 31st December 2014	18,564	17,598	5,612	2,814	5,451	2,758	**52,797**
Aggregate amortisation and impairment							
At 1st January 2013	191	17,464	5,612	2,246	5,451	1,158	32,122
Charge for the year	–	122	–	158	–	285	565
At 31st December 2014	191	17,586	5,612	2,404	5,451	1,443	**32,687**
Carrying amount							
At 31st December 2014	18,373	12	–	410	–	1,315	**20,110**

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.

The brand value relates to the following:

- Your Move, a network of residential sales and lettings agencies and e.surv, a surveying and valuation 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;
- Intercounty, a network of residential sales and lettings agencies which was acquired in February 2007;
- Frosts, a network of residential sales and lettings agencies which was acquired in July 2007;
- JNP, 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;
- Pink Home Loans and intermediary network was acquired in December 2010;
- Marsh & Parsons, a network of residential sales and lettings agencies which was acquired in November 2011;

14. Intangible assets (continued)

Other intangible assets (continued)

- 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;
- Lawlors, a network of residential sales and lettings agencies which was acquired in September 2013;
- Hawes & Co, a network of residential sales and lettings agencies which was acquired in March 2014;

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.

15. Property, plant and equipment

As at 31st December 2014

	Freehold land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost					
At 1st January 2014	1,712	8,416	244	30,647	**41,019**
Acquisitions during the year	180	–	–	60	**240**
Additions	–	2,490	–	6,101	**8,591**
Transfer from assets held for sale	246	–	–	–	**246**
Disposals	–	–	(72)	(745)	**(817)**
At 31st December 2014	**2,138**	**10,906**	**172**	**36,063**	**49,279**
Depreciation and impairment					
At 1st January 2014	300	4,137	14	20,338	**24,789**
Charge for the year	–	716	53	4,149	**4,918**
Disposals	–	–	(57)	(643)	**(700)**
At 31st December 2014	**300**	**4,853**	**10**	**23,844**	**29,007**
Carrying amount					
At 31st December 2014	**1,838**	**6,053**	**162**	**12,219**	**20,272**

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**

Notes to the Group Financial Statements continued.

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15. Property, plant and equipment (continued)

Assets held for sale

There are currently no assets held for sale (2013: £276,000). In 2013, the Assets held for sale related to two freehold properties acquired in 2010 which were actively marketed. These assets were part of the Estate Agency and Related Services segment.

During the year, freehold properties with a book value totalling £30,000 (2013: £1,227,000) were sold for net proceeds of £65,000 (2013: £1,361,000) resulting in a gain on disposal of £35,000 (2013: £134,000).

16. Financial assets

Available-for-sale financial assets

	2014 £'000	2013 £'000
Unquoted shares at fair value	**1,686**	36,574
Quoted shares at fair value	**21,347**	–
	23,033	36,574
Opening balance	**36,574**	11,921
Additions	**1,155**	847
Disposals	**(21,599)**	–
Fair value adjustment recorded through reserves	**6,903**	23,806
Closing balance	**23,033**	36,574

The financial assets include unlisted equity instruments which are carried at fair value. Fair value is judgemental given the assumptions required and have been valued using a level 3 valuation techniques (see Note 29). Financial assets also include shares Zoopla which are listed on the London Stock Exchange and again are carried at fair value. These shares are valued using a level 1 valuation technique.

Zoopla

On 18th June 2014, Zoopla underwent an IPO. Prior to the IPO, LSL owned 4.91% of Zoopla which was valued at £17.50 per share, £35.1m. As part of the IPO, LSL received 10 shares in the new company for each share it owned reducing the value to £1.75 per new share. The IPO price was £2.20 per share so revaluing LSL's investment prior to the IPO at £44.1m.

As part of the IPO, LSL was invited to acquire an additional 619,318 shares for £1,090,000, which was at a 20% discount to the IPO price due to its existing customer relationship with Zoopla. A gain of £273,000 was recorded through other comprehensive income to revalue these shares back to the IPO price.

During the period, LSL sold 48.9% of its stake in Zoopla for £20,838,000, net of associated costs, £16,820,000 net of tax. The gain on the disposal of the shares recognised in the income statement was £19,806,000 gross, £15,791,000 net of tax, of which £18.0m was recorded at IPO and a further £1.8m was recorded in July. The Directors decided that a special distribution of 16.5 pence per Share was declared to return this exceptional gain to Shareholders in September 2014.

Following the above transactions, the Group continues to own 2.60% of Zoopla.

Zoopla's share price at 31st December 2014 was £1.965 per share. The Directors consider this to be the best estimate of the fair value of LSL's investment in Zoopla to be the current share price which values the Group's stake in Zoopla at £21,347,402. An additional valuation adjustment of £2,456,000 has been recorded through other comprehensive income to reflect the change in share price since the IPO.

The total revaluation amount of 19,346,000 comprises of:

	£'000
Opening balance of Zoopla revaluation account	**33,163**
Revaluation of Zoopla shares up to IPO price of £2.20 per share	**8,934**
Revaluation of Zoopla shares bought at a discount on IPO up to IPO price of £2.20	**273**
Revaluation of Zoopla shares from £2.20 to £1.965 per share post IPO	**(2,456)**
Realised on disposal	**(20,568)**
Closing balance	**19,346**

16. Financial assets (continued)

The Group acquired additional shares 180 B in VEM during the period, increasing its stake to 16.5% (2013: 15%). The price paid for the shares was £65,000. The price paid for the VEM shares has been deemed by the Directors to be a good approximation of fair value as at 30th June 2014 and the Group's entire stake has been revalued upwards to £824,000 with the movement recorded through other comprehensive income.

Due to the issue of additional shares to management, the Group's stake in GPEA was reduced to 16.8% during the period. This resulted in a small decrease in the fair value of the investment which has been recorded through other comprehensive income. The carrying value of the investment at 31st December 2014 has been assessed as £862,000.

17. Investments in joint ventures

	2014 £'000	2013 £'000
Investment in joint ventures	**9,121**	3,239
Opening balance	**3,239**	2,313
Acquisitions	**5,801**	–
Equity accounted profit	**1,383**	1,731
Dividend received	**(1,302)**	(805)
Closing balance	**9,121**	3,239

The Group has a 33.33% interest in TMG, a joint venture whose principal activity is to provide property searches.

In July 2011, the Group acquired a 33.33% interest in LMS for a total consideration of £671,000. The principal place of business of TMG is the United Kingdom.

In September 2014, the Group increased its ownership interest to 49.99% for an initial consideration of £2,422,000 with a deferred and contingent consideration estimated at the date of acquisition of £3,569,000. The contingent consideration element payable of £957,000 will vary based on the future profitability of LMS and is payable in 2016 (see Note 21). The principal activity of LMS is to provide panel management of conveyancing services. The principal place of business of LMS is the United Kingdom.

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

	2014 £'000	2013 £'000
Share of the joint ventures' balance sheets:		
Non-current assets	**6,620**	1,008
Current assets	**5,384**	4,991
Current liabilities	**(2,869)**	(2,739)
Non-current liabilities	**(14)**	(21)
Share of net assets	**9,121**	3,239

	2014 £'000	2013 £'000
Share of the joint ventures' results:		
Revenue	**26,788**	24,157
Operating expenses	**(25,122)**	(21,847)
Operating profit	**1,666**	2,310
Finance income	**20**	13
Profit before tax	**1,686**	2,323
Taxation	**(303)**	(592)
Profit after tax	**1,383**	1,731

Non-Current assets include £5,008,000 (2013: £83,000) in respect of Goodwill arising on the acquisition of shares in LMS.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

18. Trade and other receivables

	2014 £'000	2013 £'000
Current		
Trade receivables	**24,618**	24,687
Prepayments and accrued income	**11,547**	10,653
	36,165	35,340

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

As at 31st December 2014, trade receivables with a nominal value of £2,184,000 (2013: £2,117,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2014 £'000	2013 £'000
At 1st January	**2,117**	2,192
Acquisitions during the year	**–**	–
Charge for the year	**572**	371
Amounts written off	**(505)**	(446)
At 31st December	**2,184**	2,117

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
2014	**24,618**	**19,934**	**4,173**	**511**
2013	24,687	18,785	5,600	302

19. Cash and cash equivalents

	2014 £'000	2013 £'000
Short-term deposits	**–**	469

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 £nil (2013: £0.5m). At 31st December 2014, the Group had available £65.3m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2013: £73.5m).

20. Trade and other payables

	2014 £'000	2013 £'000
Current		
Trade payables	**10,268**	9,982
Other taxes and social security payable	**11,078**	11,505
Other payables	**446**	623
Accruals	**28,544**	31,980
	50,336	54,090

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

	2014 £'000	2013 £'000
Current		
Overdraft	718	2,548
2% unsecured loan notes	63	–
Contingent consideration	3,878	2,335
Derivatives carried at fair value	–	230
	4,659	5,113
Non-current		
Bank loans – Revolving Credit Facility(RCF)	34,000	24,000
12% unsecured loan notes	9,681	9,339
Deferred consideration	2,887	446
Contingent consideration	9,852	9,964
	56,420	43,749

Bank loans – revolving credit facility and overdraft
A £100m loan facility which expires in August 2017 was arranged in June 2013. 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 £34m (2013: £24.0m) and overdraft totalling £0.7m (2013: £2.5m) are secured via cross guarantees issued from all of the Group's subsidiaries excluding the following subsidiaries, Lending Solutions, Homefast, Linear (Linear Mortgage Network and Linear Financial Services), Templeton LPA, property-careers.com, Chancellors Associates and LSLi and the LSLi subsidiaries.

The utilisation of the revolving credit facility may vary each month as long as this does not exceed the maximum £100m facility (2013: £100m). 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 (2013: £100m). The banking facility is repayable when funds permit on or by August 2017.

Interest and fees payable on the RCF facility amounted to £1.8m (2013: £2.1m). The interest rate applicable to the facility is LIBOR plus a margin rate of 1.50% (2013: LIBOR plus 1.50%). The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals. An additional fee is charged if the facility is more than 33% drawn with a further fee due if the facility is more than 67% drawn.

The overdraft balance of £0.7m represents the set off of overdraft balances of £29.9m against cash balances of £29.2m which are all part of the group banking arrangement. These amounts have been set off on the basis that the Group currently has a legally enforceable right to set-off, and intends to settle these balances on a net basis.

12% unsecured loan notes
12% unsecured loan notes with a face value of £6,146,000 and a fair value of £8,660,000 were issued as part satisfaction of the consideration for acquisition of Marsh & Parsons in November 2011. These loan notes carry a coupon of 12% which is compounded every year on 1st January and rolled up to redemption. The 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. The amounts shown in the table above include accrued interest of £1,021,000 (2013: £679,000).

2% unsecured loan notes
2% unsecured loan notes with a face value of £63,000 were issued in September 2014 for the acquisition of Marsh & Parsons. These loan notes carry a coupon of 2% and are redeemable at par value.

Notes to the Group Financial Statements continued.

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21. Financial liabilities (continued)

Deferred consideration

Deferred consideration totalling £465,000 is payable at any time between 31st March 2016 and 31st March 2020 at the option of the management shareholders. Additionally there is £2,422,000 payable in relation to the purchase of LMS during the year (Note 17).

	2014 £'000	2013 £'000
Deferred Consideration		
Marsh & Parsons	**(465)**	(446)
LMS	**(2,422)**	–
	(2,887)	(446)

Contingent consideration

	2014 £'000	2013 £'000
Marsh & Parsons Growth Shares	**4,501**	2,220
LSLi contingent consideration	**7,496**	9,206
LMS	**957**	–
Other	**776**	873
	13,730	12,299
Opening balance	**12,299**	8,088
Cash paid	**(1,426)**	(520)
Acquisition	**3,262**	1,997
Fair value adjustment recorded against goodwill	**–**	(58)
Amounts recorded though income statement	**(405)**	2,792
Closing balance	**13,730**	12,299

£4,501,000 (2013: £2,220,000) of contingent consideration relates to the Growth Shares acquired by 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.

£7,496,000 (2013: £9,206,000) of contingent consideration relates to payments to third parties in relation to the acquisition of LSLi and certain of its subsidiaries between 2007 and 2014. This is payable between three and five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years. In 2014, the contingent consideration has been recalculated using a discount rate of 6.5% (2013: 6.5%).

£957,000 (2013: nil) of contingent consideration relates to payments to third parties in relation to the acquisition of LMS in September 2014 (see Note 17). This is payable in 2016 and the payout will be vary depending on the profitability of LMS in 2015.

The table below shows the allocation of the contingent consideration balance and income charge between the various categories:

	2014 £'000	2013 £'000
Remuneration	**7,463**	5,624
Put options over non-controlling interests	**4,217**	4,371
Arrangement under IFRS 3	**2,050**	2,304
Closing balance	**13,730**	12,299
Contingent consideration profit and loss impact in the period relating to amounts accounted for as:		
Remuneration	**756**	1,506
Put options over non-controlling interests	**(1,110)**	1,223
Arrangement under IFRS 3	**(51)**	63
(Credit)/charge	**(405)**	2,792

22. Provisions for liabilities

	2014			2013		
	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000
Balance at 1st January	25,864	475	26,339	24,163	1,037	25,200
Amount utilised	(13,271)	(66)	(13,337)	(14,445)	(506)	(14,951)
Amount released	–	(217)	(217)	–	(90)	(90)
Unwinding of discount	75	–	75	683	–	683
Provided in financial year (including exceptional costs)	26,051	–	26,051	15,463	34	15,497
Balance at 31st December	38,719	192	38,911	25,864	475	26,339
Current	16,388	151	16,539	8,378	80	8,458
Non-current	22,331	41	22,372	17,486	395	17,881
	38,719	192	38,911	25,864	475	26,339

Professional indemnity claim provision

The PI Cost provision is to cover the costs of claims relating to valuation services for clients which are not covered by PI insurance. The PI Cost 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.

At 31st December 2014 the total provision for PI Costs was £38.7m. The Directors have considered sensitivity analysis on the key risks and uncertainties discussed above.

Cost per claim

A substantial element of the provision relates to specific claims where disputes are on-going. These specific cases have been separately assessed and specific provisions have been made. The average cost per claim has been used to calculate the required IBNR. Should the costs to settle and resolve these claims and future claims increase by 10%, an additional provision of £3.5m would be required.

Rate of claim

The IBNR assumes that the rate of claim for the high risk lending period in particular reduces over time with the expiry of the primary limitation period as well as the expectation that fewer claims will arise through the passing of time. Should the rate of reduction be lower than anticipated and the duration extend, further costs may arise. An increase of 30% in notifications in excess of that assumed in the IBNR calculations would increase the required provision by £0.9m.

Notifications

The company has received a number of notifications which have not deteriorated into claims or loss. Should the rate of deterioration increase by 50%, an additional provision of £1.6m would be required.

Onerous lease provision

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.

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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:

	2014			2013		
	Land and building £'000	Plant and machinery £'000	Total £'000	Land and building £'000	Plant and machinery £'000	Total £'000
No later than one year	7,995	2,735	10,730	7,888	3,190	11,078
After one year but not more than five years	17,304	3,533	20,837	15,956	3,688	19,644
After five years	8,211	–	8,211	6,805	–	6,805
	33,510	6,268	39,778	30,649	6,878	37,527

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:

	2014 Land and buildings £'000	2013 Land and buildings £'000
Not later than one year	253	334
After one year but not more than five years	472	447
After five years	43	382
	768	1,163

24. Share capital

	2014		2013	
	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 Shares purchased in the market and held by the Trust to satisfy future exercise of options under the Group's employee share options schemes. At 31st December 2014 the Group held 2,259,117 (2013: 1,444,148) of its own shares at an average cost of £3.51 (2013: £2.97). The market value of the shares at 31st December 2014 was £6,732,000 (2013: £6,394,000). 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 £2,335,000 (2013: £1,745,000). There was an outstanding amount of £317,000 in respect of pensions as at 31st December 2014 (2013: £700,000).

27. Acquisitions during the year

Year ended 31st December 2014
The Group acquired the following businesses during the year:

a. Lettings books

During the period the Group acquired ten lettings businesses for a total consideration of £1,828,000. The entire purchase price for the acquisitions has been assumed to be goodwill except £182,000 assigned to fixed assets.

The combined fair values of the identifiable assets and liabilities at the date of above acquisition have been determined as below:

	Fair value recognised on acquisition £'000
Property, plant and equipment	182
Total identifiable net liabilities acquired	**182**
Purchase consideration	1,828
Goodwill	1,646
Purchase consideration discharged by:	
Cash	1,773
Contingent consideration	55
	1,828

	£'000
Analysis of cash flow on acquisition	
Transaction costs (included in cash flows from operating activities)	18
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)	1,773
Net cash outflow on acquisition	**1,791**

b. Hawes & Co

In March 2014, the Group acquired 65% of Hawes & Co, a 6 branch estate agency chain based in South West London for an initial consideration of £3.2m. The remaining 35% is subject to put and call options which are exercisable between 2016 and 2019 dependent on profit performance. Due to the nature of the payment terms, the contingent consideration is considered to be a capital payment for accounting purposes.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

27. Acquisitions during the year (continued)

b. Hawes & Co (continued)

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

	Fair value recognised on acquisition £'000
Intangible assets	942
Property, plant and equipment	58
Trade and other receivables	384
Cash and cash equivalents	250
Trade and other payables	(466)
Current tax liabilities	–
Total identifiable net liabilities acquired	**1,168**
Purchase consideration	5,440
Goodwill	4,272
Purchase consideration discharged by:	
Cash	3,190
Contingent consideration	2,250
	5,440

	£'000
Analysis of cash flow on acquisition	
Transaction costs (included in cash flows from operating activities)	81
Net cash acquired with the subsidiary (included in cash flows from investing activities)	(250)
Purchase consideration discharged in cash (included in cash flows from investing activities)	3,190
Net cash outflow on acquisition	**3,021**

The goodwill of Hawes & Co 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, 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.

From the date of acquisition to 31st December 2014, the acquisition has contributed to £3.4m of revenue and £0.5m 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 £4.3m and the consolidated profit before tax would have been higher by £0.7m.

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

27. Acquisitions during the year (continued)

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

a. Walker Fraser Steele

In June 2013, the Group acquired the trade and assets of Walker Fraser Steele, 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 £1,081,000. The fair value of the identifiable assets, except for cash and cash equivalents, and liabilities of Walker Fraser Steele as at the date of acquisition have been determined as below:

	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 goodwill of Walker Fraser Steele comprised 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

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 2014

27. Acquisitions during the year (continued)

b. Lawlors (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:

	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**

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.

27. Acquisitions during the year (continued)

c. Lettings acquisitions

During the year, Your Move, Reeds Rains 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 at the date of above acquisition have been determined as below:

	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

	£'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**

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 acquisition has contributed £3.4m of revenue and £0.5m 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 £0.2m.

28. Client monies

As at 31st December 2014, monies held by subsidiaries in separate bank accounts on behalf of clients amounted to £82,642,000 (2013: £73,670,000). 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.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

29. Financial instruments – risk management

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

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

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

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

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

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

Cash flow interest rate risk

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

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

In 2009 the Group entered into interest rate swap agreements to fix interest rates on £25m of the Group's bank borrowings. The interest rate swap agreements fixed LIBOR to approximately 2.9% until April / May 2014 had expired at 31st December 2014. At 31st December 2014 none of the Group's RCF is at a fixed rate of interest (2013: 94%).

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
2014	**+100**	**(34)**
	-100	**34**
2013	+100	(24)
	-100	24

As mentioned above the Group also had an interest rate swap agreement which was 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, the requirement to pay creditors is managed through future cash generation and if required from the revolving credit facility.

29. Financial instruments – risk management (continued)

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 2014 based on contractual undiscounted payments:

Year ended 31st December 2014

	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)	718	401	1,012	45,503	–	**47,634**
Trade payables	–	10,268	–	–	–	**10,268**
Contingent consideration	–	54	3,917	5,810	6,160	**15,941**
Deferred consideration	–	–	–	2,422	636	**3,058**
	718	**10,723**	**4,929**	**53,735**	**6,796**	**76,901**

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 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**

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 0.74 (2013: 0.63), based on Net Bank Debt (excluding loan notes) of £34.7m (2013: £26.3m) and operating profit before exceptional costs, amortisation and share-based payment charge of £42.0m (2013: £37.1m). 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.

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

29. Financial instruments – risk management (continued)

Net Bank Debt is defined as follows:

	2014 £'000	2013 £'000
Interest bearing loans and borrowings (including loan notes and overdraft)	**61,079**	48,862
Less: 2% and 12% unsecured loan notes	**(9,744)**	(9,339)
Add: cash and short term deposits	**–**	(469)
Less: deferred and contingent consideration	**(16,617)**	(12,745)
Net Bank Debt (excluding loan notes)	**34,718**	26,309

Credit risk

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

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

Interest rate risk profile of financial assets and liabilities

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

The interest rate profile of the financial assets and liabilities of the Group as at 31st December 2014 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 (RCF)	–	–	–	–	**–**
Floating rate					
Cash and cash equivalents	–	–	–	–	**–**
Revolving credit facility	(34,718)	–	–	–	**(34,718)**

The effective interest rate and the actual interest rate charged on the loans in 2014 are as follows:

	Effective rate	Actual rate
Revolving credit facility	4.3%	2.0%
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.

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	–	–	(1,548)	(26,548)

* includes the effect of interest rate swap

29. Financial instruments – risk management (continued)

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.

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:

	2014		2013	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Financial assets				
Cash and cash equivalents	**–**	**–**	469	469
Available-for-sale financial assets	**23,033**	**23,033**	36,574	36,574
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	**(34,718)**	**(34,718)**	(26,548)	(26,548)
Derivative financial liabilities – interest rate swaps	**–**	**–**	(230)	(230)
Contingent consideration	**(13,730)**	**(13,730)**	(12,299)	(12,299)
Deferred consideration	**(2,887)**	**(2,887)**	(446)	(446)
12% and 2% unsecured loan notes	**(9,744)**	**(9,744)**	(9,339)	(9,339)

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.

2014	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	**23,033**	**21,347**	**–**	**1,686**
Liabilities measured at fair value				
Contingent consideration	**13,730**	**–**	**–**	**13,730**
Deferred consideration	**2,887**	**–**	**–**	**2,887**
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings:				
Floating rate borrowings	**34,718**	**–**	**34,718**	**–**
Unsecured loan notes	**9,744**	**–**	**9,744**	**–**

Notes to the Group Financial Statements continued.

for the year ended 31st December 2014

29. Financial instruments – risk management (continued)

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
Deferred consideration	446	–	–	446
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	–

As disclosed in Note 16, Zoopla completed an IPO on 18th June 2014. Immediately prior to IPO, the fair value of the investment in Zoopla was revalued to £44,133,000. These financial assets are now valued based on a price in an active market, representing a transfer from a Level 3 to a Level 1 valuation technique. At 31st December 2014, the remaining stake in Zoopla was revalued to £21,347,000 based on the Zoopla share price at that date of £1.965 per share.

The other investments totaling £1,686,000 are still valued using Level 3 valuation techniques. The Directors reviewed the fair value of the financial assets at 31st December 2014. 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%, £0.2m.

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 £2,423,000.

Fair values of the Group's interest-bearing borrowings and loans are determined by using DCF methodology using a 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 2014 was assessed to be insignificant.

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

	2014 £'000	2013 £'000
Interest bearing loans and borrowings		
– Current	**4,659**	5,113
– Non-current	**56,420**	43,749
	61,079	48,862
Less: Unsecured loan notes	**(9,744)**	(9,339)
Add: cash and short-term deposits	**–**	(469)
Less: deferred and contingent consideration	**(16,617)**	(12,745)
Net Bank Debt at the end of the year	**34,718**	26,309

During the year, the Group has drawn down £10m (2013: repaid £0.5m) 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 (2013: £100.0m).

31. Related party transactions

Transactions with LMS and its subsidiaries

	2014 £'000	2013 £'000
Sales	85	113
Purchases	(15)	(12)
Year-end creditor balance	–	–

Transactions with TMG and its subsidiaries

	2014 £'000	2013 £'000
Sales	1,266	934
Purchases	(23)	–
Year-end creditor balance	(5)	–

32. Capital commitments

	2014 £'000	2013 £'000
Capital expenditure contracted for but not provided	462	1,167

Notes to the Group Financial Statements continued.

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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 (your-move.co.uk Ltd)	Ordinary shares	100%	Estate Agency and Related Services
e.surv (e.surv Ltd)*	Ordinary shares	100%	Surveying and Valuation Services
Marsh & Parsons Ltd	Ordinary shares	100%	Estate Agency and Related Services
Marsh & Parsons (Marsh & Parsons Holdings Ltd)*	'A' Ordinary shares 'B' Ordinary shares 'C' Ordinary shares	100% 0% 0%	Holding Company
First Complete (First Complete Ltd)*	Ordinary shares	100%	Financial Services
LSL Corporate Client Department (LSL Corporate Client Services Ltd)*	Ordinary shares	100%	Asset Management and Property Management
St Trinity (St Trinity Ltd)*	Ordinary shares	100%	Asset Management
Reeds Rains (Reeds Rains Ltd)*	Ordinary shares	100%	Estate Agency and Related Services
Linear Financial Services (Linear Mortgage Network Ltd)	Ordinary shares	76%	Financial Services
Linear Financial Services	Ordinary shares	100%	Financial Services
Chancellors Associates (Chancellors Associates Ltd)	Ordinary shares	100%	Surveying and Valuation Services
LSLi (LSLi Ltd)*	Ordinary shares	75%	Estate Agency and Related Services holding Company and Financial Services
Intercounty (ICIEA Ltd)	Ordinary shares	87.5%	Estate Agency and Related Services
Davis Tate (Davis Tate Ltd)	Ordinary shares	51%	Estate Agency and Related Services
Lauristons (Lauristons Ltd)	Ordinary shares	85%	Estate Agency and Related Services
Goodfellows (GFEA Ltd)	Ordinary shares	80.1%	Estate Agency and Related Services
Barnwoods (Barnwoods Ltd)*	Ordinary shares	100%	Surveying and Valuation Services
Lawlors (Lawlors Property Services Ltd)	Ordinary shares	75%	Estate Agency and Related Services
Hawes & Co (Hawes & Co Ltd)	Ordinary shares	65%	Estate Agency and Related Services
Frosts (David Frost Estate Agents Ltd)	Ordinary shares Non cumulative redeemable preference shares	100%	Estate Agency and Related Services
JNP (JNP (Estate Agents) Ltd)	Ordinary shares Ordinary 'B' shares Ordinary 'C' shares	97.5%	Estate Agency and Related Services
Albany (Albany Insurance Company (Guernsey) Ltd)*	Ordinary shares	100%	Captive insurer
Pink Home Loans (Advanced Mortgage Funding Ltd)*	Ordinary shares Preference shares	100% 100%	Financial Services
Templeton LPA (Templeton LPA Ltd)	Ordinary shares	100%	LPA receiver
LMS (Cybele Solutions Holdings Ltd)#	Ordinary 'A' Shares	49.99%	Conveyancing
TMG (TM Group (UK) Ltd)#	Ordinary shares	33.33%	Property searches

* held directly by the Company

\# Joint Ventures

34. Post Balance Sheet Events

Subsequent to the year end, LSL acquired Thomas Morris a multi award winning estate agency and lettings business with seven branches in Cambridgeshire, Bedfordshire and Hertfordshire for an initial consideration of £4.0m, and six small lettings book acquisitions for a total initial consideration of £1.8m. In addition, via LSLi, LSL acquired the remaining shares in JNP for a consideration of £53,625 and following the transaction, LSL holds 100% of the shares in JNP.

Management is in the process of allocating the purchase price in accordance with IFRS 3. As a result, the initial accounting for the acquisition is currently incomplete, so a fair value table of the identifiable assets and liabilities has not been presented.

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.

Parent Company Balance Sheet

as at 31st December 2014

	Note	2014 £'000	2013 £'000
Fixed assets			
Tangible fixed assets	2	**31**	28
Investments	3	**197,575**	201,697
		197,606	201,725
Current assets			
Debtors	4	**49,895**	33,485
Creditors: amounts falling due within one year	5	**(136,184)**	(134,612)
Net current liabilities		**(86,289)**	(101,127)
Total assets less current liabilities		**111,317**	100,598
Creditors: amounts falling due after one year	6	**(42,345)**	(24,000)
Net Assets		**68,972**	76,598
Capital and reserves			
Called up share capital	9	**208**	208
Share premium account	10	**5,629**	5,629
Share-based payment reserve	10	**3,498**	2,475
Treasury shares	10	**(7,922)**	(4,292)
Fair value reserve	10	**19,346**	33,163
Profit and loss account	10	**48,213**	39,415
Shareholders' funds		**68,972**	76,598

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

Ian Crabb
Group Chief Executive Officer
12th March 2015

Notes to the Parent Company Financial Statements

for the year ended 31st December 2014

1. Accounting policies

Basis of preparation of financial statements

The Financial Statements of the Company have been prepared on a going concern basis and 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 2014. 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.

Notes to the Parent Company Financial Statements continued.

for the year ended 31st December 2014

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.

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.

2. Tangible fixed assets

As at 31st December 2014

	Leasehold improvements £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
At 1st January 2014	55	93	148
Additions	19	12	31
At 31st December 2014	**74**	**105**	**179**
Depreciation			
At 1st January 2014	35	85	120
Charge for the year	13	15	28
At 31st December 2014	**48**	**100**	**148**
Carrying amount			
At 31st December 2014	**26**	**5**	**31**
At 1st January 2014	20	8	28

3. Investments

	2014 £'000	2013 £'000
Subsidiary undertakings	**168,999**	165,163
Other investments	**21,343**	35,102
Investments in joint ventures	**7,233**	1,432
	197,575	201,697

Subsidiary undertakings:

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

	2014 £'000	2013 £'000
At 1st January	**165,163**	164,395
Additions	**2,500**	–
Disposals	**–**	(4)
Adjustments for share-based payment	**1,336**	772
At 31st December	**168,999**	165,163

In 2014, an adjustment of £1,336,000 (2013: £772,000) was made 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 £5,231,000 (2013: £4,104,000).

Notes to the Parent Company Financial Statements continued.

for the year ended 31st December 2014

3. Investments (continued)

Other investments

	2014 £'000	2013 £'000
At Cost		
At 1st January	35,102	11,769
Additions	1,090	847
Disposals	(21,599)	–
Revaluation uplift	6,750	22,486
At 31st December	21,343	35,102

On 18th June 2014, Zoopla underwent an IPO. Prior to the IPO, LSL owned 4.91% of Zoopla which was valued at £17.50 per share, £35.1m. As part of the IPO, LSL received 10 shares in the new company for each share it owned reducing the value to £1.75 per new share. The IPO price was £2.20 per share so revaluing LSL's investment prior to the IPO at £44.1m.

As part of the IPO, LSL was invited to acquire an additional 619,318 shares for £1,090,000, which was at a 20% discount to the IPO price due to its existing customer relationship with Zoopla. A gain of £273,000 was recorded through other comprehensive income to revalue these shares back to the IPO price.

During the period, LSL sold 48.9% of its stake in Zoopla for £20,838,000, net of associated costs, £16,820,000 net of tax. The gain on the disposal of the shares recognised in the income statement was £19,806,000 gross, £15,791,000 net of tax, of which £18.0m was recorded at IPO and a further £1.8m was recorded in July. The Directors decided that a special distribution of 16.5 pence per Share was declared to return this exceptional gain to Shareholders in September 2014.

Following the above transactions, the Group continues to own 2.60% of Zoopla.

Zoopla's share price at 31st December 2014 was £1.965 per share. The Directors consider this to be the best estimate of the fair value of LSL's investment in Zoopla to be the current share price which values the Group's stake in Zoopla at £21,347,402. An additional valuation adjustment of £2,456,000 has been recorded through other comprehensive income to reflect the change in share price since the IPO.

Investments in joint ventures

	2014 £'000	2013 £'000
At Cost		
At 1st January	1,432	1,432
Additions	5,801	–
At 31st December	7,233	1,432

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

In September 2014, the Group increased its ownership interest in LMS to 49.99%. The initial consideration was £2,422,000 with a deferred and contingent consideration estimated at the date of acquisition of £3,379,000. The contingent consideration payable amounts to £957,000 and will vary based on the future profitability of LMS and is payable in 2016 .

4. Debtors

	2014 £'000	2013 £'000
Deferred tax asset (Note 7)	–	142
Group relief receivable	13,510	14,112
Prepayments	927	1,088
Amounts owed by Group undertakings	35,458	18,143
	49,895	33,485

5. Creditors: amounts falling due within one year

	2014 £'000	2013 £'000
Bank overdraft (Note 8)	**26,525**	23,589
Other taxes and social security payable	**–**	219
Accruals	**1,116**	1,613
Contingent consideration	**–**	2,220
Deferred consideration	**–**	446
Derivative financial liability - interest rate swap	**–**	230
Amounts owed to Group undertakings	**108,543**	106,295
	136,184	134,612

6. Creditors: amounts falling due after one year

	2014 £'000	2013 £'000
Deferred Consideration	**2,887**	–
Contingent Consideration	**5,458**	–
Loans (Note 8)	**34,000**	24,000
	42,345	24,000

Deferred consideration

Deferred consideration of £465,000 (2013: £446,000) 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. There is also a deferred consideration of £2,422,000 relating to LMS acquisition from September 2014 relating to the purchase of an additional stake in LMS.

Contingent consideration

£4,501,000 (2013: £2,220,000) of contingent consideration relates to the Growth Shares acquired by 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.

£957,000 (2013: nil) of contingent consideration relates to payments to third parties in relation to the acquisition of LMS in September 2014. This is payable in 2016 and the payout will vary depending on the profitability of LMS in 2015.

7. Deferred tax asset

	2014 £'000	2013 £'000
Deferred tax asset at 1st January	**142**	203
Deferred tax (charge) in profit and loss account for the year	**(142)**	(61)
Deferred tax asset at 31st December	**–**	142

Deferred tax asset is in relation to a short term timing difference. This relates predominantly 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 2015. As of 31st December 2014 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 £3,869,237. At present, it is not envisaged that any tax will become payable in the foreseeable future.

Notes to the Parent Company Financial Statements continued.

for the year ended 31st December 2014

8. Loans

	2014 £'000	2013 £'000
Amounts falling due		
In more than two years but not more than five years	**34,000**	24,000
	34,000	24,000

Bank loans - revolving credit facility and overdraft

The Group's bank loan totals £34m (2013: £24.0m) and the Group's overdraft total £0.7m (2013: £2.5m). 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 Financial Solutions (including Linear Mortgage Network), Templeton LPA, Pink Home Loans, Barnwoods, Chancellors Associates and LSLi and its subsidiaries. The parent company overdraft is £26.5m 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 (2013: £100m). 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 (2013: £100m). 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% (2013:1.50%). 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

	2014		2013	
	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

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 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 1st January 2014	**208**	**5,629**	**2,475**	**(4,292)**	**33,163**	**39,415**	**76,598**
Revaluation of financial assets	–	–	–	–	6,751	–	6,751
Disposal of financial assets	–	–	–	–	(20,568)	–	(20,568)
Share-based payments	–	–	1,775	–	–	–	1,775
Purchase of Treasury shares	–	–	–	(5,621)	–	–	(5,621)
Exercise of share options	–	–	(752)	1,991	–	451	1,690
Dividend paid	–	–	–	–	–	(28,286)	(28,286)
Profit for the year	–	–	–	–	–	36,633	36,633
Balance at 31st December 2014	**208**	**5,629**	**3,498**	**(7,922)**	**19,346**	**48,213**	**68,972**

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 has operated long term incentive plans (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, SIP/BAYE and the SAYE schemes.

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 £36,634,000 (2013: profit of £5,262,000).

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

The Company paid £124,434 (2013: £43,000) to its auditors in respect of the audit of the Financial Statements of the Company.

Fees paid to the external 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.

Notes to the Parent Company Financial Statements continued.

for the year ended 31st December 2014

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 £70,217 (2013: £69,696). There were no outstanding amounts in respect of pensions as at 31st December 2014 (2013: £nil).

13. Capital commitments

The Company had no capital commitments as at 31st December 2014 (2013: 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				
2014	–	–	–	200
2013	–	–	52	–
Linear Financial Services				
2014	–	–	277	–
2013	–	–	277	–
LSLi				
2014	–	–	8,035	–
2013	–	–	11,720	–
Intercounty				
2014	–	–	425	–
2013	–	–	319	–
JNP				
2014	–	–	308	–
2013	–	–	–	583
Goodfellows				
2014	–	–	970	–
2013	–	–	208	–
Intercounty Lettings Limited				
2014	–	–	29	–
2013	–	–	29	–

14. Related party transactions (continued)

	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Marsh & Parsons Holdings Limited				
2014	–	–	1,420	–
2013	–	–	1,422	–
Marsh & Parsons				
2014	–	–	–	5,000
2013	–	–	–	5,000
Frosts				
2014	–	–	–	475
2013	–	–	–	1,226
Heal				
2014	–	–	12,923	–
2013	–	–	–	–
Lauristons				
2014	–	–	29	–
2013	–	–	–	–
Davis Tate				
2014	–	–	14	–
2013	–	–	–	–
Lawlors				
2014	–	–	6	–
2013	–	–	–	–
Homefast				
2014	–	–	4	–
2013	–	–	–	–
Home of Choice				
2014	–	–	1,120	–
2013	–	–	–	–

Other Information

In this section

Davis Tate, Goring

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.

"**BIS**" Department of Business Innovation and Skills.

"**Board**" the board of Directors of LSL.

"**BSi**" British Standards Institute.

"**BAYE**" 'buy as you earn' (also referred to as SIP).

"**CMA**" Competition and Markets Authority.

"**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**" or "**Non Executive Chairman**" from 1st January 2015 Simon Embley; during 2014 Roger Matthews.

"**Chairman of the Audit Committee**" Mark Morris.

"**CML**" Council of Mortgage Lenders.

"**Code**" UK Code of Corporate Governance published by the Financial Reporting Council (FRC) (September 2012 and September 2014 editions as applicable).

"**Company Secretary**" Sapna B FitzGerald.

"**CCAS**" Consumer Codes Approval Scheme.

"**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.

Definitions continued.

“**Ernst & Young**” Ernst & Young LLP.

“**ESG**” environmental, social and governance.

“**ESOS**” energy savings opportunity scheme.

“**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.

“**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)**” from 1st January 2015 refers to Ian Crabb and Adrian Gill; during 2014 it includes Ian Crabb; Adrian Gill (from 24th November 2014); Steve Cooke (until 19th December 2014); David Newnes and Simon Embley (both until 31st December 2014).

“**FCA**” Financial Conduct Authority.

“**Financial Services**” refers to LSL’s financial services (including mortgage, general insurance 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.

“**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 for the period up to 19th December 2014.

“**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.

“**GPEA**” trading name of Guild of Professional Estate Agents Limited.

“**Hawes**” or “**Hawes & Co**” trading name of Hawes and Co 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.

“**HMRC**” Her Majesty’s Revenue and Customs.

“**Homefast**” Homefast Property Services Limited.

“**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.

“**IFRS**” International Financial Reporting Standards.

“**Intercounty**” trading name of ICIEA Limited.

“**IPO**” initial public offering.

“**JNP**” trading name of JNP Estate Agents Limited.

"**JSOP**" joint share ownership plan.

"**KPI**" key performance indicators.

"**Lauristons**" trading name of Lauristons Limited.

"**Lawlors**" trading name of Lawlors Property Services Limited.

"**Legal Marketing Services**" and "**LMS**" trading names of LMS Direct Conveyancing Limited and Cybele Solutions Holdings Limited.

"**Lending Solutions**" Lending Solutions Holdings Limited.

"**Lettings**" refers to LSL's residential property lettings and property management services.

"**Linear**" and "**Linear Financial Solutions**" are trading names of Linear Mortgage Network Limited.

"**Lloyds Banking Group**" Lloyd Bank plc group of companies.

"**LPA**" the Law of Property Act 1925.

"**LSLi**" LSLi Limited and its subsidiaries (during 2014 these included JNP, Intercounty, Frosts, Goodfellows, Davis Tate, Lauristons, Lawlors and Hawes & Co).

"**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.

"**MMR**" Mortgage Market Review.

"**NAEA**" National Association of Estate Agents.

"**NBS**" or "**New Bridge Street**" trading name of Aon Hewitt Limited.

"**Net Bank Debt**" see Note 29 to the Financial Statements.

"**NFoPP**" National Federation of Property Professional.

"**Non Executive Director**" during 2014 refers to Helen Buck, Adrian Gil (until 24th November 2014), Roger Matthews (until 31st December 2014), Mark Morris and Bill Shannon; since 1st January 2015 refers to Helen Buck, Mark Morris and Bill Shannon.

"**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.

"**OFT**" Office of Fair Trading.

"**Openwork**" trading name of Openwork Limited.

"**Ordinary Shares**"or "**Shares**" 0.2p ordinary shares in LSL.

"**PI**" professional indemnity.

"**PI Costs**" costs relating to ongoing and expected future PI claims relating to Surveying and Valuation Services.

"**Pink Home Loans**" or "**Pink**" are trading names for Advance Mortgage Funding Limited (AMF) and BDS Mortgage Group Limited

"**RCF**" revolving credit facility.

"**Reeds Rains**" trading name of Reeds Rains Limited.

Definitions continued.

“**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 2014.

“**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**” during 2014 refers to Mark Morris; since 1st January 2015 refers to Bill Shannon.

“**Shareholders**” shareholders of LSL.

“**SIP**” share incentive plan (as referred to as BAYE).

“**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.

“**Templeton**” trading name of Templeton LPA Limited.

“**Thomas Morris**” trading name of Thomas Morris Limited.

“**The Mortgage Alliance**” or “**TMA**” are trading names of First Completes’ mortgage club.

“**TMG**” TM Group Limited.

“**TPO**” The Property Ombudsman.

“**Trust**” or “**Employee Benefit Trust**” or “**ESOT**” 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 and division of e.surv.

“**Your Move**” trading name of your-move.co.uk Limited.

“**Zoopla**” trading name of Zoopla Property Group plc.

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 Asset Services
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: +44 208 639 3399
Website: www.capitaassetservices.com
Email: shareholderenquiries@capita.co.uk

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

Provisional calendar of events

Preliminary Results Released	**12th March 2015**
AGM Proxy Form Deadline	**2.30pm 28th April 2015**
AGM	**2.30pm 30th April 2015**

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