LSL Property Services plc

Annual Report and Accounts Year ended 31st December 2016

LSL Property Services plc

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Annual Report and Accounts 2016

LSL Property Services plc, a leading provider of residential property services to its key customer groups incorporating both estate agency and surveying businesses.

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 22 to 25.

Directors' Report and Business Review

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Highlights 2016

A solid performance in a changing market

Group

£307.8m
Group revenue
(2015: £300.6m)

£34.6m
Group Underlying Operating Profit
(2015: £42.9m)

11.3%
Group Underlying Operating Margin
(2015: 14.3%)

£63.5m
Profit before tax
(2015: £38.6m)

25.9p
Adjusted Basic Earnings Per Share
(2015: 31.5p)

10.3p
Full year dividend per Share
(2015: 12.6p)

£32.2m
Exceptional gain/(cost)
(2015: (£0.3m))

Estate Agency and Related Services

£24.5m
Underlying Operating Profit
(2015: £31.3m)

Surveying and Valuation Services

£17.5m
Underlying Operating Profit
(2015: £18.1m)

	2016	2015	% Change
Group revenue – £m	307.8	300.6	+2
Group Underlying Operating Profit[1] – £m	34.6	42.9	-19
Group Underlying Operating Margin – %	11.3	14.3	
Group operating profit – £m	65.4	41.4	+58
Profit before tax – £m	63.5	38.6	+65
Exceptional gain/(cost) – £m	32.2	(0.3)	
Basic Earnings Per Share (EPS) – pence	49.2	29.7	+66
Adjusted Basic Earnings Per Share (EPS) – pence[2]	25.9	31.5	-18
Net Bank Debt[3] at 31st December – £m	20.3	39.9	
Final proposed dividend per Share – pence	6.3	8.6	
Full year dividend per Share – pence	10.3	12.6	-18

Notes:
[1] Group Underlying Operating Profit is before exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments (as defined in Note 5)
[2] Refer to Note 11 for the calculation
[3] Refer to Note 31 for the calculation

LSL Today

LSL has established leading positions in its market segments

LSL is a leading provider of residential property services to its key customer groups. Services to consumers include: residential sales, lettings, surveying, conveyancing and mortgages, pure protection and general insurance brokerage services. Services to mortgage lenders include: valuations and panel management services, asset management and property management services.

Estate Agency Division – Estate Agency and Related Services

Residential Sales and Lettings

LSL is one of the largest estate agency networks in the UK[1]. It has strong established high street brands including Your Move, the largest UK single brand estate agent[1], and Marsh & Parsons which brings exposure to the prime and outer Central London property markets. Branch services include Residential Sales Lettings and Financial Services and a successful franchise model which operates in 107 branches across predominantly Your Move and Reeds Rains. All Estate Agency brands are members of The Property Ombudsman (TPO) Redress Scheme, which operates a residential sales and lettings code of practice approved by the Trading Standards Institute (TSI) under its Consumer Codes Approval Scheme (CCAS). The Financial Services businesses are subject to the Financial Ombudsman Service and also contribute to the funding of the Financial Services Compensation Scheme through regulatory fees and charges.

Your Move
The largest UK single branded estate agent[1] with 267 branches operating throughout the UK and the most visited UK estate agency website[3] with over 11.7 million visits in 2016[4].

www.your-move.co.uk

Reeds Rains
A predominantly northern based network of 157 branches with the highest brand awareness of any estate agent brand in the North East, the North West and Yorkshire[2].

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 25 branches.

www.marshandparsons.co.uk

LSL Land & New Homes
LSL Land & New Homes, through the Estate Agency businesses provides a complete range of services for house builders, developers and investors of all sizes.

www.lsllandandnewhomes.co.uk

Group First: Mortgages First and Insurance First Brokers
Group First, which was acquired in 2016, provides mortgage and protection brokerage services to purchasers of new homes through its subsidiaries: Mortgages First and Insurance Brokers First.

www.mortgages-first.co.uk www.insurance-first.co.uk

LSLi
LSLi is the holding company and financial services provider for nine estate agency brands with a network of 65 branches. The brands in the LSLi network are based predominantly in and around Greater London and the Home Counties.

www.lsli.co.uk

Asset Management

LSL's asset management companies are market leaders in the sale of residential properties on behalf of corporate clients. In 2016 they managed 2,556 repossessions utilising a network of up to 1,471 estate agency branches nationwide.

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

www.templetonlpa.co.uk

LSL Corporate Client Department
LSL CCD operates a repossessions asset management business and a property management business for multi-property landlords and is a leading property specialist, providing services to national and global institutions.

www.lsl-ccd.co.uk

St Trinity Asset Management
The Group's second asset management business was created in 2010 and specialises in repossession property sales as well as offering a range of other services including part exchanged property sales, bulk property disposal, auction sales, property relocations and conveyancing.

www.sttrinityasset management.co.uk

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

Information included in this section of the Report is provided as at 31st December 2016.

Financial Services

LSL's Financial Services teams specialise in the brokerage of mortgage and pure protection and general insurance products through a range of brands. LSL's combined appointed representative network is the second largest in the UK[5] and across the various brands, the Group now has 656 appointed representative firms and 1,650 advisors. The total value of mortgage completions arranged by the Group in 2016 was £17.4bn up 20% from 2015.

First Complete

Directly authorised by the FCA, operating a 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

The Mortgage Alliance

The Mortgage Alliance is a trading style of First Complete and distributes mortgages and financial services products to directly authorised mortgage intermediaries.

www.themortgagealliance.com

Pink Home Loans

Directly authorised by the FCA, Pink is a trading style of Advance Mortgage Funding, operating a mortgage intermediary network, providing products and services to financial intermediaries since 1990, joining the Group in 2010.

www.think-pink.co.uk

Your Move and **Reeds Rains** are appointed representatives of First Complete and provide mortgage, pure protection and general insurance brokerage services, through employed financial consultants based in the Estate Agency branches and call centres; **Embrace Mortgage Services** which is a trading name of LSLi, does the same across the LSLi group of companies; and **Linear Financial Solutions**, an appointed representative of Pink Home Loans and Openwork, provides those products through a network of financial consultants based remotely and in the branches of estate agents. **First2Protect** is a specialist business arranging household insurance for customers of LSL's Estate Agency Division and third party introducers. **Mortgages First** is an appointed representative of First Complete and specialises in providing mortgages and financial services to customers financing the purchase of new-build property. **Insurance First Brokers** is an appointed representative of Sesame and provides pure protection and general insurance brokerage services for existing customers of Group First.

www.your-move.co.uk/mortgages
www.reedsrains.co.uk/mortgages
www.embracemortgageservices.co.uk
www.linearfs.com
www.first2protect.co.uk
www.mortgages-first.co.uk
www.insurance-first.co.uk

Surveying Division – Surveying and Valuation Services

e.surv Chartered Surveyors

e.surv Chartered Surveyors is one of the country's largest provider of residential valuation services and one of the largest employers of surveyors in the UK with an active graduate training programme as part of its commitment to a sustainable and evolving industry[6].

In addition to mortgage valuation services, e.surv provides a range of products and services to a customer base that includes lenders, intermediaries, social housing entities, estate agents, and private homeowners and other stakeholders in the UK residential property sector.

www.esurv.co.uk

Walker Fraser Steele

One of the longest established Chartered Surveyor brands in Scotland, Walker Fraser Steele was founded in Glasgow in 1884 and became part of e.surv Chartered Surveyors in 2013. The acquisition substantially expanded LSL's geographic coverage within Scotland and the business now provides surveying and valuation services from locations across Scotland for both local and national clients, including the Home Report, an essential component of the Scottish home buying process.

www.walkerfrasersteele.co.uk

Notes:

[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: ResearchBods Brand Awareness Study March 2016.

[3] Source: Hitwise December 2016.

[4] Source: Google Analytics data.

[5] Source: Which Network – network performance figures for 2016 showing the combined numbers for First Complete and Pink Home Loans.

[6] The market position is based on LSL's own calculations and assessment using publicly available data.

Milestones

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

Entered into banking facility.

Acquisition of Lawlors.

Completed five lettings book acquisitions.

Acquisition of Walker Fraser Steele.

2015

Acquisition of Thomas Morris.

Completed 30 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.

2016

Extension of bank facility to May 2020.

Acquisition of Group First (including Mortgages First and Insurance First Brokers).

Sale of entire shareholding in Zoopla.

Completed nine lettings book acquisitions.

Chairman's Statement

Introduction

Following a strong first half performance, the Group delivered a resilient second half performance given the changing market conditions, with 2016 Group Underlying Operating Profit[1] of £34.6m (2015: £42.9m). Group operating profit was £65.4m (2015: £41.4m). Group revenue grew by 2.4% to £307.8m (2015: £300.6m) with growth in both the Estate Agency and Surveying Divisions. Profit before tax grew by 64.6% to £63.5m (2015: £38.6m).

Performance

After a strong overall first half performance in the Estate Agency Division, with a notable first quarter acceleration of transactions in the run up to the change in stamp duty regulations on 1st April 2016, we reacted decisively to the changing market conditions in the second half of the year with selective cost reduction measures and branch closures and protected the balance sheet by disposing of the Group's shareholding in Zoopla and pausing acquisition activity. We continued to invest in Lettings and Financial Services headcount during the second half of 2016. As a result, in 2016 we delivered full year growth of 9% in the Lettings business and delivered Financial Services revenue growth of 27%.

The Surveying Division delivered a robust performance with 1% revenue growth and a strong operating profit margin of 27.1%.

Dividend

Due to the Board's positive view of the future prospects for the business, the proposed dividend payment is at the upper end of our previously stated policy of applying a dividend pay-out ratio of between 30% to 40% of Group Underlying Operating Profit after interest and tax. The Board has reviewed the policy while considering the risks and capital management decisions facing the Group.

A final dividend of 6.3 pence per Share (2015: 8.6 pence per Share) will be proposed to Shareholders at the forthcoming AGM, giving a total dividend for 2016 of 10.3 pence per Share (2015: 12.6 pence per Share).

The ex-dividend date for the final dividend is 30th March 2017, with a record date of 31st March 2017 and a payment date of 2nd May 2017. Shareholders have the opportunity to elect to reinvest their cash dividend and purchase existing Shares in LSL through a dividend reinvestment plan.

Marsh & Parsons: Gold overall winners at the Estate Agency of the Year Awards 2016 in association with The Sunday Times and The Times

Our market position

LSL holds a market leading position in its core Estate Agency business comprising 12 Estate Agency brands, including Your Move, which is the largest UK single brand estate agent measured by the number of branches with 267 branches nationwide. The businesses are organised to deliver integrated Residential Sales, Lettings and Financial Services, as well as a range of additional property related services.

We continued to invest in our brands in 2016 to drive future growth, with a national media campaign to support the Your Move brand during the first half of 2016 and by increasing dedicated headcount to support our successful Lettings and Financial Services businesses and growing our Land & New Homes businesses. During 2016 we opened two new Marsh & Parsons branches.

We continue to hold a leading market position in Surveying, maintaining strong relationships with many of the major lenders. LSL's Surveying Division is one of the country's largest providers of residential valuation services nationwide and is one of the largest employers of surveyors in the UK[2].

We operate in a highly competitive residential property market, which is characterised by ongoing new entrants and evolving business models. We continue to proactively develop and evolve our offering


Simon Embley
Chairman

£307.8m

Group revenue

Up 2.4% – 2015 £300.6m

£65.3m

Profit before tax

Up 64.6% – 2015 £38.6m

25.9p

Adjusted Basic Earnings Per Share

Down 18% – 2015: 31.5p

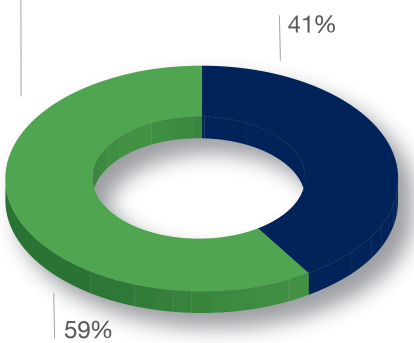
10.3p

Full year dividend per Share

2015: 12.6p

Full year 2016
Underlying Opertating Profit

£34.6m



■ Estate Agency
■ Surveying

to ensure our competitiveness in this changing marketplace. We will also take selective cost action as required to underpin our competitiveness, as we did in the second half of 2016.

During the second half of 2016 we completed extensive consumer and market research. In 2017 we will progress the next phase of our strategy by exploring and evaluating LSL's digital opportunities and a further update will be provided to Shareholders during 2017.

We continue to selectively acquire businesses. To drive recurring income growth, we acquired nine lettings books in 2016 for £4.1m (2015: 30 lettings books for £9.6m), with internal disciplines in place to ensure successful integration into the Group.

In February 2017 we acquired a 65% interest in Group First which provides mortgage and protection brokerage services to the purchasers of new homes. This acquisition supports LSL's strategy to grow long-term profitability in the UK residential property services sector.

In Financial Services, the Group arranged total mortgage lending of £17.4bn (2015: £14.5bn), representing 7.1% of the overall market[3]. Measured by the number of appointed representatives, LSL's overall combined network is the second largest in the UK[4].

LSL notes the publication of the Housing White Paper in February 2017 which confirmed the Government's intent (as announced in the Autumn Statement in November 2016) to bring forward legislation (as soon as Parliamentary time allows) to ban letting agent fees to tenants. LSL will continue to monitor the review and contribute to the consultation as appropriate during the year.

Corporate governance and Board

The Board remains committed to high levels of corporate governance and during 2016, LSL has complied in all respects with the UK Corporate Governance Code (September 2014 edition). We have also considered the amendments included in the April 2016 edition of the Code to ensure we continue to comply during 2017 and are monitoring the Government's review of corporate governance, which is set out in the Green Paper published in November 2016.

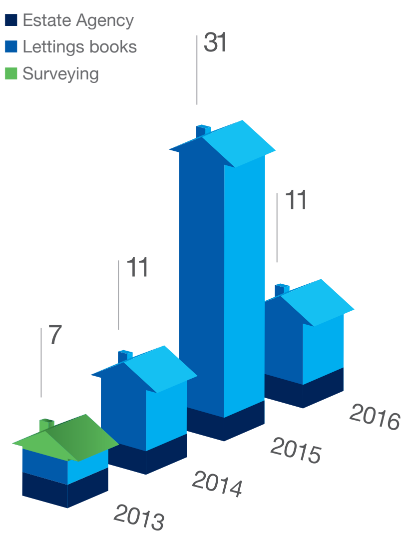
There were a number of changes to the Board during the year. At the 2016 AGM, Mark Morris, who had been a Non Executive Director and Chairman of the Audit Committee since LSL's IPO in 2006, retired from the Board and its Committees. David Stewart, who joined the Board as a Non Executive Director in May 2015, was appointed Chairman of the Audit Committee. David is also a member of LSL's Remuneration and Nominations Committees. In January 2017, Adrian Gill stepped down from the Board and on 2nd February 2017 we announced the appointment of Helen Buck as Executive Director – Estate Agency. Helen had been a Non Executive Director of LSL since December 2011 and has excellent knowledge of the business. Her appointment followed a comprehensive selection process.

The Nominations Committee has during the year reviewed the Board's composition, which at the date of this Report includes three independent Non Executive Directors and three Executive Directors and myself as Chairman. The Board has expertise in strategy, technology, estate agency, surveying, financial services, the residential housing sector, commercial property, retail and marketing, operations, business services, entrepreneurial private and public companies, finance, consumer and employee matters and corporate governance.

The Board continues to recognise the benefits of diversity in the boardroom, including gender and racial diversity and the current Board composition includes two female Directors, Helen Buck (Executive Director – Estate Agency) and Kumsal Bayazit Besson (Independent Non Executive Director). Whilst we continue to 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 any new directors take into account diversity, including gender and race.

In respect of 2016, the Board has conducted an annual review of its effectiveness and that of its Committees, taking into account the balance of skills, experience, independence and knowledge

Number of acquisitions



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

of our businesses. Following this exercise, we concluded that the Board and its Committees are effective and are able to discharge their respective duties and responsibilities appropriately. The appraisal produced a number of recommendations to further improve the effectiveness of the Board, which will be implemented during 2017. These include reviewing Board meeting planning and reporting arrangements, the development of Executive Director and senior management succession plans, the provision of Director training and an evaluation of the Group's cultures, values and ethics.

In addition, and taking into consideration the revised Code published in April 2016, the Board reviewed the composition of the Audit Committee and confirmed that the Audit Committee as a whole has the competence relevant to the sectors in which LSL operates. Further details relating to the Audit Committee are contained in the Audit Committee Report.

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

Our people

Ultimately the success of our business model has always been underpinned by our strong brands and excellence in delivery by our knowledgeable local colleagues. The number of Group employees as at 31st December 2016 was 4,990 (2015: 5,181). Our success is attributable to the high levels of customer service provided by our staff in all parts of our business across the entire UK and I would like to thank all of our staff for the continued hard work and commitment which they have demonstrated throughout 2016.

Current trading and outlook

We have started the year positively in both the Estate Agency and Surveying Divisions.

In the Estate Agency Division, trading is encouraging and in line with expectations, with quality buyers and good availability of mortgages. Whilst there remains a shortage of stock, our sales conversion remains strong.

In our Surveying Division, trading is in line with expectations and the second phase of the technology refresh is progressing well.

Whilst it is difficult to accurately predict housing market transaction volumes and consumer confidence for the remainder of the year, 2017 is expected to see a reduced volume of house purchase transactions compared to the prior year, with modest house price inflation outside prime Central London. However, mortgage costs and availability remain positive and the medium to longer term fundamentals of the UK housing market remain robust.

Underpinned by a series of strategic initiatives, the business is well placed to deliver a solid performance in 2017. We are positive regarding the outlook for the business, committed to driving profitable organic growth across the business, and will continue to evaluate selective acquisitions.

The Group has a robust balance sheet with relatively low levels of gearing and is very cash generative at an operational level. The business is well placed to capitalise on market conditions to increase Shareholder value.

Simon Embley
Chairman
7th March 2017

Notes:

[1] Group Underlying Operating Profit is before exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments (as defined in Note 5)

[2] Source: LSL estimates

[3] Source: Council of Mortgage Lenders – January 2017

[4] Source: Which Network? January 2017

Group Chief Executive's Review

2016 Overview

As reported in the Interims Results announcement in August 2016, the Group delivered a strong first half performance, with the notable acceleration of transactions in the first quarter in the lead up to the change in stamp duty on 1st April 2016. The Group reacted decisively to the changed market conditions in the second half of the year following the EU referendum result.

Selective cost measures were taken across the Group and the balance sheet has been strengthened with our operational gearing ratio[1] reduced to 0.51 at the end of 2016 (2015: 0.83). We continued to invest in the growing parts of our businesses and delivered strong year-on-year revenue growth in Lettings (up 9%) and Financial Services (up 27%).

Group revenue increased by 2.4% to £307.8m (2015: £300.6m). Group Underlying Operating Profit[2] was £34.6m (2015: £42.9m) and Group operating profit was £65.4m (2015: £41.4m). After strong first half revenue growth of 8% and profit growth of 10%, second half revenue fell by 2.5%, impacted by residential property market trends following the EU referendum, with a subsequent fall in second half profits.

I would like to take this opportunity to thank all my colleagues across our business for their professionalism and dedication. The efforts of my colleagues delivered revenue growth in both Estate Agency and Surveying, which was especially pleasing given the degree of change during the year.

Your Move: Gold best Property Management winners at the Lettings Agency of the Year Awards 2016 in association with The Sunday Times and The Times.

The market in 2016

The UK residential property services market in 2016 was impacted by two main events; the lead up to the stamp duty changes on 1st April 2016 and the EU referendum outcome on 23rd June 2016; and the subsequent impact on consumer confidence and residential property transactions during the second half of the year.

Approvals for house purchases[3] were ahead 16.5% in the first quarter of the year compared to the same period in 2015 as increases in stamp duty effective from 1st April 2016 led to an acceleration in market activity in the period up to this change. Volumes[3] slowed in the second quarter being 1.5% ahead of the comparative period in 2015 as completions slowed following the stamp duty change and ahead of the EU referendum on 23rd June 2016.

Following the EU referendum on 23rd June 2016 consumer confidence was impacted and volumes[3] fell by 12.4% in the third quarter compared to the same period in 2015. Volumes[3] fell again by 4.8% in the fourth quarter of 2016 compared to the same period in 2015.

The second half impact on market transactions was more pronounced in London and the South East. Market transactions are estimated to have fallen in prime Central London areas by between 20% to 40% in the third quarter 2016, dependent on the postcode[4].

Total Mortgage Approvals[3] increased by 5.7% in 2016. This reflected an increase in remortgage approvals in the first and second half of 2016 compared to the same periods in 2015 reflecting low interest rates and the availability of remortgage products.

Average house prices[5] in England and Wales grew 3.1% (2015: 6.6%) to £298,000 annually as stock shortages continued to have an impact. Excluding London and the South East, the average increase was 4.4%.

Residential property values in Greater London increased by 0.2%. Prime Central London (5 prime boroughs) prices fell while outer prime Central London experienced an increase in year-on-year house prices[5].

The proportion of new sales instructions given to online/hybrid estate agents continued to grow, increasing from 3% of the market in the second half of 2015 to 6% in the second half of 2016[6]. While traditional estate agents continue to represent the vast majority of the market (95% of residential sales instructions in 2016[6]), we continue to closely monitor market developments.

The proportion of mortgage lending in the market placed through intermediaries continued to increase during the year[7].

Following market declines in the repossessions market in the past few years, market repossession volumes again declined in 2016, reducing by 25% to 7,700[8] total repossessions as interest rates remained low and was the lowest number since 1982.

Strategy

We remain committed to delivering on our stated strategy:

Estate Agency

- Ambition to drive operating profit per branch to between £80,000 and £100,000 in the medium term.
- Ambition to expand the number of Marsh & Parsons branches to a total of 36 by 2019, particularly outside prime Central London.
- Grow recurring and where market conditions permit counter-cyclical income streams.
- Complete selective acquisitions of both residential sales businesses and lettings books.

In addition to delivering on our stated strategy, we are also exploring options to capitalise on digital opportunities created by the growth in consumer acceptance of online/hybrid agency business models. During the second half of 2016 we completed extensive consumer and market research and in 2017 we are progressing to the next phase by exploring and evaluating LSL's digital opportunities. We will provide a further update to Shareholders during 2017.

Surveying

- Optimise contract performance and revenue generation from business to business customers.
- Achieve further improvement in efficiency and capacity utilisation.
- Use technology to target further improvements in customer satisfaction and performance.
- Continue the graduate training programme.

LSL performance in 2016

Total Estate Agency income of £243.1m (2015: £236.5m) increased by 3%. This increase resulted from the consistent execution of our strategy with strong growth in both Lettings and in Financial Services income, where we continued to invest in additional people to support growth.

During the second half of the year following the EU referendum we implemented selective cost reduction measures to adapt the Group's costs base and ensure we remain competitive. We closed 21 branches in the second half with little disruption to our business, which is testament to the professionalism and experience of our staff.

Residential Sales exchange income

Residential Sales exchange income decreased by 10% to £83.8m (2015: £92.9m) with average fees per unit down 2%. Exchange volumes fell by 8%, with a strong first quarter followed by a slowdown in subsequent quarters following the stamp duty changes and the EU referendum. The fall in fees reflected increased competitive pressure in the second half as volumes reduced.

Lettings income

We remain committed to our strategy of increasing recurring Lettings income. In 2016 we delivered growth in Lettings income of 9%. Lettings income increased as a proportion of the Estate Agency business and represented 29% of total Estate Agency Division income in 2016 (2015: 28%).

We delivered organic Lettings growth of 4% with growth across all our brands. In line with our strategy, we continued to invest in lettings book acquisitions, acquiring nine lettings books in 2016 for a total consideration of £4.1m[9]. The lettings books have been successfully integrated into our networks. Lettings book acquisitions were paused during the second half of the year following the EU referendum.

Financial Services

Total Financial Services income grew strongly again with 27% year-on-year growth in 2016. Adjusting for the acquisition of Group First, we delivered organic growth of 13% as we continued to roll out our model across the Estate Agency business and delivered growth from our intermediary networks.

In February 2016 we acquired a 65% interest in Group First which provides mortgage and protection brokerage services to the purchasers of new homes. This acquisition supports LSL's strategy to grow long-term profitability in the UK residential property services sector.

Marsh & Parsons

Given the overall challenging prime Central London market, compounded by the result of the EU referendum which caused transaction levels to drop significantly, Marsh & Parsons revenue fell by 5% in 2016 to £33.5m (2015: £35.3m) and profit fell by 36% to £4.4m (2015: £6.9m).

Whilst Residential Sales fell by 12% we believe this to be a solid performance in light of the overall London market conditions. We were pleased with the Lettings performance with Lettings income up 6% against 2015, accounting for more than half of Marsh & Parson's total revenue.

We continued with our branch expansion strategy in 2016, opening two new branches during the year in the outer prime Central London locations of Tooting and Tufnell Park. We have continued with our strategy in 2017 and since the year-end have opened a branch in Brixton. We are pleased with the performance of these new branches. This takes our total number of Marsh & Parsons branches to 26.

Our ambition remains to expand to 36 branches by 2019. Outer prime Central London has not been as negatively impacted as prime Central London and Marsh & Parsons is looking to expand its new office footprint in outer prime Central London locations.

Estate Agency profit per branch (Your Move, Reeds Rains and LSLi)

The reduction in operating profit per owned branch in 2016 to £30,500 (2015: £42,500) reflects the challenging residential

Ian Crabb
Group Chief Executive Officer

sales market conditions following the EU referendum.

LSL has increased operating profit per owned branch from £20,100 in 2012 to £30,500 in 2016. Our medium term ambition is to drive operating profit per owned branch to between £80,000 and £100,000 on the expectation of longer term stability in the UK residential property sector. Our Lettings growth and Financial Services growth across the network continues to underpin this ambition and we will also focus on Land & New Homes. We will also consider further opportunities to re-engineer the cost base.

Surveying Division

During 2016 we continued to focus on optimising the profitability of our Surveying business with particular emphasis on delivering a market leading IT system. Total Surveying Division income in 2016 of £64.7m (2015: £64.1m) was 1% higher than 2015, reflecting a good performance in a changing market.

During the first half of 2016, implementation started of a new market leading IT system to deliver modern and scalable technology for LSL that provides an improved platform to deliver services to our clients. Phase one is complete and a roadmap of further developments will be rolled out in 2017. This system will enable our Surveying Division to continue to improve efficiency, operational performance and hence the quality of service to our end customers.

Following on from the significant improvements in 2014 and 2015, capacity optimisation has been maintained helping to underpin profit margins of 27.1% (2015: 28.3%). Income per job increased by 4% to £203 (2015: £196) and we performed in total 318,077 jobs in 2016 (2015: 327,267) as we optimised the mix of our business. We have continued with our graduate training programme which continues to be successful.

Our customers

Our continued focus on providing the best service to our customers has been recognised in 2016 with numerous industry awards including:

- *Marsh & Parsons*: Estate Agency of the Year Awards 2016, in association with The Times and The Sunday Times: Overall Winner of the Estate Agency of the Year Award and Best Large UK Estate Agency – Gold Award.
- *Your Move*: Lettings Agency of the Year Awards 2016, in association with The Times and The Sunday Times: Best Property Management (1001+ properties) Lettings Agency – Gold Award.
- *Davis Tate*: Estate Agency of the Year Awards 2016, in association with The Times and The Sunday Times: Best Medium Estate Agency, South East – Gold Award. The 2016 allAgents Awards: Best Estate Agent – Overall Winner in Reading, Best Estate Agent – Gold Awards in 10 UK postcode regions: Best Letting Agent – Gold Award in 8 UK postcode regions.
- *Frost's Estate Agent*: Estate Agency of the Year Awards 2016, in association with The Times and The Sunday Times: Best Small Estate Agency, East of England – Gold Award.
- *Intercounty*: Estate Agency of the Year Awards 2016, in association with The Times and The Sunday Times: Best Medium Estate Agency, East of England – Gold Award. Lettings Agency of the Year Awards 2016, in association with The Times and The Sunday Times: Best Medium Lettings Agency, East of England – Gold Award.
- *Thomas Morris*: The Negotiator Awards 2016: East of England Agency of the Year – Gold Award. Relocation Agent Network Awards 2016: Best Agent, East Anglia and Essex – Winner, Customer Relocation Award – Winner. The 2016 all Agents Awards: Best Estate Agent, East of England – Gold Award. Agents Giving: Best Innovative and Creative Fundraising Award – Winner. Agency Mentors: Inspirational Agent 2016 – Winner (Sue Gipson St.Neots).
- *Pink Home Loans*: Financial Adviser Service Awards 2016: 5 star award.
- *Pink Home Loans and First Complete Financial Services*: Precise Mortgages Awards 2016: Best Distributor Group.
- *e.surv Chartered Surveyors*: Equity Release Awards 2016: Best Surveyor Award – Winner. Mortgage Strategy Awards 2016: Best Surveyor Award, Individual Firms – Winner. Your Mortgage Awards 2016: Best Surveyor Award – Winner.

Balance sheet and exceptionals

The Group has a strong balance sheet with closing Net Bank Debt at 31st December 2016 of £20.3m (2015: £39.9m) and a gearing level at 0.51 times 2016 adjusted EBITDA (2015: 0.83 times)[1].

Between 20th July 2016 and 31st October 2016, we sold our entire holding of 11.3m ordinary shares in Zoopla for total proceeds of £36.1m at an average price per share of £3.19. The proceeds of the disposal were used to reduce corporate indebtedness.

As set out in our 2016 Interim Results announcement, during the second half of 2016, a cost saving programme across the Group and the technological refresh in the Surveying Division resulted in exceptional costs of £2.3m.

In relation to the PI Costs provision, the Group continued to make positive progress in addressing historic claims and there has been a net £1.6m exceptional release.

Outlook

We have started 2017 in line with our expectations across the Group and are well placed to deliver a solid performance during the year. We continue to consistently execute on our strategy and are well placed to deliver increased Shareholder value.

I look forward to working with my colleagues to deliver a successful year in 2017.

Ian Crabb
Group Chief Executive Officer
7th March 2017

Notes:

1 Operational gearing is defined as net debt divided by adjusted EBITDA (Adjusted EBITDA is Group Underlying Profit (Note 5) plus depreciation on property plant and equipment)
2 Group Underlying Operating Profit is before exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments (as defined in Note 5)
3 Source: Bank of England for "House Purchase Approvals" and "Total Mortgage Approvals" - December 2016 released January 2017
4 Source: LSL estimates
5 Source: December 2016 LSL Property Services/ ACADATA HPI
6 LSL sources/data analysis
7 CML, new mortgages sold by intermediaries – February 2017
8 Source: Council of Mortgage Lenders – January 2017, released February 2017
9 Total consideration of up to £4.1m includes contingent consideration

Strategic Report

In this section

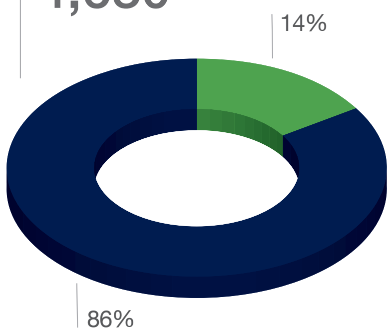
Reeds Rains brochure

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 2016 average FTE

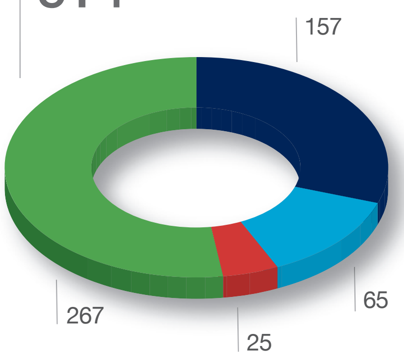
4,630



- Estate Agency
- Surveying

Estate Agency branches

514



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

LSL remain committed to the strategy to grow long-term profitability in the UK residential property services sector, by identifying value enhancing opportunities. The components of LSL's strategy are:

Estate Agency and Related Services:
- Ambition to drive operating profit per branch to between £80,000 and £100,000 in the medium term.
- Ambition to expand the number of Marsh & Parsons branches to a total of 36 by 2019, particularly outside prime Central London.
- Grow recurring and where market. conditions permit counter-cyclical income streams.
- Complete selective acquisitions of both residential sales businesses and lettings books.

In addition to delivering on the stated strategy, LSL is exploring options to capitalise on digital opportunities created by the growth in consumer acceptance for online/hybrid agency business models. During the second half of 2016 LSL conducted extensive consumer and market research and in 2017 LSL is progressing to the next phase by exploring and Evaluating LSL's digital opportunities. LSL will provide a further update to Shareholders during 2017.

Surveying and Valuation Service:
- Optimise contract performance and revenue generation from business to business customers.
- Achieve further improvement in efficiency and capacity utilisation.
- Use technology to drive further improvements in profitability.
- Continue graduate training programme.

Estate Agency and Related Services:

Residential Sales and Lettings
- Deliver future branch profitability through Lettings income growth, Financial Services income growth, Land & New Homes growth and re-engineering the costs base together with volume and fee growth, lettings book acquisitions and selective branch refurbishments.
- 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.
- Grow LSL's share of the prime and outer prime Central London Residential Sales and Lettings markets by supporting Marsh & Parsons' branch expansion plans.
- Grow recurring revenue (e.g. Lettings) and where market conditions permit, counter-cyclical income (e.g. Asset Management).
- Identify, evaluate and invest in selective acquisitions.

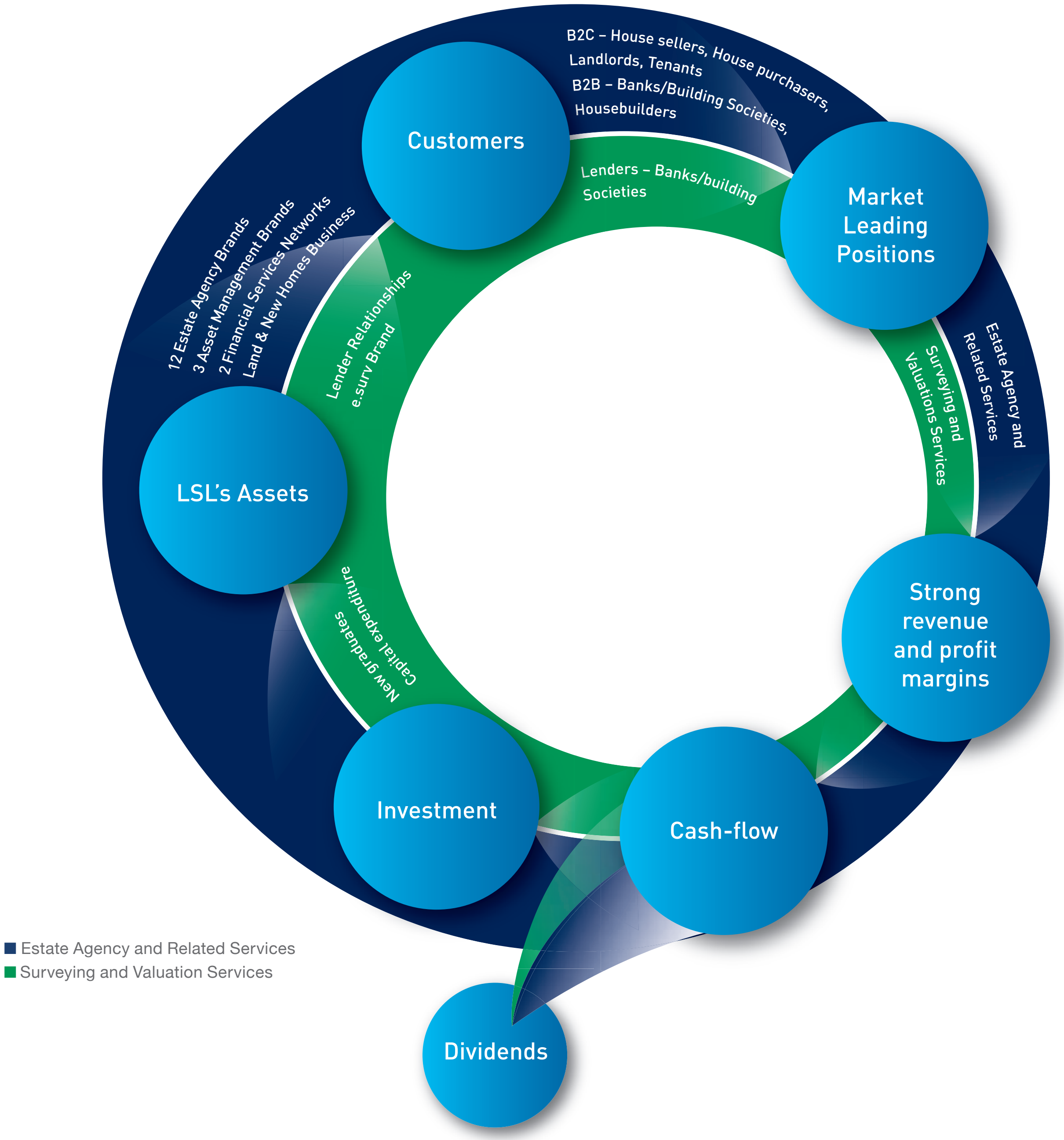
Asset Management
- Grow counter-cyclical income streams where market conditions permit.
- Increase market share by providing innovative solutions and strong service delivery to a broader selection of clients.

Financial Services
- Consistent delivery of appropriate customer outcomes for consumers and maintain focus on best practice standards of regulatory compliance.
- Capitalise on mortgage market shift towards intermediary distribution channels.
- Investment in selective acquisitions.
- Investment in additional mortgage advisors within the Estate Agency branches.
- Grow LSL's intermediary networks and expansion of the Group's mortgage club and realise synergies and cost savings to make the networks more efficient.
- Enhancements of technology solutions to improve the customer experience, raise productivity and deliver process efficiencies.
- 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:
- Focus on the business to business market where the economics are better and service business to consumer clients where capacity allows.
- Optimise contract performance and revenue generation from business to business customers.
- Investment in a market leading IT system that provides scalable and secure technology to deliver services to clients.
- Continue focus on improving efficiency through optimising capacity management supported by new IT technology.
- Continued investment and delivery of the graduate training programme which assists in alleviating the impact of skills constraints in the market.

Acquisitions:
- Continue to identify, evaluate and invest in selective value enhancing acquisitions across the residential property services value chain in order to enhance market positions and to grow scale.

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, lettings and mortgage, pure protection and general insurance brokerage services.
- LSL serves retail customers in its Estate Agency businesses, such as house sellers and buyers, and landlords and tenants by providing Residential Sales, Lettings, mortgage, pure protection and general insurance brokerage services and other related services.
- 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 (recurring income) and Asset Management (counter-cyclical income).
- The model benefits from scale and investment to ensure the Surveying business has the best technology in the market to help it maintain its market leading position and to improve quality, service performance and risk management for clients.
- The Estate Agency branches focus on customer service by utilising hubs and call centres to provide instructions to the branches and to handle certain administrative tasks centrally.
- 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.

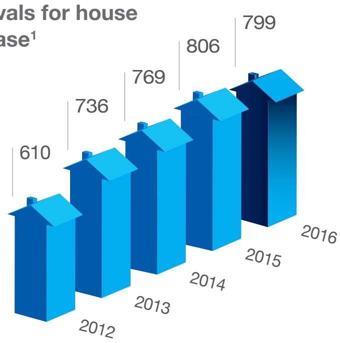
Markets

LSL operates across the residential property services value chain

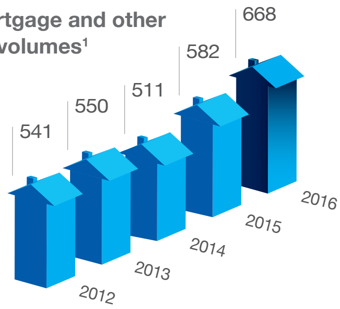
Market transaction data

In 2016 Total Mortgage Approvals increased by 5.7% to 1,467m (2015: 1.388m)[1]. Overall House Purchase Approvals fell by 0.9% to 799,000 (2015: 806,000)[2]. Remortgage volumes of 668,000 were up by 15% compared to 2015 (2015: 582,000)[2].

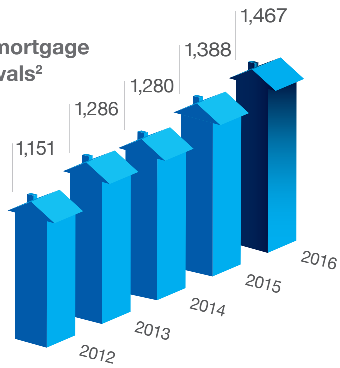
Total mortgage approvals for house purchase[1]
'000s



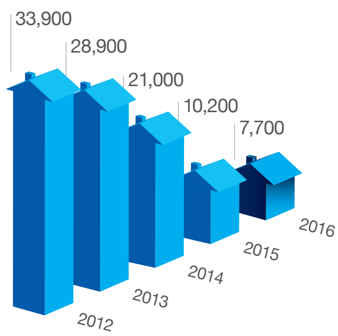
Remortgage and other loans volumes[1]
'000s



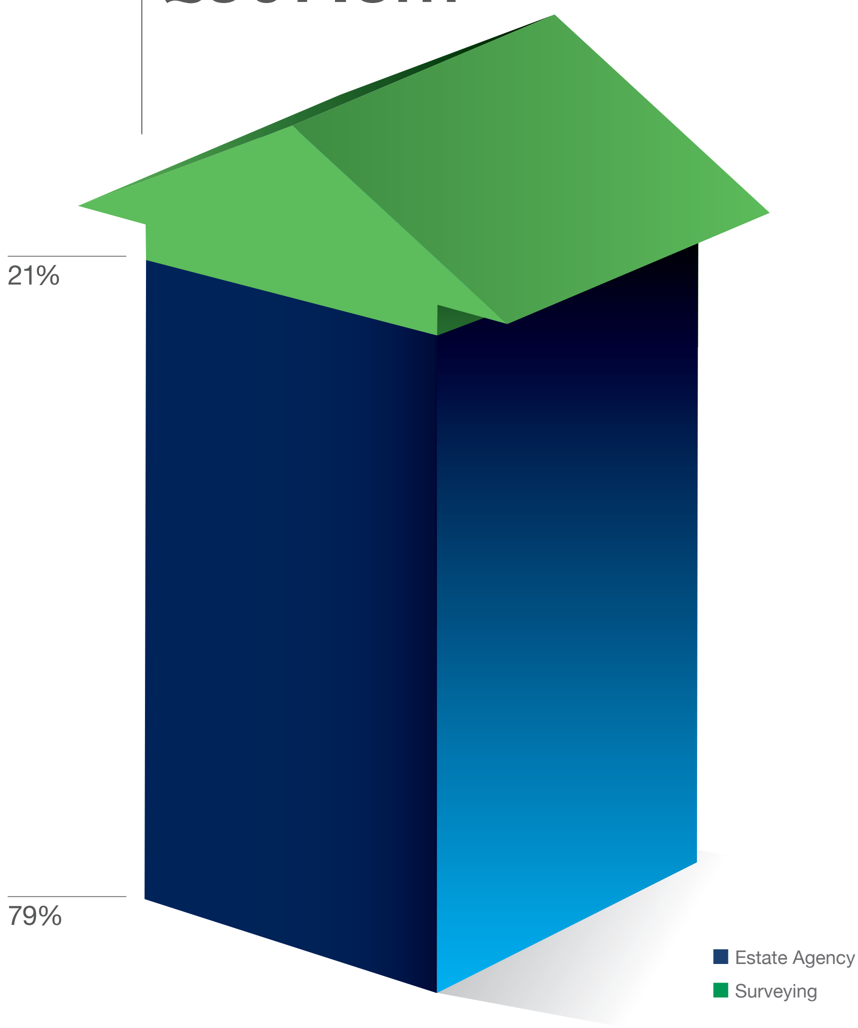
Total mortgage approvals[2]
'000s



Repossessions volumes[3]



Full Year 2016 Revenue
£307.8m



LSL's Markets

LSL's market can be categorised into two principal segments

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

Estate Agency and Related Services

Estate Agency and Related Services 79.0%

of Group revenue in 2016 (2015: 78.7%)

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, protection general insurance brokerage services with revenue earned directly by the Estate Agency brands and through the operation of intermediary networks.

Residential Sales and Lettings 50.4%

of Group revenue in 2016 (2015: 52.7%)

Estate Agency services for residential property sales.

Comprehensive Lettings service for residential landlords and tenants.

The UK residential property services market in 2016 was impacted by two main events: the lead up to the stamp duty changes on the 1st April 2016; and the EU referendum outcome on 23rd June 2016 and the subsequent impact on consumer confidence and residential property transactions during the second half of the year.

Approvals for house purchases[1] were ahead 16.5% in the first quarter of the year compared to the same period in 2015 as increases in stamp duty effective from 1st April 2016 led to an acceleration in market activity in the period up to this change. Volumes[1] slowed in the second quarter being 1.5% ahead of the comparative period in 2015 as completions slowed following the stamp duty change and ahead of the EU referendum on 23rd June 2016.

Following the EU referendum on 23rd June 2016 consumer confidence was impacted and volumes[1] fell by 12.4% in the third quarter compared to the same period in 2015. Volumes[1] fell again by 4.8% in the fourth quarter of 2016 compared to the same period in 2015.

The second half impact on market transactions was more pronounced in London and the South East. Market transactions are estimated to have fallen in prime Central London areas by between 20% to 40% in the third quarter 2016, dependent on the postcode[1].

Total Mortgage Approvals[1] increased by 5.7% in 2016. This reflected an increase in remortgage approvals in the first and second half of 2016 compared to the same periods in 2015 reflecting low interest rates and the availability of remortgage products.

Average house prices[5] in England and Wales grew 3.1% (2015: 6.6%) to £298,000 annually as stock shortages continued to have an impact. Excluding London and the South East, the average increase was 4.4%.

Residential property values in Greater London increased by 0.2%. Prime Central London (5 prime boroughs) fell while outer prime Central London experienced an increase in year-on-year house prices.

The proportion of new sales instructions given to online/hybrid estate agents continued to grow, increasing from 3% of the market in the second half of 2015 to 6% in the second half of 2016[4]. While traditional estate agents continue to represent the vast majority of the market (95% of residential sales instructions in 2016)[4], LSL continues to closely monitor market developments.

The proportion of mortgage lending in the market placed through intermediaries continued to increase during the year.

Following market declines in the repossessions market in the past few years, repossession volumes again declined in 2016, reducing by 25% to 7,700[3] total repossessions as interest rates remained low and was the lowest since 1982.

Asset Management 2.1%

of Group revenue in 2016 (2015: 2.6%)

Repossessions asset management services for lenders.

Property management services for multi-property landlords.

Repossession volumes fell by 25% to 7,700 (2015: 10,200) in 2016[3] in a declining market.

Mortgage, pure protection and general insurance brokerage services 20.8%

of Group revenue in 2016 (2015: 16.8%)

Brokerage services for mortgages, pure protection and general insurance.

Other income 5.6%

of Group revenue in 2016 (2015: 6.6%)

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%

of Group revenue in 2016 (2015 21.3%)

Valuation services for lenders for residential mortgage purposes, surveying services for private house purchasers, and the provision of Home Reports and professional services in Scotland.

Notes:

[1] Source: Bank of England for "House Purchase Approvals" and "Total Mortgage Approvals" Deccember 2016 released January 2017

[2] CML, new mortgages sold by intermediaries

[3] Source: Council of Mortgage Lenders arrears and repossessions data relating to properties taken into possession by first-charge mortgage lenders for 2016

[4] LSL estimates

[5] Source: December 2016 LSL Property Services/ ACADATA HPI

Business Review

Estate Agency Division

+3%
Total income
2015: +5%

-10%
Exchange income
2015: +1%

+9%
Lettings income
2015: +12%

+27%
Financial Services income
2015: +16%

-2%
Fee per exchange unit
2015: +4%

10.1%
Operating margin
2015: 13.2%

Financial	2016 £m	2015 £m	% change
Residential Sales exchange income	83.8	92.9	-10
Lettings income	71.4	65.4	+9
Asset Management income	6.6	7.8	-15
Financial Services income	64.1	50.5	+27
Other income[1]	17.2	19.9	-14
Total income	243.1	236.5	+3
Operating expenditure	(218.6)	(205.2)	-6
Underlying Operating Profit[2]	24.5	31.3	-22

KPIs	2016	2015	% change
Exchange units	27,029	29,311	-8
Underlying Operating Margin (%)	10.1	13.2	
Fees per unit £	3,102	3,170	-2

Market data	2016	2015	% change
House Purchase Approvals (000s)[3]	799	806	-1
Total Mortgage Approvals (000s)[3]	1,467	1,388	6
UK Housing Transactions (000s)[4]	1,235	1,230	1
Repossessions[5]	7,700	10,200	-25

Notes:

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

[2] Refer to Note 4 for the calculation.

[3] Source: Bank of England, "Mortgage approvals for house purchases" and "Total Mortgage approvals" – December 2016, released January 2017.

[4] Source: HMRC Stats, "Monthly property transactions completed in the UK with value of £40,000 or above" – December 2016, released January 2017.

[5] Source: Council of Mortgage Lenders - January 2017, released February 2017.

Estate Agency Division performance

Year-on-year income growth in the Estate Agency Division was 3%. Lettings income and Financial Services income showed positive growth with Residential Sales impacted by lower transaction volumes in the second half. First half total income increased by 9% compared to the comparative period in 2015 whilst second half income fell by 3%.

Residential Sales exchange income

Residential Sales exchange income decreased by 10% to £83.8m (2015: £92.9m) with average fees per unit decreased by 2%. Residential Sales exchange volumes fell by 8%. The trend mirrored the general market with a strong first quarter followed by a slowdown in subsequent quarters following the stamp duty changes and the EU referendum. The fall in fee reflected increased competitive pressure in the second half as volumes reduced.

The second half reduction in transactions was more pronounced in LSL's London and the South East brands, reflecting the same trends as the general market.

Lettings income

Lettings income grew in each quarter of the year and across all brands as LSL continued to focus on this growing revenue stream. Organic Lettings growth for the year was 4%. Combined with the Lettings acquisitions, overall growth was strong, at 9% for the full year. LSL continues to focus on this recurring revenue stream which represented 29% of total Estate Agency Division income in 2016 (2015: 28%).

Financial Services income

Total Financial Services income delivered through the Estate Agency Division's branches, Group First (acquired during the year) and the intermediary networks of First Complete and Pink Home Loans grew strongly again with 27% year-on-year growth in 2016.

Adjusting for the acquisition of Group First, organic Financial Services income growth for 2016 was 13% and growth was achieved across all Estate Agency brands and also the intermediary network businesses.

In total the Group arranged mortgage lending completions of £17.4bn during 2016 (2015: £14.5bn), with an estimated market share of 7.1%[5].

Other income

Other income fell by 14% year-on-year as conveyancing income fell in line with lower residential transaction volumes.

Marsh & Parsons

Marsh & Parsons delivered a resilient performance in a challenging prime Central London market which was impacted by a number of factors including the 2016 stamp duty changes and the result of the EU referendum. Total revenue fell by 5% in 2016 to £33.5m (2015: £35.3m) and Underlying Operating Profit was £4.4m (2015: £6.9m).

Whilst Residential Sales income fell by 12% the Board believe this to be a highly robust performance in the light of the overall London market conditions. The Directors are very pleased with Lettings performance with Lettings income up 6% against 2015, accounting for more than half of Marsh & Parson's total revenue.

Asset Management

Asset Management delivered a robust performance in a shrinking market with revenues lower by 15% compared to the 25% market fall in repossessions to 7,700[5] in 2016. With a strong market share, the Asset Management business as a counter-cyclical business is well positioned to capitalise on any future increase in repossession volumes. Asset Management is developing its corporate property management service offering to further enhance recurring revenues in the Group.

Estate Agency Division operating margin

The Estate Agency Division Underlying Operating Margin was 10.1% in 2016 (2015: 13.2%) which resulted from the reduction in Residential Sales volumes, a full year overhead charge for Thomas Morris (acquired during 2015), new Marsh & Parsons branches opened during the year and the national media campaign investment in the Your Move brand which was launched during the first half of 2016. Profits were slightly lower in Asset Management as cost measures taken did not fully offset the fall in repossession volumes.

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, First2Protect, Mortgages First and Embrace Mortgage Services along with the LSLi subsidiaries are all appointed representatives of First Complete. 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 and Insurance First Brokers is an appointed representative of Sesame Limited. LSL's Financial Services businesses are also members of the Association of Mortgage Intermediaries (AMI) which is an industry representative and trade body and the Financial Services businesses are subject to the Financial Ombudsman Service and contribute to the funding of the Financial Services Compensation Scheme through regulatory fees and charges. LSL is participating in and monitoring the FCA's market study on competition in the mortgage sector which was launched in December 2016.

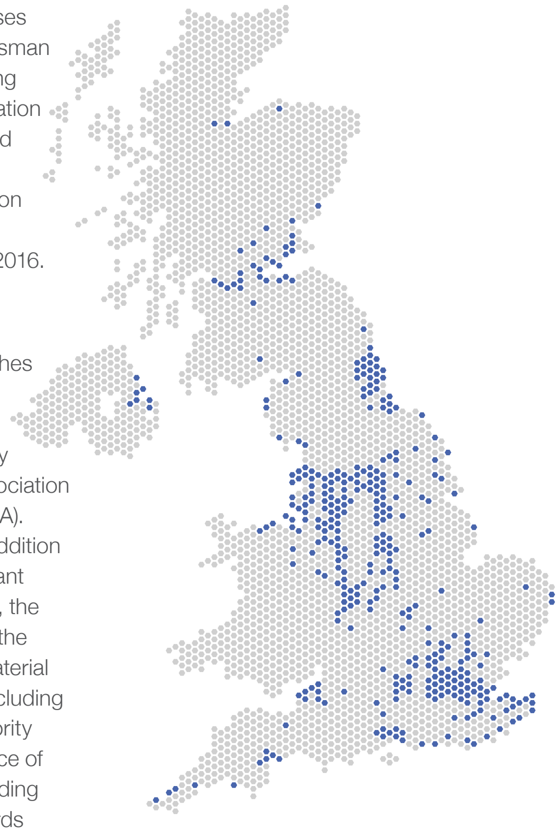
Regulation – Residential Sales and Lettings

The 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). Membership of these bodies is in addition to observing compliance with relevant legislation, such as Data Protection, the Consumer Protection Regulations, the Consumer Rights Act, 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. LSL has also on behalf of all its Estate Agency businesses entered into a primary authority agreement with York Trading Standards Office. LSL is monitoring the Government's review of the housing market, which is set out in the Housing White Paper published in February 2017 and is considering the impact of the reforms on LSL's businesses.

Branch numbers

Breakdown of LSL's Estate Agency branches as at 31st December 2016.

	Owned	Franchised	Totals
Your Move	202	65	267
Reeds Rains	117	40	157
LSLi	63	2	65
Marsh & Parsons	25	0	25
Totals	**407**	**107**	**514**



Advertisement from Marsh & Parson's award winning campaign

Business Review
Surveying Division

+1%
Revenue
2015: +3%

+4%
Income per job
2015: +17%

27.1%
Profit margin
2015: 28.3%

323
Number of qualified surveyors
2015: 347

Financial	**2016 £m**	2015 £m	% change
Revenue	**64.7**	64.1	+1
Operating expenditure	**(47.2)**	(46.0)	-3
Underlying Operating Profit[1]	**17.5**	18.1	-3
KPIs	**2016**	2015	% change
Underlying Operating Margin (%)	27.1	28.3	
Jobs Performed ('000s)	318	327	-3
Revenue from private surveys (£m)	2.3	2.4	-4
Income per job (£)	203	196	+4
PI Costs provision (Balance Sheet) at 31st December (£m)	20.7	29.7	-30
Number of qualified surveyors at 31st December (FTE)[2]	323	347	-7
Total mortgage approvals ('000s)[3]	1,467	1,388	6

Notes:

[1] Refer to Note 4 for the calculation.
[2] Full Time Equivalent (FTE).
[3] Source: Bank of England, "Mortgage approvals for house purchases" and "Total mortgage approvals" 2016.

Surveying Division performance

Total mortgage approvals[3] increased in the year by 5.7% to 1.467m (2015: 1.388m) with a strong first half followed by a decrease in the second half. This reflects a strong market for buy to let and second properties in the first quarter, prior to stamp duty changes, and a reduction in consumer confidence post the EU referendum in the second half.

Surveying turnover was £64.7m (2015: £64.1m), an increase of 1% on the previous year with the total number of jobs performed during the year of 318,077 (2015: 327,267) reflecting the overall management of the mix of jobs.

LSL continued to focus on optimising capacity management in 2016, driving an increase in income per job to £203, an improvement of 4% year-on-year. As a result LSL delivered another strong Underlying Operating Profit result at £17.5m (2015: £18.1m) with an Underlying Operating Margin of 27.1% (2015: 28.3%).

The total number of qualified surveyors (FTE) at 31st December 2016 was 323, a reduction of 7% year-on-year. LSL's ongoing graduate training programme continues to be successful and assists in alleviating the impact of skill constraints in the market. In 2017 LSL will continue to focus on improving efficiency through optimising capacity management supported by use of the new technology.

At 31st December 2016 the total provision for PI Costs was £20.7m. In 2016 the Group continued to make positive progress in addressing historic claims and there has been a net £1.6m exceptional release.

Financial Review

The key drivers of the financial performance of LSL in 2016 are summarised below

£307.8m
Group revenue
Up 2.4% – 2015: £300.6m

£34.6m
Group Underlying Operating Profit
Down 19.2% – 2015: £42.9m

£32.7m
Cash generated from operations
Down 10.6% – 2015: £36.5m

£65.4m
Group operating profit
Up 58% – 2015: £41.4m

Income statement

Revenue
Revenue increased by 2.4% to £307.8m in the year ended 31st December 2016 (2015: £300.6m).

Operating expenses
Operating expenses increased by 5.6% to £275.3m (2015: £260.7m). Increases were primarily in the Estate Agency Division as a result of the acquisition of Group First, a full year charge for Thomas Morris (acquired during 2015), Marsh & Parsons branch openings and the national media campaign investment in the Your Move estate agency brand during the first half of 2016.

The average number of full time equivalent employees during the year was 4,630 (2015: 4,677).

Group Underlying Operating Profit
Group Underlying Operating Profit (as defined in Note 5 to the Financial Statements) decreased by 19.2% to £34.6m (2015: £42.9m) with the Underlying Operating Margin of 11.3% (2015: 14.3%). On a statutory basis, the Group operating profit increased by 58% to £65.4m (2015: £41.4m).

Exceptional items
Total exceptional costs in 2016 were £2.3m (2015: £0.3m). The exceptional costs related to the closure and restructure of 21 branches and the costs relating to the technological refresh in the Surveying Division. In 2015, exceptional costs comprised the closure of an administration centre and the subsequent restructuring costs incurred which included redundancy costs.

Total exceptional gains in 2016 were £34.5m (2015: nil) comprising of £32.9m of gains relating to the sale of the Zoopla shares and a £1.6m exceptional release relating to the PI Costs provision.

PI Cost provision for PI claims and notifications
At 31st December 2016, the total provision for PI Costs was £20.7m. In 2016 the Group continued to make positive progress in addressing historic claims and there has been a net £1.6m exceptional release.

Contingent consideration
The contingent consideration relates primarily to the Growth Shares (C shares) acquired by the management of Marsh & Parsons subsequent to acquisition, and payments due to third parties in relation to the acquisition of LSLi and certain of its subsidiaries between 2007 and 2016. Payments are due between three and five years after the acquisition completion and depending on the profitability of those subsidiaries in the relevant calculation years. In 2016 contingent consideration in the Income Statement amounted to a credit of £3.8m (2015: £1.5m credit). This included a credit for consideration on the acquisition (in 2011) of Marsh & Parsons of £1,964,000 (2015: credit £3,002,000), a credit relating to LMS of £268,000 (2015: charge of £2,136,000) and a credit of £1,142,000 in LSLi (2015: credit of £611,000).

Amortisation
The amortisation charge was £3,900,000 (2015: £1,800,000). The increase was the result of the full year impact of the acquisition activity in 2015 and the first half 2016.

Net financial costs
Net financial costs amounted to £1.9m (2015: £2.8m). The finance costs related principally to interest and fees on the revolving credit facility. Additional costs relate to the unwinding of discounts on provisions and contingent consideration and interest on loan notes. The reduction in the net financial cost results from reduced interest charges in part due to the variation of the 2011 loan notes.

Taxation
Following the 2015 Summer Budget the headline rate of corporation tax in the UK was further reduced from the current rate of 20% to 19% effective from 1st April 2017 and further reduced to 18%, effective from 1st April 2020. The Budget announcement in March 2016 included a further reduction effective from 1st April 2020, when the proposed corporation tax rate will be lowered further still to 17%.

Following the enactment of Finance Bill 2016 in September 2016, the applicable corporation tax rate is 17% and this is the rate at which deferred tax has been provided (2015: 18%). Corporation tax is recognised at the headline UK effective rate of 20% (2015: 20.25%).

The effective rate of tax for the year was 20.5% (2015: 21.1%). The effective tax rate for 2016 has decreased as a result of a number of factors, including reducing the rate at which deferred tax is provided resulting from the reduction in the headline rate of corporation tax.

Deferred tax credited directly to other comprehensive income is £3.8m (2015: charge of £0.5m). This is comprised of a credit of £5.9m and a charge of £2.1m and relates to the disposal and revaluation of financial assets. Income tax credited directly to the share-based payment reserve is £0.1m (2015: £nil).

In 2016 corporation tax payments of £8,900,000 (2015: £5,600,000) were made which is lower than the current year corporation tax charge of £12,700,000 (2015: £7,800,000). This is a result of the timing of the settlement of the corporation tax liability on the disposal of the Zoopla share-holding in the second half of 2016.

Basic Earnings Per Share

The Basic Earnings Per Share was 49.2 pence (2015: 29.7 pence). The Adjusted Basic Earnings Per Share (as calculated in Note 11 to the Financial Statements) is 25.9 pence (2015: 31.5 pence) a drop of 17.8% which is broadly in line with the decrease in Group Underlying Operating Profit. The Group seeks to present a measure of underlying performance which is not impacted by the unevenness in profile of exceptional gains and exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments. 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

Joint ventures and other investments

The Group has two joint ventures; a 33.3% (2015: 33.33%) interest in TM Group, whose principal activity is to provide property searches, and a 50% (2015: 49.99%) interest in LMS whose principal activity is to provide conveyancing panel management services.

In addition LSL owns an 18.1% (2015: 18.1%) share in the Guild of Professional

Davis Tate: Gold best Medium South East winners at the Estate Agency of the Year Awards 2016 in association with The Sunday Times and The Times.

Estate Agents (GPEA), which is a membership organisation with a national network of independently owned estate agents. The carrying value of GPEA was assessed as at 31st December 2016 and was revalued to £3.7m (2015: £0.9m).

Capital expenditure

Total capital expenditure in the year amounted to £4.6m (2015: £4.8m) and an additional £1.4m (2015: £3.2m) has been spent internally on developing new software which has been treated as an intangible asset.

Bank facilities

In May 2016, LSL extended its bank facility until May 2020. The facility includes a £100m revolving credit facility (2015: £100m) and incorporated more favourable terms for LSL. During the period under review, the Group complied with all of the financial covenants contained within the facility.

Net Bank Debt and cashflow

As at 31st December 2016 Net Bank Debt was £20.3m (2015: £39.9m) and Shareholders' funds amounted to £128.8m (2015: £107.4m) providing a balance sheet gearing of 15.8% (2015: 37.1%). The decrease in Net Bank Debt was primarily the result of the sale of the Group's entire holding of Zoopla shares and the pause in acquisition activity in the second half of the year. The 2016 gearing level was 0.51 times adjusted EBITDA[1] (2015: 0.83 times). The Group has a committed revolving credit facility until May 2020 and in 2016 the Group generated cash from operations of £32.7m (2015: £36.5m).

Zoopla

Between 20th July 2016 and 31st October 2016, LSL sold its entire holding of 11.3m ordinary shares in Zoopla for total proceeds of £36.1m at an average price per share of £3.19. The proceeds of the disposal were used to reduce corporate indebtedness.

In January 2017 Zoopla (now known as ZPG) issued the Group with 226,711 warrants in accordance with a 2016 service agreement.

Net assets

The Group's net assets as at 31st December 2016 were £128.8m (2015: £107.4m).

Treasury and risk management

LSL has an active debt management policy. LSL does not hold or issue derivatives or other financial instruments for trading purposes. Further details on the Group's financial commitments as well as the Group's treasury and risk management policies are set out in this Report.

Post balance sheet events

There have been no post balance sheet events to report.

International Financial Reporting Standards (IFRS)

The Financial Statements have been prepared under IFRS as adopted by the EU.

[1] Adjusted EBITDA is Group Underlying Operating Profit as previously defined plus depreciation on property plant and equipment

Principal Risks and Uncertainties

LSL has an overall framework for management of risks and internal controls to mitigate the risks. Through this framework, the Board, which has overall accountability and responsibility for the management of risk, on a regular basis identifies, evaluates and manages the principal risks and uncertainties faced by LSL, areas which could adversely affect its business, operating results and financial condition.

Development of risk appetite

During 2016, in line with the FRC's Guidance on 'Risk Management, Internal Control and Related Financial and Business Report' which was published in 2014 and which integrated and replaced the FRC's previous guidance on risk management and internal controls, the Board has continued to develop LSL's approach to risk appetite to ensure continued compliance with the Code and FRC guidance. The Board has through this process expressed the types and level of risk which it is willing to take or accept to achieve LSL's plans and to support consistent, risk-informed decision making across the Group.

The development of the risk appetite began with the Directors approving a risk framework policy and defining individual risk appetite statements for LSL's principal risks and for key decisions made by the Board. These statements provide parameters within which the Board typically expect LSL's businesses to operate, facilitating structured consideration of the risk and reward trade-off for the decisions made around how the Group conducts business. This includes monitoring of risk measures and identification of actions needed to bring any specific outlying areas of risk within target levels. During 2016, exercises have been initiated for targeted analysis of emerging areas of risk and evaluation of components within individual principal risk areas where management adopt the lowest risk appetite tolerances.

The discussions covered a wide range of risks, which reflect the nature of LSL's businesses and acknowledges that there is not a one size fits all approach to establishing risk parameters. During 2017, LSL will continue to develop the framework in line with emerging best practice, including broader development of risk key performance indicators within management information and triggers to be applied in specific areas to adjust levels of risk exposure.

The Board will seek to establish clear parameters, whilst at the same time fostering an environment within which innovation and entrepreneurial activities thrive. Where there is any proposal to shift the Group significantly closer to or outside agreed risk parameters, this will be discussed and subject to Board approval before commencing any activities to ensure that appropriate mitigation controls are put into place.

Ongoing evolution of the risk management framework is carried out as part of an on-going cycle of continual improvement, and remains a key priority for the Board in 2017.

Developing the financial viability statement

In developing the financial viability statement, it was determined that a three year period, ending on 31st December 2019, should be used, as this is consistent with Group's budget and strategic planning cycles and is supported by the Group's funding arrangements, which expire in May 2020.

The Executive Committee reviewed LSL's principal risks, and considered which of these risks might threaten the Group's viability.

A number of severe but plausible scenarios were considered and modelled in detail with input from a cross functional group of senior managers, including representatives from the finance teams.

The main focus of the scenario modelling related to the impact of a significant downturn in the property market as occurred in the high risk lending period of 2004 to 2008. Modelling included the plans LSL put in place during that recessionary period. The skills and many of the personnel with experience to manage through such a scenario remain within the business which has helped this process and gives a degree of confidence to manage through a similar future scenario.

Detailed assumptions for each scenario were built up and modelled by month across the three year period. The models measured the downside impact on revenue and the management action which would be taken to retain cash reserves and maintain the operating capacity of the business as a result of the stress scenarios.

Assumptions were also made for the potential growth of LSL's recurring income and counter-cyclical businesses, notably Lettings and Asset Management, and the extent to which some activities, such as Lettings, tend to be less affected through the cycle. The modelling and assumptions took account of the broad range of services across a broad geography which allows some protection from the impact of stress scenarios.

The Audit Committee oversaw the process by which the Directors reviewed and discussed the assessment undertaken by the Management Team in proposing the viability statement.

The Directors' financial viability statement is contained in the Report of the Directors.

Risk management and internal controls framework

LSL's risk management and internal controls framework for 2016 included:

a. ownership of the risk management and internal controls framework by the Board, including a risk framework policy, supported by the Group Chief Financial Officer, the Company Secretary, Head of Risk and Internal Audit and the Group Financial Controller;
b. a network of risk owners in each of LSL's businesses with specific responsibilities relating to risk management and internal controls;
c. the documentation and monitoring of risks are recorded and managed through standardised risk registers which undergo regular reviews and scrutiny by local boards and the Head of Risk and Internal Audit;
d. the Board regularly 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;
e. the development and application of LSL's risk appetite statement and

associated framework (for further details on steps taken during the year, see the Audit Committee Report); and

f. 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.

As stated above, LSL has in place a Group-wide risk appetite statement and risk framework policy which will continue to be developed in 2017.

The risk framework includes the following:

a. a risk framework policy;
b. determination of risk appetite and management or mitigation of risks in line with risk appetite tolerances;
c. assessment of prospects and viability;
d. review of effectiveness of the risk management and internal control systems; and
e. going concern confirmation (for LSL's going concern disclosure see the Report of the Directors).

During the year, the Directors carried out a robust assessment of the principal risks facing the Group, including those that threaten the business model, future performance, solvency or liquidity. The Directors believe that the assessment which has been completed is appropriate to the complexity, size and circumstances of the Group, which is a matter of judgment of the Board and has been supported by the Management Team.

The Directors also carried out a risk appetite assessment exercise which involved the evaluation of continually evolving aspects of risk management. During 2016, this included the capturing of anticipated impacts following the EU referendum on the residential housing market and the articulation of established 'conduct risk' routines used to support the delivery of appropriate customer outcomes. These aspects are included in the principal risks and uncertainties summarised below.

The identified risks may change over time due to changes in business models, performance, strategy, operational processes and the stage of development of the Group in its business cycle as well as with changes in the external environment. This robust assessment is focused on the principal risks and it differs from the review of the effectiveness of the systems of risk management and internal controls.

In accordance with the requirements of the Code this Report includes descriptions of principal risks together with a high level explanation of how they are being managed or mitigated. This includes clear descriptions of the risks together with an evaluation of the likelihood of a typical risk event crystallising and its possible impact. Mitigating steps and any significant changes to specific areas of risk are also referred to within the tabular summary.

As noted above, this robust analysis of principal risks has also contributed to the Group's viability statement which is included within the Report of the Directors. The Directors have also considered the impact if risks coincide, namely a combination of non-principal risks could potentially represent a single compound principal risk.

The Group also faces other risks which, although important and subject to regular review, have been assessed as less significant and are not listed in this statement. 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 as 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 2016 is set out in the Audit Committee Report (Internal Controls) of this Report.

Principal Risks and Uncertainties

	Risk	Description	Mitigation
Strategic:			
1	**UK housing market**	Group performance is intrinsically linked to the overall performance of the UK housing market (including subsets – e.g. prime Central London). The market is also impacted by changes in the global political and economic environments (e.g. EU referendum outcome).	• Daily, weekly and monthly monitoring of trading and market performance data. • Market share, product mix and segmentation initiatives. • Development of counter-cyclical income and recurring revenue income streams. • Responsive investment and cost control measures during the housing market cycle. • Investment in teams to deliver strategic projects. • Balanced UK-wide geographical spread. • Monitoring of wider macro-economic and political developments.
2	**New UK housing market entrants**	Traditional business models for property services are exposed increasingly to new business models and technological advancements (e.g. online/hybrid estate agents, automated valuation models and automated financial services operating models).	• Competitor and industry benchmarking. • Development of strategies in response to market disrupters. • External consultative support as necessary. • Monitoring of potential acquisitions and joint venture opportunities. • Service delivery enhancements and experimentation. • Infrastructure investment, upgrading and consolidation of core operating systems. • Marketing initiatives. • Staff incentive schemes.
3	**Acquisitions and growth initiatives**	Realising appropriate targets for acquisition and major project initiatives, including delivery of appraisals, due diligence and integration/implementation requirements.	• Defined pre and post-acquisition reporting to the Board and Audit Committee. • Structured authority levels. • Responsive flexing of risk appetite during the housing market cycle. • Flexible resource pool to support acquisition and integration activities teams. • External consultative support as necessary. • Established integration planning methodology. • Post-acquisition and post-implementation reviews. • Risk and Internal Audit engagements.
Sales/distribution:			
4	**Professional services**	Exposure to major PI claims arising from any lapses in surveying and valuation practices.	• Robust framework and monitoring routines to maintain valuation accuracy. • Dedicated surveying risk team. • Timely data capture of all claims and associated trends. • Utilisation of technology to monitor valuation trends and trigger alerts. • Risk and Internal Audit reviews. • Experienced claims handling personnel supported by legal experts. • Culture promoting effective sales conduct and open lines of communication with clients. • Board-level authorities for PI claims, settlement payments and governance of underlying claims handling and accounting processes.
5	**Client contracts**	The performance of the Estate Agency and Surveying businesses are dependent on securing and retaining key contracts (e.g. lenders, portfolio landlords and house builders).	• Customer outcome focused forums and initiatives. • Designated senior members of staff with responsibility for relationship management. • Ongoing investment in resources, technology and service standards to ensure LSL has the capacity to meet service level demands. • Targeted marketing and training events. • Monitoring of client dependency and compliance with contractual requirements. • Robust control framework supporting the risk profiling of prospective clients, contract renewals and the quality of professional services. • Dedicated in-house legal services and claims Management Teams. • Risk & Internal Audit reviews.

	Risk	Description	Mitigation
Operations:			
6	**Information technology infrastructure**	The Group has varied operations which require a robust IT infrastructure. The IT environment needs to remain adaptable to support growth initiatives, harness technological advancements and counter business continuity threats, including malicious and cyber related attacks.	• Board level IT governance, policies and initiatives. • Focus on innovation within the Group's strategy. • Dedicated in-house IT teams. • Maintenance of infrastructure to maintain effective service delivery. • Ongoing IT investment and development programme. • Implementable business continuity and disaster recovery solutions. • Monitoring of compliance with relevant contractual and regulatory requirements. • Inter-Group IT forums. • External consultative support as necessary. • Risk and Internal Audit reviews.
7	**Information security**	Group operations involve the processing of high volumes of personal data, with potential for unintended data loss and exposure to increasing levels of external cyber-crime.	• LSL Information Security and Governance Group and Group IT Director in place. • Dedicated LSL Information Security personnel. • Group data protection policies and training. • Tracking of data assets/data sharing, in line with authority levels. • Penetration testing programme. • Benchmarking against best practice standards – e.g. ISO27001. • Implementation of regulatory changes – (e.g. General Data Protection Regulation). • Second and third-line risk-based reviews.
8	**Regulatory and compliance**	Relationships with regulators and compliance with legal and regulatory requirements. Any compliance breaches could result in sanctions and reputational damage (e.g. prosecutions or fines). Regulatory and compliance risk extends to oversight of standards adopted by business partners (e.g. franchises, appointed representatives, joint ventures and minority investments). The market and business operations are also impacted by regulatory reforms (e.g. Housing White Paper) which may have an effect on Group revenue and expenditures. Regulatory costs, fees and charges continue to grow due to the rising funding requirements of the Financial Services Compensation Scheme (FSCS).	• Top-down culture focused on fairness, transparency and successful customer outcomes. • Open dialogue with regulators and monitoring of emerging developments and regulatory reforms. • Group risk framework policy incorporating a 'three-lines of defence' model to track compliance with regulations. • Group policies including ethics (e.g. whistleblowing structures and anti-fraud and anti-bribery policies) and employee welfare. • Group-wide health and safety arrangements to ensure welfare of employees and visitors to Group premises. • Group-level forums with regulatory focus and oversight (e.g. Financial Services Management Committee, Financial Services Risk Committee, Financial Services Management Committee, Financial Services Risk Committee, and Information Security and Governance Group). • Dedicated compliance teams in higher risk/regulated functions. • Evolution of IT systems to strengthen oversight routines. • Responsive complaints tracking of any emerging themes. • In-house legal services team, with external legal support when needed. • Group Risk and Internal Audit reviews.
People:			
9	**Employees**	Securing and retaining key strategic populations and controlling attrition in key business critical areas, ensuring the effective management of personnel standards across varied Group businesses.	• Oversight by LSL Remuneration and Nominations Committees. • Group remuneration policies and incentive schemes to retain key strategic populations. • Regular benchmarking and appraisals of senior management. • Succession planning reviews and targeted reviews in some areas. • Dedicated in-house recruitment team. • Targeted retention and recruitment initiatives. • Staff surveys and Group HR initiatives to focus on attrition, improve staff morale, relieve areas of pressure and improve operational efficiencies. • Group-wide HR IT systems. • Monitoring of statutory requirements and developments. • Employee policies and monitoring framework (e.g. health & safety). • Culture of transparency, clear Group policies and whistleblowing procedures to enable staff to confidentially raise concerns.

Corporate Social Responsibility

Reeds Rains Easter competition

The Board has overall responsibility for establishing the Group's Corporate Social Responsibility (CSR) statement and associated policies with the Group Chief Financial Officer, 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 online 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.

During 2016, LSL began putting in place arrangements to ensure compliance with the Modern Slavery Act 2015 and is currently developing its statement which is required to be disclosed in June 2017. This work includes assessments and due diligence of key suppliers for relevant Group companies in addition to updating its employee policies.

LSL has also been monitoring the implementation of the payment practices reforms which will apply to LSL business during 2017 with reporting requirements commencing in July 2018.

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 receives 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.

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.

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 Teams.

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. Key performance indicators such as labour turnover and responses to key questions are also monitored to measure staff morale.

Each year LSL engages 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 allows LSL to assess the results and feedback received against similar organisations using the benchmarking data retained by the agency. As in previous years, the 2016 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 3,574 (72%) (2015: 3,578 (71%)) returns received.

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 2017 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, mystery shopping exercises and consumer focus groups. This feedback is taken into account in LSL's decision making processes and in particular in the development of its services to customers. During 2016, LSL conducted extensive consumer research and market research ahead of exploring and evaluating in 2017 LSL's digital opportunities.

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 alongside regular reporting to the Board, which includes indicators such as staff turnover.

Gender diversity:

During 2016, LSL has remained committed to diversity and equal pay and LSL is monitoring the requirements relating to new gender pay reporting requirements, and has also participated in the Government consultation. During 2017, LSL will ensure full compliance ahead of the reporting requirements coming into force in 2018.

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.

	2016	2015	2014	2013	2012
Total employees at (31st December)	**4,990**	5,181	5,222	5,299	4,754
Total employee turnover percentage (%)*	**30.8**	28.5	27.8	26.4	26.7

*Data excludes forced leavers.

Breakdown by gender	2016	2015	2014	2013	2012
Male	**2,206**	2,285	2,316	2,318	2,052
Female	**2,784**	2,896	2,906	2,981	2,702

In accordance with reporting requirements, the gender split for the Board, senior Management Team and Group employees for 2016 and 2015 is as follows:

	Female		Male	
	2016	2015	**2016**	2015
Directors	**2**	2	**6**	7
Senior Management Team	**16**	15	**61**	57
Group employees	**2,766**	2,899	**2,139**	2,282

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 2016, 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 and Valuation Services:
There are a total of 87 graduates in the business, the majority of whom have achieved AssocRICS qualifications. There are 20 still working towards the competency levels who are on schedule to qualify during 2017. All surveyors are regulated by the RICS (Royal Institute of Chartered Surveyors) and continuing professional development (CPD) is a commitment by members to continually update their skills and knowledge in order to remain professionally competent. All RICS professionals must undertake and record online a minimum of 20 hours of CPD activity each calendar year. This is undertaken through a variety of methods ranging from distance learning, online modules through the Learning Management System, 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 Data Protection, 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. LSL is on behalf of all its Estate Agency businesses entering into a primary authority agreement with York Trading Standards.

During 2016 and now in 2017, the Group is monitoring the Government's review of the housing market, which is set out in the Government's Housing White Paper, published in February 2017 and is considering the impact of these reforms.

The Group is also reviewing its processes and putting in place arrangements to ensure compliance with the new data protection requirements ahead of the introduction of the General Data Protection Regulations in May 2018.

LSL monitors all relevant legislative changes affecting its businesses and 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 3,349 employees during 2016, equating to the delivery of 6,179 training days. 2016 saw the implementation of a number of eLearning packages on 'Learning Matters', LSL's online eLearning system, which allows Group employees to complete eLearning training packages for compliance and regulatory purposes, and as a result of this system, LSL is able to monitor and report on compliance training completion rates in real-time.

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

By fostering an inclusion culture, LSL are committed to diversity and equal pay, and recognise that many of its employees do not progress at the same rate. Therefore LSL have identified some of the main barriers to progression and have developed a plan to support minority groups. This includes the implementation of new training programmes which have started with both unconscious bias and assertiveness training.

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. LSL's Financial Services businesses are also members of the Association of Mortgage Intermediaries which is an industry representative body and are subject to the Financial Ombudsman Service and also contribute to the funding of the Financial Services Compensation Scheme through regulatory fees and charges. LSL is participating in and monitoring the FCA's market study on competition in the mortgage sector which was launched in December 2016.

The Financial Services companies are responsible for the training and compliance arrangements of the majority of Financial Services business conducted by Group companies and the business 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.

During 2016, the Group training expenditure was:

Division	Expenditure 2016	Expenditure 2015
Estate Agency and Related Services (£)	**1,406,325**	1,489,182
Surveying and Valuation Services (£)	**344,218**	400,026
Total expenditure (£)	**1,750,543**	1,889,208

This includes in-house training costs of £1,164,440 (2015: £1,557,807).

Health, safety and welfare

LSL places great importance on the health, safety and welfare of its employees. Regular training is supported by policies, together with Group standards and procedures, 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 Chief Financial Officer 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, which includes indicators such as accident numbers.

Environmental issues

LSL recognises that the environment has an intrinsic value, which is central to the quality of life and 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 Chief Financial Officer, 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.

Energy efficiency strategy (including ESOS) and greenhouse gas emissions reporting)

During 2015, LSL undertook a number of energy audits to identify opportunities for energy and emissions reductions and to ensure compliance to the new ESOS Regulations 2014 and Article 8 of the EU Energy Efficiency Directive, which came into force in the UK in July 2014.

The aim of ESOS is to aid organisations in its identification of energy efficient savings to support and increase good energy management and it is part of the Government's climate change initiative. The results of the audit were submitted to the Environment Agency in December 2015 and LSL's next audit is scheduled to take place in 2019.

The 2015 audit which was completed by a Lead ESOS Assessor, involved a review of energy consumption data and visits to selected branches and offices.

The recommendations arising from the audit, which were reported to the Board have contributed to a Group-wide energy strategy. As a result, the following environmental projects were adopted in 2016 and will be reported against during 2017:

1. *Energy monitoring* – Where installation is practical, continue to build on the existing programme of implementation of smart meters through the remainder of the Group's premises estate.
2. *Lighting* – Installation of low energy and LED lighting in branches and offices, replacing inefficient fluorescent tubes and halogen lamps.
3. *Heating, ventilation and air conditioning* – Ensuring, through annual servicing, the effectiveness of temperature controls on fixed air conditioning systems. In terms of new installations, heating and air conditioning, ensuring these are in accordance with the Group ESOS strategy in terms of producing energy savings and reducing CO_2 emissions.
4. *Building management* – Undertake reviews at key sites to optimise system installations to improve the working environment for Group employees and generate savings on energy costs.
5. *Water* – Investigate the opportunities which may be available through market deregulation, and what further advantages this could present through the installation of meters to better manage usage and costs.
6. *Transport* – Consider improvements which may be available via the introduction of telematics producing data to allow for the monitoring of fuel consumption, driver fuel performance, alongside offering lower emission fleet vehicles. Additionally, further measures introduced to reduce CO_2 emissions include the use of telephone conference facilities and also the use of online web-based training programmes.

The next ESOS audit is due to take place during 2019.

The Group is also reviewing the Non Domestic Private Rented Property Minimum Standard Guidance published in February 2017 by the Department for Business, Energy & Industrial Strategy. The Guidance relates to Part Three of the Energy Efficiency (Private Rented Property) (England and Wales) Regulations 2015 and relates to non domestic property.

Greenhouse gas emissions:

This section of the Report has been prepared in accordance with LSL's regulatory obligation to report greenhouse gas emissions pursuant to Section 7 of The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013.

During the 2015/16 reporting period, LSL emitted a total of 7,599 tCO_2e from fuel combustion and operation of LSL's facilities (Scope 1 direct), and electricity purchased for LSL's own use (Scope 2 indirect). This is equal to 24 tCO_2e per £m of revenue or 1.69 tCO_2e per full time equivalent employee.

The table below shows LSL's tCO_2e emissions for the period 1st October – 30th September for the years 2016, 2015, 2014 and 2013.

(tCO_2e)	**2015/ 2016**	2014/2015	2013/2014	2012/2013
Combustion of fuel and operation of facilities (Scope 1)	**4,046**	4,325	4,781	3,728
Electricity, heat, steam and cooling purchased for our own use (Scope 2)	**3,553**	4,236	4,834	5,436
Total Scope 1 and 2	**7,599**	8,561	9,614	9,164
tCO_2e per full time equivalent employee	**1.69**	1.89	2.1	2
tCO_2e per £m revenue	**24**	29	34	37

As the table demonstrates, since 2014 LSL's absolute emissions have decreased by 21%. This reduction is principally due to the Group's programme of continual branch refurbishment across the Estate Agency businesses to improve efficiency and modernise fittings, as well as the reduction in average FTE employees across the Group over the year and the disposal of a number of sites.

Greenhouse gas reporting methodology:

The Group quantifies and reports on its organisational greenhouse gas emissions according to Defra's Environmental Reporting Guidelines and has utilised the UK Government 2016 Conversion Factors for Company Reporting in order to calculate CO_2 equivalent emissions from corresponding activity data. LSL has also utilised data required for compliance with the CRC Energy Efficiency Scheme and the ESOS.

Greenhouse gas reporting boundaries and limitations:

The emission sources included within this Report fall within the consolidated Financial Statement. LSL does not have responsibility for any emissions sources that are not included within the consolidated Financial Statement. LSL has not to date calculated the Group's fugitive refrigerants from air-conditioning equipment as these are considered to be de minimis, however, LSL may look to quantify and report on emissions from this source in future years.

The greenhouse gas sources that constitute LSL's operational boundary for the 2015/2016 reporting period are:

- Scope 1: Natural gas combustion within boilers and road fuel combustion within vehicles
- Scope 2: Purchased electricity consumption for our own use

Greenhouse gas reporting assumptions and estimations:
In some cases, missing data has been estimated using either extrapolation of available data from the reporting period or data from 2014/2015 as a proxy.

Social and community interests (including human rights, ethical issues and modern slavery)
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 below.

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

During 2016 and into 2017, LSL has been reviewing its operations to develop its policy on the prevention of modern slavery ahead of its reporting obligations which commence in June 2017. This has included assessments and due diligence of key suppliers for relevant Group companies in addition to updating employee policies.

LSL has also been monitoring the implementation of the payment practices reforms which will apply to LSL business during 2017 with reporting requirements commencing in July 2018.

Charitable donations
Workplace giving:
LSL has implemented the 'Charitable Giving' initiative and all Group employees have been invited to participate. The initiative was launched in October 2010 and in 2016 LSL employees raised over £11,000. Over 122 employees participate in the scheme, which donates to a range of charities.

LSL 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 by receiving a higher amount. Further information can be found at: www.chartitablegiving.co.uk/payroll/payroll-giving.htm

Estate Agency:
LSL's Estate Agency Division continues to encourage and promote individuals' fundraising activities in all brands' local communities and employees have raised money for a wide range of causes in 2016, from national and international organisations such as Cancer Research (www.camcerresearchuk.org), the NSPCC (www.nspcc.org.uk), Save the Children (www.savethechildren.org.uk), Agents Giving (www.agentsgiving.org) and Action This Day (www.actionthisday.org) to very specific local needs such as a new Faxitron machine for Blackpool Victoria Hospital, funds for the Adult Cystic Fibrosis Centre at Wythenshawe Hospital and Christmas Stockings for Jimmy's Homeless Centre in Cambridge. Reeds Rains also sponsored Bauer Radio's Cash for Kids initiative at Metro Radio stations in the North East and following the success of this signed up to be headline sponsor in 2017 for the whole event across eight radio stations.

Surveying:
Within the Surveying Division, during 2016 the national charity, Coming Home was supported. Coming Home provides specially adapted housing for ex-service men and women. Support was also provided to a number of different charities (national and local) based on individual employee request, including but not limited to:

• Teenage Cancer Trust www.teenagecancertrust.org • Northampton Swimming Club www.northamptonswimming.com • MacMillan Cancer www.macmillan.org.uk • Royal British Legion www.britishlegion.org.uk • Cynthia Spencer Hospice www.cynthiaspencer.org.uk • Breast Cancer Now www.breastcancernow.org • Cransley Hospice www.cransleyhospice.org.uk.

Tax strategy
LSL will ensure compliance with the provisions of Schedule 19 to the Finance Act 2016 by publishing its tax strategy in 2017. This will build on LSL's existing transparency in relation to taxation.

The Board

1. David Stewart
Non Executive Director
David was appointed as an independent Non Executive Director on 1st May 2015. He is Chairman of the Audit Committee and a member of LSL's Nominations and Remuneration Committees. David has significant experience in strategy, operations, sales and marketing, finance and governance, particularly in the financial services sector. On 6th February 2017, he became Chairman of the ENRA Group of Companies, and he also sits as a Non Executive Director on the boards of M&S Bank and HSBC Private Bank (UK). He was previously Chief Executive of Coventry Building Society and before that, he held the positions of Finance Director and Operations Director. David, originally from Manchester, studied economics and politics at Warwick University and qualified as a chartered accountant with Peat Marwick (KPMG).

2. Simon Embley
Non Executive Director and 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. Simon's other directorships are limited to a small estate management company, Road to Health (a healthcare provider) and he is Non Executive Chairman at Global Ventures (a tenant deposit protection scheme).

3. 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. He is also a member of LSL's Audit 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.

4. Kumsal Bayazit Besson
Non Executive Director
Kumsal was appointed as an independent Non Executive Director on 1st September 2015 and is also a member of LSL's Nominations, Remuneration and Audit Committees. Kumsal has significant experience in strategy, technology, operations and sales and marketing, particularly in the professional information solutions sector. This includes her current appointment as a Regional President, Europe at Reeds Exhibitions which is part of the RELX Group plc (formerly the Reed Elsevier Group plc). Kumsal has previously held a number of executive technology and digital strategic roles including appointments as Chief Strategy Officer for RELX Group, as the Executive Vice President of Global Strategy and Business Development for LexisNexis (part of RELX Group plc) and as a consultant for Bain & Co in New York, Johannesburg, Sydney, San Francisco and Los Angeles. Kumsal holds an MBA from Harvard Business School and a BA in Economics from the University of California at Berkeley.

5. Ian Crabb
Executive Director, 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. Helen Buck
Executive Director – Estate Agency

Helen was appointed as Executive Director – Estate Agency on 2nd February 2017 and has overall responsibility for the performance, strategy and development of LSL's Estate Agency Division. Prior to this role Helen had, since December 2011, served as an independent Non Executive Director and was also a member of LSL's Nominations and Remuneration Committees. Helen was previously Chief Operating Officer at Palmer & Harvey. Prior to this she was part of the Sainsbury's management team from 2005 to 2015, including 5 years as a member of the Operating Board. Helen has extensive expertise in strategy, marketing, commercial and operations. Before joining Sainsbury's, Helen held a number of senior positions at Marks & Spencer, Woolworths and Safeway and was a senior manager at McKinsey & Co.

7. Adam Castleton
Executive Director, Group Chief Financial Officer

Adam was appointed as Group Chief Financial Officer on 2nd November 2015. Adam has a breadth of financial skills and experience in the retail and services sectors. Adam joined LSL from French Connection Group PLC where he was the Group Finance Director. He previously held leadership roles at a number of market leading companies including O2 UK, eBay and The Walt Disney Company. Adam has over 25 years' experience in finance, having started his career with Price Waterhouse where he qualified as a chartered accountant in 1989.

8. Sapna FitzGerald
General Counsel and Company Secretary

Sapna is a solicitor (qualified in 1998) and has been in the role of General Counsel and 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.

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
7th March 2017

Adam Castleton
Group Chief Financial Officer
7th March 2017

Report of the Directors and Corporate Governance Reports

In this section

Your Move's TV commercial, launched January 2016

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 EU.

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 Strategic Report (including the Chairman's Statement and the Group Chief Executive's 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 27th April 2017 starting at 4.00pm.

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

Due to the Boards positive view of the future prospects for the business, the proposed dividend 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 (as per Note 12 to the Financial Statements). The Board has reviewed the policy in line with the risks and capital management decisions facing the Group.

A final dividend of 6.3 pence per Share (2015: 8.6 pence per Share) will be proposed to Shareholders at the 2017 AGM, giving a total dividend for 2016 of 10.3 pence per Share (2015: 12.6 pence per Share).

The ex-dividend date for the final dividend is 30th March 2017 with a record date of 31st March 2017 and a payment date of 2nd May 2017. 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, included in 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 30 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 Report of the Directors. The 2016 results are included within the CSR statement of this Report.

Directors

The current Directors' are listed with their biographies in the Board at pages 32 to 33 of this Report. During the year Adrian Gill was also a Director and he stepped down from the Board on 4th January 2017. Further, Helen Buck became Executive Director – Estate Agency on 2nd February 2017, and ceased to be a Non Executive Director and member of the Remuneration Committee and Nominations Committee at the same time.

Full details of the Directors service contracts, letters or appointment and interests in LSL Shares 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 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. Accordingly, all of the Directors who were elected at the 2016 AGM will also stand for re-election at the 2017 AGM and any Directors appointed since the 2016 AGM will stand for election.

Shareholders 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.

The biographical details for all LSL Directors are set out on pages 32 and 33 of this Report.

During the 2016 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 included in this Report. During the period between 31st December 2016 and the date of this Report, there were no changes in the Directors' interests other than the purchases of Shares by Ian Crabb (211 Shares) and Adam Castleton (211 Shares) as participants of LSL's SIP/BAYE scheme. These Shares were purchased by the Trust at the prevailing market rate.

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 and are available for inspection at the Registered Office during normal business hours and at each AGM.

Auditor

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 for further details including details of the retendering exercise completed during 2016.

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

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 25 to the Financial Statements. There have been no changes to the Share capital during 2016. LSL will seek Shareholder approval for the renewal of authority for the Directors to allot unissued Ordinary Shares and for the power to dis-apply statutory pre-emption rights at the 2017 AGM. LSL did not obtain Shareholder approval to dis-apply pre-emption rights at the 2016 AGM.

Full details of the deadline for exercising voting rights in respect of the resolutions to be considered at the 2017 AGM are set out in the Notice of Meeting.

Employee share schemes

LSL has two Employee Benefit Trusts. The first was established in 2006 prior to LSL's flotation on the London Stock Exchange and LSL appointed Capita Trustees Limited (Trustees) to operate the LSL Property Services plc Employee Share Scheme (Trust). The Trustees of this Trust operate both the LSL Property Services plc Employee Share Incentive Plan (Buy As You Earn or BAYE) and the Save As You Earn (SAYE) Plans. The Trust is able to acquire and to hold Shares to satisfy options or awards granted under any discretionary share option scheme or long-term incentive arrangement operated by LSL. Details of the Shares acquired by the Trust are set out in Note 13 to the Financial Statements. The Trustees have waived the right to any dividend payment in respect of each Share held by them in 2016 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, 2013 and 2015. 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.

Viability statement

In accordance with provision C.2.2 of the Code, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years. This assessment was considered against the Group's expected financial position, existing banking facilities and potential management actions.

A period of three years, ending on 31st December 2019, has been chosen for the purpose of the this viability statement, as this is consistent with the Group's budget and strategic planning cycle and is supported by the Group's funding arrangements, which expire in May 2020. The Directors' assessment has been made with reference to the Group's current position and prospects, the current three year strategy and the Group's principal risks and uncertainties and how these are managed as detailed on pages 22 to 25 of the Strategic Report. The process by which LSL developed its viability statement is set out on page 22 of the Principal Risks and Uncertainties section of this Report.

The strategic plan has been stress tested using sensitivity analysis which reflects plausible but severe combinations of the principal risks of the business, primarily through reducing revenues and cash-flow as a result of a severe downturn in the UK property market.

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 sections of the Strategic Report. The financial position of the Group, its cash-flows, liquidity position and the Group's policy for treasury and risk management are described in the Financial Review sections of the Strategic Report. Details of the Group's borrowing facilities are set out in Note 22 to the Financial Statements. Note 30 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 22 to 25.

As explained in Note 30 to the Financial Statements, the Group meets its day to day working capital requirements through a revolving credit facility, which was renewed in May 2016 and the Group currently has a £100.0m facility which is committed for a period up to May 2020. As stated in Note 31 to the Financial Statements as at 31st December 2016 the Group had available £79.7m 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 12 months (in addition to the Group's facility which is due to mature in May 2020) 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 the auditor

Having made enquiries of fellow Directors and of the external auditor, 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 and indemnities 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 2016, 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 2006 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 2016, the Trust held 1.46% (2015: 1.6%) 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 events

There have been no post balance sheet events to report.

Directors' responsibility statement

Each of the current Directors confirms that to the best of their knowledge:

- the Financial Statements, prepared in accordance with IFRS as adopted by the EU, 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 shareholdings

As at 31st December 2016 and as at 6th March 2017, the Shareholders set out below have notified LSL of their interest under DTR 5:

		31st December 2016		6th March 2017	
Institution	Nature of holding	Number of 0.2 pence Ordinary Shares	% of issued shares	Number of 0.2 pence Ordinary Shares	% of issued shares
Harris L.P	Beneficial	11,585,233	11.12	11,585,233	11.12
Brandes Investment Partnership L.P	Beneficial	10,412,023	10.00	12,503,382	12.00
Setanta Asset Management Ltd	Beneficial	10,456,726	10.04	10,407,843	9.99
Kinney Asset Management, LLC	Beneficial	7,694,643	7.38	7,694,643	7.39
First Pacific Advisers, LLC	Beneficial	6,176,093	5.93	5,267,163	5.06
The Capital Group of Companies, Inc	Beneficial	6,160,282	5.95	4,658,270	4.47
Henderson	Beneficial	4,182,818	4.01	4,182,818	4.01
Individual (excluding Directors)					
David Newnes	Registered Holder	3,479,910	3.34	3,479,910	3.34

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

Sapna B FitzGerald
Company Secretary
7th March 2017

Corporate Governance Report

UK Corporate Governance Code (September 2014) (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 2016 and the corporate governance arrangements that are in place for 2017.

During 2016, LSL complied with the provisions of the Code in all respects.

Whilst this Report assesses compliance against the 2014 edition of the Code, during 2016 the Board reviewed and updated its governance arrangements in relation to the Audit Committee to reflect changes introduced by the April 2016 edition of the Code.

In relation to 2017, the April 2016 edition of the Code applies to LSL with effect from 1st January 2017. Further, the Board will also consider the findings of the Business, Innovation and Skills Parliamentary Select Committee's review of corporate governance and the Government's proposals for reform, which were set out in the Green Paper published in November 2016.

LSL also notes the announcement by the FRC of 16th February 2017 of the fundamental review of the Code which it intends to conduct in 2017.

The Board

At the date of this Report, the Board has seven members, whose details are set out below.

Director Name	Position(s)
Helen Buck (1)	Executive Director – Estate Agency
Kumsal Bayzit Besson	Independent Non Executive Director – member of Nominations Committee, Remuneration Committee and Audit Committee
Ian Crabb	Executive Director – Group Chief Executive Officer
Adam Castleton	Executive Director – Group Chief Financial Officer
Simon Embley	Non Executive Director – Chairman
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
David Stewart (2)	Independent Non Executive Director – member of Nominations Committee and Remuneration Committee and Chairman of the Audit Committee

Notes:

1 During 2016 Helen Buck was a Non Executive Director and member of the Nominations Committee and Remuneration Committee. Helen was appointed as Executive Director – Estate Agency on 2nd February 2017.

2 David Stewart was appointed as Chairman of the Audit Committee with effect from the 2016 AGM.

During 2016, the Nominations Committee and the Board considered at length a number of aspects regarding its composition. In addition the Nominations Committee undertook a search for the recruitment of the Executive Director – Estate Agency, to replace Adrian Gill who stepped down from the Board on 4th January 2017. Following a comprehensive recruitment process, which included the engagement of executive search agencies and interviews with external and internal candidates, the Nominations Committee recommended the appointment of Helen Buck as Executive Director – Estate Agency and the appointment was approved by the Board and took effect on 2nd February 2017. The Nominations Committee was assisted in its search by executive search agencies, The MBS group (trading name of Moira Benigson Executive Search LLP) and The Zygos Partnership (trading name of Zygos LLP) and neither agency has any connection with LSL.

Further details on all Board changes are set out in this Corporate Governance Report and all of the current Directors are listed with their biographies in The Board at pages 32 and 33 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. 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.

During 2016 the Non Executive Directors (excluding the Chairman) were determined to be independent in accordance with B.1.1 of the Code, save that Helen Buck was not deemed to be independent during the final quarter of 2016 because she provided consultancy services to the Estate Agency Division during this period. However, the Board composition continued to comply with B.1.2 of the Code, namely that at least half of the Board (excluding the Chairman) comprised Independent Non Executive Directors. The current Non Executive Directors together have a range of experience which is described in more detail overleaf in the Nominations Committee section.

In addition to his role as Chairman, Simon Embley's other board appointments comprise a small estate management company, Road to Health (a healthcare provider) and he is also Non Executive Chairman of Global Property Ventures Limited (a tenant deposit protection scheme).

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 relevant skills, experience and diversity) to ensure that the Directors remain individually and collectively effective.

The evaluation process relating to 2016 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.

No significant issues requiring action arose from the 2016 evaluations and the outcomes of the exercise were reported to the Board. The appraisal confirmed that the Board and its Committees were discharging their responsibilities effectively and produced a number of recommendations to further improve the effectiveness of the Board. As a result, during 2017 the Board will:

a. Review its meeting arrangements, including agenda planning, the provision of information to Board members and the frequency of meetings for the Non Executive Directors. Combined these recommendations seek to ensure that the Board is able to focus on the development and execution of LSL's strategy, as well as monitoring performance and governance matters.

b. Develop its succession planning arrangements for Executive Directors and members of the senior Management Teams.

c. Deliver additional Director training.

d. Evaluate the Group's cultures, values and ethics and continue to focus on the delivery of fair customer outcomes.

During 2016, the Board continued to monitor the FRC's review of succession planning and discussed other relevant publications to aid it in its consideration of key issues and good practice.

LSL continues to recognise the benefits of diversity (including relevant professional skills, experience, gender and race) and the current Board composition includes two female Directors, Helen Buck (Executive Director – Estate Agency) and Kumsal Bayazit Besson (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 (including those undertaken in 2016) continue to take into account diversity, including professional skills, experience, 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. Further details of Director service contracts and letters of appointment are contained in the Directors' Remuneration Report.

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 Director induction and training.

During 2016 and in response to the 2015 Board evaluation exercise, the Board reviewed and approved revised induction arrangements. Each newly appointed Director receives an induction on a range of topics, including as appropriate, 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 2016 the Board held 10 scheduled meetings (including a three year planning meeting and a strategy meeting). Each of the Directors was able to allocate sufficient time to LSL to discharge their responsibilities effectively and the attendance of each of the Directors at the Board meetings (as a Director or a Committee member) is set out in this Report. During 2017 the Board is scheduled to meet nine times (including a three year planning meeting and a strategy meeting). Additional meetings will be held as required.

During 2016 the Non Executive Directors collectively scheduled to meet twice without the Executive Directors being present and it is the intention that the number of Non Executive Director meetings will be increased during 2017. In addition, the Non Executive Directors are scheduled to meet at least once in the year without the Chairman being present.

Board and Committee attendance 2016

Director	Board (including 3 year planning and a strategy meeting)	Audit Committee	Remuneration Committee	Nominations Committee	Notes
Kumsal Bayazit Besson	10	3	4	2	
Helen Buck	9	-	3	1	1
Adam Castleton	9	-	-	-	2
Ian Crabb	10	-	-	-	
Simon Embley	10	-	-	-	
Adrian Gill	10	-	-	-	3
Mark Morris	3	1	1	1	4
Bill Shannon	10	3	4	2	
David Stewart	10	3	4	2	

Notes:

1 Helen Buck was not present at one of the scheduled Board meetings and one Remuneration Committee meeting during 2016. She received the papers in advance of the meetings and provided her comments and queries to the Chairman of the meeting and the Group Chief Executive Officer for raising at the meetings. Helen Buck was appointed as Executive Director – Estate Agency on 2nd February 2017 and she did not participate in any Board, Nominations Committee or Remuneration Committee discussions in relation to her appointment.

2 Adam Castleton was not present at one of the scheduled Board meetings during 2016. He received the papers in advance of the meeting and provided his comments and queries to the Chairman and the Group Chief Executive Officer for raising at the meeting.

3 Adrian Gill stepped down from the Board on the 4th January 2017.

4 Mark Morris retired from the Board at the 2016 AGM, therefore his attendance is only recorded for meetings taking place prior to the 2016 AGM.

LSL's Articles of Association stipulate that all of the Directors appointed since the previous AGM and 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 and the formulation of the Group's risk appetite framework, including the identification, assessment and monitoring of LSL's principal risks and uncertainties. In accordance with best practice, LSL has adopted a policy of Matters Reserved for the Board which is annually reviewed by the Board.

There is a programme of regular reviews of performance and developing best practice in matters such as employment, health and safety, environmental and social and community interests (including human rights and ethical issues). LSL believes that CSR is necessary to support responsible business decisions that consider 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 including the steps being taken to ensure compliance with the requirements of the Modern Slavery Act 2015 can be found in the CSR Statement included in this Report.

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

Under the Companies Act 2006, a director must avoid a situation where he/she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interest. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts where appropriate and where the articles of association contain a provision to this effect, as LSL's Articles do. Accordingly, the Board has adopted procedures for the Directors to report any potential or actual conflict to the Board for their authorisation where appropriate. Each Director is aware of the requirement to seek approval of the Board for any new conflict situations, as they may arise. The process of reviewing conflicts disclosed, and authorisations given, is repeated both annually and following the appointment of any new Director. Any conflicts, or potential conflicts, considered by the Board and any authorisations given are recorded in the Board minutes and in a register of Director's conflicts which is maintained by the Company Secretary.

Board Committees

The Board has delegated specific responsibilities to three standing Committees of the Board: Nominations, Remuneration and Audit. The membership of these Committees and a summary of their main duties under their Terms of Reference are set out below. The full Terms of Reference may be viewed on LSL's website **(www.lslps.co.uk)**. During 2016, the Board reviewed the Terms of Reference for each of the Committees and during 2017 will continue to review each terms of reference in response to amendments to FRC guidance and the Code.

It is also the intention that Bill Shannon as Chairman of the Nominations Committee and Remuneration Committee and David Stewart as Chairman of the Audit Committee will both attend the 2017 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 Nominations Committee are Kumsal Bayazit Besson and David Stewart. During 2016, Helen Buck and Mark Morris were also members of the Nominations Committee. Mark Morris retired at the 2016 AGM and Helen Buck stepped down from the Nominations Committee on 2nd February 2017 when she was appointed as Executive Director – Estate Agency. Helen Buck did not participate in any Nominations Committee discussions regarding her appointment into the role. The Nominations Committee was assisted in its search by executive search agencies, The MBS Group (trading name of Moira Benigson Executive Search LLP) and The Zygos Partnership (trading name of Zygos LLP) and neither agency has any connection with LSL.

The Nominations Committee met twice in 2016 and the Group Chief Executive Officer, the Chairman, the Group HR Director and the Company Secretary were invited to attend these meetings and assisted the Nominations Committee in its deliberations during this period.

Roles and responsibilities of the Nominations Committee

The duties of the Nominations Committee are governed by its Terms of Reference, which was reviewed in 2016 to ensure continued compliance with 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. recommend appointments after the evaluation of the balance of skills, experience, independence and knowledge on the Board, the diversity, including gender and race, and, in light of this evaluation, the Nominations Committee will also prepare a description of the role and capabilities required for each particular appointment;

c. to give full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing LSL, and what skills and expertise are therefore needed on the Board in the future. The Nominations Committee will also satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management, so as to maintain 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 are made, on merit, against objective criteria, with due regard for the benefits of diversity, 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 LSL to discharge their duties effectively;

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 prior to the appointment of the chairman, a job description is prepared which includes an assessment of the time commitment expected for the role, recognising the need for availability in the event of a crisis; and

h. as part of the process for nominating candidates for any appointments, obtained details of and review any interests that the candidate may have which conflict or may conflict with the interest of LSL.

What the Nominations Committee did in 2016

During the year, as part of it discussions, the Nominations Committee evaluated the following matters:

a. Board composition, including gender, race and professional diversity.

b. Non Executive Director skills, expertise and experience together with succession planning arrangements taking into consideration the term of each Non Executive Director.

c. Executive Committee performance together with Executive Committee and senior management succession planning arrangements.

d. The Nominations Committee's performance and its terms of reference were reviewed to ensure continued compliance with the Code and FRC guidance.

e. Conducted a search for the recruitment into the role of Executive Director – Estate Agency. Here the Nominations Committee considered and, where appropriate made recommendations to the Board in relation to LSL's search. The search, which began in 2016, was concluded in February 2017, when the Board appointed Helen Buck as Executive Director – Estate Agency. LSL was assisted by an executive search agency in the recruitment for the role of Executive Director – Estate Agency. Helen Buck did not participate in any discussions relating to her appointment as Executive Director – Estate Agency.

As part of its discussions in 2016 the Nominations Committee also considered FRC guidance and other publications relevant to the roles and responsibilities of the Nominations Committee.

Board composition and diversity

The Board has expertise in strategy, technology, estate agency, surveying, financial services, the residential housing sector, commercial property, retail and marketing, operations, business services, entrepreneurial private and public companies, finance, consumer and employee matters, and corporate governance.

LSL is committed to promoting diversity throughout the Group and is preparing for the introduction of gender pay reporting which is due to commence in 2018. Whilst LSL has not adopted a formal policy on diversity, including professional skills, experience, race and gender diversity, the Chairman of the Nominations Committee ensures that diversity is taken into consideration in the recruitment of new Directors.

For details of gender reporting in relation to the Board, within the senior Management Teams and Group employees, see the CSR statement.

Remuneration Committee

The Remuneration Committee is chaired by Bill Shannon and at the date of this Report its other members are Kumsal Bayazit Besson and David Stewart. During 2016, Helen Buck and Mark Morris were also members of the Remuneration Committee. Helen Buck stepped down from the Remunerations Committee on 2nd February 2017 and Mark Morris retired at the 2016 AGM. Helen Buck did not participate in any discussions relating to her remuneration as Executive Director – Estate Agency.

The Remuneration Committee met four times during the year and the Group Chief Executive Officer, the Chairman, the Group HR Director and the Company Secretary were invited to attend some of these meetings and assist the Remuneration Committee in its deliberations during this period.

Role and responsibilities of the Remuneration Committee

The Remuneration Committee is responsible 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 Remuneration Committee has discharged these duties which can be found from page 54 of this Report.

The duties of the Remuneration Committee are governed by its Terms of Reference, which were reviewed in 2016 to ensure continued compliance with the Code. 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's overall purpose is to ensure that the levels of remuneration are sufficient to attract, retain and motivate directors of the quality required to run LSL successfully and to ensure that LSL avoids paying more than is necessary for this purpose. The Remuneration Committee also ensures that a significant proportion of the Executive Director's remuneration is structured so as to link rewards to corporate and individual performance. In discharging its responsibilities, especially when determining annual salary increases, the Remuneration Committee is sensitive to pay and employment conditions elsewhere in the Group. In relation to Executive Director remuneration for 2017, the Remuneration Committee has recommended performance-related elements which are transparent, stretching and rigorously applied.

What the Remuneration Committee did in 2016

During 2016, the Remuneration Committee considered the following matters:

a. Ensured that the levels of remuneration were sufficient to attract, retain and motivate Executive Directors of the quality required to run LSL successfully.

b. Completed a review of LSL's remuneration policy which included significant Shareholder consultations.

c. Reviewing and making recommendations to the Board on any remuneration arrangements or other payments payable to Executive Directors (including previous directors) and senior management.

d. Review of the Executive Directors shareholding guidelines and Executive Director shareholdings.

e. Review of the Remuneration Committee's performance and its terms of reference to ensure continued compliance with the Code and FRC guidance.

As part of its discussions in 2016 the Remuneration Committee considered FRC guidance and other publications relevant to the roles and responsibilities of the Remuneration Committee.

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

None of the current Remuneration Committee members have and nor did the 2016 Remuneration Committee members have any personal financial interest (other than as Shareholders), any conflicts of interest arising from cross directorship, 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 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 ESG issues by inadvertently motivating irresponsible behaviour.

Audit Committee

The Audit Committee is chaired by David Stewart and at the date of this Report, its other members are Bill Shannon and Kumsal Bayzit Besson. During 2016, Mark Morris was also a member of the Audit Committee. At the 2016 AGM Mark Morris retired from the Board and its Committees, including as Chairman of the Audit Committee. David Stewart was appointed as Chairman of the Audit Committee at the 2016 AGM, and the Board and Nominations Committee has determined that David Stewart has recent and relevant financial experience as is required by the Code. During the 2016 Board and Committee evaluation process the Board also confirmed that the Audit Committee as a whole has the competence relevant to the sectors in which LSL operates and that it includes at least one member who has recent and relevant financial experience.

The Committee met on three occasions in 2016. LSL's Head of Risk and Internal Audit, the external auditors, the Chairman, the Executive Directors (including the Group Chief Executive Officer and the Group Chief Financial Officer), the Group Financial Controller and the Company Secretary were invited to attend parts of these meetings to assist the Audit Committee in its deliberations during this period. The Audit Committee met with the auditors without the Executive Directors being present twice during 2016.

Further details of the duty and responsibilities of the Audit Committee are shown on pages 46 and 47 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 full year 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.

In addition each year all of the Non Executive Directors, including Simon Embley (Chairman) and Bill Shannon (Deputy Chairman and 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 159 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 2017 AGM to meet with Shareholders.

During 2016 LSL consulted with significant Shareholders in response to the proxy voting at the 2016 AGM and on Remuneration Policy changes which are being presented for Shareholder approval at the 2017 AGM. During 2017, LSL will engage with significant Shareholders and their representative bodies, as appropriate, in respect of any proposed changes to the Remuneration Policy and on the implementation of the Remuneration Policy.

All of LSL's announcements are published on the LSL website (**www.lslps.co.uk**), together with copies of presentation material and financial reports.

Sharedealing Code

Following the implementation of the Market Abuse Regulation, LSL has put in place a new Sharedealing Policy and Code to ensure regulatory compliance. This new Sharedealing Policy and Code applies to the Directors, PDMRs and other 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 the Report of the Directors for further details.

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

Sapna B FitzGerald
Company Secretary
7th March 2017

Audit Committee Report

Dear Shareholder

I am pleased to report on the activities of the Audit Committee during the 2016 financial year.

The Audit Committee, on behalf of the Board, has taken reasonable steps to ensure that the Annual Report and Accounts 2016, when taken as a whole, is fair, balanced and understandable.

In this Report I have detailed how the Audit Committee has discharged its responsibilities during 2016, including details of further development of the Group's Finance, Risk and other control functions. In addition, in 2016, the Audit Committee undertook a rigorous and competitive audit tendering exercise, the result of which is a recommendation to re-appoint Ernst & Young, subject to Shareholder approval at the 2017 AGM.

I would like to thank members of the Audit Committee for their support in 2016 and the active role each member played in understanding the Group and the risks and challenges it faces.

I will be available at the 2017 AGM to answer Shareholder questions relating to the Audit Committee and how it discharged its role and responsibilities during 2016.

David Stewart
Chairman of the Audit Committee
7th March 2017

Audit Committee

David Stewart is Chairman of the Audit Committee and its other members during the year were Mark Morris, Bill Shannon and Kumsal Bayazit Besson. David was appointed Chairman in April 2016, the Board and Nominations Committee having determined that he has the requisite recent and relevant financial experience as is required by the Code. Prior to David Stewart's appointment, Mark Morris was Chairman of the Audit Committee, a position he held since LSL's IPO in November 2006. Mark Morris retired from the Board and its Committees at the 2016 AGM.

Further, during the 2016 annual Board and Committees evaluation process, the Board confirmed that the Audit Committee as a whole has the competence relevant to the sectors in which LSL operates and that it includes at least one member who has recent and relevant financial experience.

Details of current members of the Audit Committee are set out above and detailed in the Corporate Governance Report and in Director profiles included in The Board section of this Report.

Roles and responsibilities of the Audit Committee

During 2016, the duties of the Audit Committee included:

a. to ensure that the Group's accounting and financial policies and controls are regularly reviewed, proper, effective and adequate;
b. to monitor the integrity of LSL's financial statements and any formal announcements relating to its performance, reviewing significant financial reporting issues and judgments contained in them;
c. to review the effectiveness of the internal control and risk management systems (including the overall risk management framework and all material controls, including financial, operational and compliance related controls);
d. to approve the Internal Audit programme, including its linkage to Group risks, and to assess the effectiveness of the Risk and Internal Audit functions (including the appointment and removal of the Group's Head of Risk and Internal Audit);
e. 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;
f. 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;
g. 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;

h. to keep under review LSL's policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm, and to report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and to make recommendations as appropriate;
i. to consider and review the findings of the external auditors (including any management letters) and/or internal investigations and management's response to those findings and investigations;
j. to review the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters with the objective of ensuring that arrangements are in place for proportionate and independent investigation of such matters and appropriate follow up action;
k. to meet with the Board formally at least twice each year to discuss matters such as the Annual Report and Accounts, the relationship with external auditors and other matters within its duties and responsibilities; and
l. to consider any other matters specifically referred to the Audit Committee by the Board and to report to the Board on how it has discharged its responsibilities.

In carrying out its duties, the Audit Committee took 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 and updated in April 2016, together with any requirements of the Board, and any other relevant ethical guidance, each of which are incorporated in the Audit Committee's Terms of Reference by reference to them. In particular, the Audit Committee updated its Terms of Reference in July 2016 and November 2016 to ensure compliance with the revised April 2016 edition of the Code. The Audit Committee also established a programme of work to ensure that each of its responsibilities was covered adequately during the year.

What the Audit Committee did in 2016

The Audit Committee met three times in 2016. Amongst other matters, during these meetings the Audit Committee:

a. reviewed the annual financial results and the preliminary results announcement for 2015 and the interim results for 2016 including evaluating the going concern and viability statements included in the results;
b. received and considered, as part of the review of the annual financial statements and interim results, reports from the external auditor in respect of their review of the annual financial statements and interim results, the audit plan for the year and the results of the annual audit. These reports included the scope of the interim review and annual audit, the approach to be adopted by the 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 ongoing assessment of the impact of future accounting developments on the Group;
c. led a formal and rigorous competitive tender process in relation to the re-appointment of the external auditor and made a recommendation to the Board to be put forward to Shareholders at the 2017 AGM in relation to the re-appointment of Ernst & Young as LSL's external auditors. In addition, the Audit Committee considered the quality, effectiveness and independence of the external audit, the results of which were taken into account in recommending the re-appointment of Ernst & Young as external auditor;
d. 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, and its linkage to Group risks, plus engagement with external consultants on specialist areas as appropriate;
e. received and considered regular reports from the Risk and Internal Audit Team with regard to the control environment of the Group and evaluated the resourcing, role and independence of the Risk and Internal Audit Team;
f. 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 and during the year the Audit Committee supported the Board in its robust assessment of LSL's principal risks and the continued development of the Group's risk appetite terms of reference, framework, and statement;
g. oversaw the Group's viability statement taking into account the principal risks and uncertainties impacting the Group;
h. evaluated areas for the continued development of financial control structures, including client accounting, treasury routines, payment processes, sales invoicing enhancement and improved Group Finance oversight routines (including the development of the Group's accounting policies and finance manual);
i. conducted post-implementation reviews for major IT systems rollouts and enhanced the controls relating to the approval and monitoring of capital expenditure relating to investments (including technology);
j. continued to develop the systems and controls in place with regard to valuations carried out by the Surveying Division, including client on-boarding routines;
k. reviewed the Group's compliance with regulatory requirements relevant to the Group's businesses;

l. In relation to the Financial Services business, the Audit Committee received reports from the Group's Financial Services Management Committee (FSMC) and Financial Services Risk Committee (FSRC) and considered the focus of second-line financial services compliance planning following the restructuring of the Financial Services Compliance Team;

m. implemented enhancements to the Group's information security and business continuity arrangements;

n. reviewed the effectiveness of the Group's whistleblowing policy, including logs of any whistleblowing-related incidents;

o. reviewed the Audit Committee's composition and confirmed that as a whole it has the competence relevant to the sectors in which LSL operates and that at least one member of the Audit Committee has recent and relevant financial experience to ensure that it is able to fulfil its responsibilities effectively; and

p. reviewed the Audit Committee's Terms of Reference and the Group's Auditor Independence Policy in addition to carrying out an annual review of the Audit Committee's performance.

Annual Report and Accounts 2016

In relation to this Report, the Audit Committee has 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 Annual Report and Accounts 2016 when taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess LSL's position and performance, business model and strategy. This assessment was on the basis that the description of the business is consistent 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.

Significant issues considered in relation to the Financial Statements

During the year the Audit Committee, the Management Team and 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 issues in financial reporting for 2016	How the Audit Committee addressed these issues
Revenue recognition	Revenue recognition is an area of judgment and a misstatement could be material to the Group although the nature of the revenue recognised in the Group is not considered complex. The Group sells a number of different products and services and operates in multiple locations throughout the UK. Certain subsidiaries sell life assurance products which are cancellable without a notice period, and if cancelled within a set period require that a portion of the commission earned must be repaid. The lapse provision is recognised as a reduction in revenue and includes estimation uncertainty. As such it is possible that management bias could be used to influence the amount of revenue that is reported. LSL's Risk and Internal Audit Team performed financial control audits on all key subsidiaries in 2016 which included focus on the revenue cycle with findings reported to the Audit Committee.
Provision for PI Costs relating to valuation services	This is an area of significant judgment and estimation and provides scope for management bias. During 2016, management continued to undertake a detailed review on a case-by-case basis of all notifications and claims relating to this period, in addition to any developments arising from cases received in previous years. The review has also included an assessment of the claims and notifications on a case-by-case basis by specialist external legal counsel. Given the materiality of the PI Costs provision, the Board receives details of these reviews at each meeting, including the status of existing claims and the number and nature of any new claims. The Group has historically experienced a high level of claims relating to the 2004 to 2008 high risk lending 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. The Audit Committee also commissioned the Risk and Internal Audit Team to complete two reviews of this work and during the year further improvements to the management and reporting of claims and notifications have also continued. The results of both of these reviews were presented to the Audit Committee and the Board.
Acquisition accounting	During the year, the Group completed the acquisition of Group First, nine lettings books and one franchisee buy back. Subject to deal structure, there may be a risk of inappropriate purchase price allocations, of incorrect recognition or intangible assets and goodwill, or incorrect treatment of any earn-out arrangements and of the miscalculation of contingent consideration. The Audit Committee has reviewed the way in which intangibles and goodwill are recognised, and the treatment of earn-out and other contingent consideration. In undertaking this review, the views of the external auditors was considered in detail. In relation to the Group First acquisition in February 2016, the Audit Committee discussed in detail the recognition of the intangible assets and sought advice from the external auditors as appropriate.
Client monies accounts with regard to the Lettings businesses	The Group holds client monies in its Lettings businesses. Neither the client monies, nor the matching liabilities to such clients 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 accounted for accurately and, if required, the Group would make good any shortfall. The client accounts are reconciled at regular intervals (including daily exercises for the larger businesses). The Risk and Internal Audit Team perform regular client account audits, the findings of which are reported to the Audit Committee.

Other Financial Statement matters considered by the Audit Committee	How the Audit Committee addressed these matters
Going concern	Management prepared detailed papers for consideration by the Audit Committee on the ability of the Group to continue as a going concern. This considered the likely future profitability of the Group, a forecast of future cash-flows, the impact of banking covenants, liquidity of investments and joint ventures and the ability of the Group to re-finance any loans (in addition to the Group's facility which was renewed and extended in 2016 and is due to mature in May 2020) 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.
Viability statement	Management also provided the Audit Committee with a paper on the financial viability of the Group, which was determined over a three year period, using assumptions consistent with the period of the Group's strategic plan. This paper included a review of the principal risks, and considered which of these risks might threaten the Group's viability. It also considered and modelled a number of severe but plausible scenarios. The scenario modelling included a significant downturn in the residential property market, in addition to other conflating smaller risks, and took into account the Group's ability to re-finance its facility, which is due to mature in May 2020. The key judgments, assumptions and modelling underpinning the review were discussed and considered. Following the review, the Audit Committee was able to approve the statement and recommend its adoption by the Board.
Treatment of exceptional items	The Audit Committee has, in line with FRC guidance, continued to review the Group's accounting policy with regard to the classification of items as exceptional.
Available for sale assets	The Group holds minority shareholdings in VEM and GPEA. The Audit Committee has considered the fair value of these holdings for the inclusion in the Group's balance sheet.
Impairment of goodwill and intangible assets	On an annual basis, management provide the Audit Committee with a paper supporting the review of goodwill to assess whether any impairment is required. Based on the work performed, the Audit Committee was able to conclude that no impairment was necessary to the goodwill or intangible assets as at 31st December 2016. Further information is provided in the Notes to the Financial Statements.
Taxation	The Audit Committee has received reports from the Management Team on the tax provisions recorded in the Financial Statements and assessed the appropriateness of the balances held. LSL's tax strategy, which is due to be published in 2017, has been reviewed by the Audit Committee.
Misstatement due to fraud and error	Management submit regular reports and updates to the Audit Committee on the Group's fraud prevention arrangements, including details of any instances of any actual or suspected circumstances.
LMS	The Group acquired 33.33% of LMS in 2011 and increased its holding to 50% during 2014 and 2016 with part of the contingent consideration for the 2016 acquisition deferred for payment in 2018, based on LMS's performance in 2017. The Audit Committee reviewed the calculations of the contingent consideration before payment was made.

Appointment of external auditor

During the year, the Audit Committee led the completion of a competitive audit tendering exercise and conducted a review of the auditor's effectiveness, independence and objectivity.

Audit tender

The Audit Committee undertook a comprehensive audit tender process, including a shortlist of three audit firms. The shortlisted firms were invited to meet with management, submit written submissions and then presented to a sub-committee of the Audit Committee. The principal evaluation criteria included a detailed consideration of the proposed audit approach, experience of the team and the proposed audit partner, industry experience, geographic coverage, cultural fit as well as overall quality and value for money. In making its decision the Audit Committee's most important criteria was the quality of the audit.

The Audit Committee provided the Board with a shortlist of two preferred audit firms, concluding with a recommendation to re-appoint Ernst & Young. The recommendation was made free from any influence by a third party and no contractual term of the kind mentioned in Article 16(6) of the Audit Regulation has been imposed on LSL.

Ernst & Young have acted as LSL's external auditors since 2004 with a previous tendering exercise undertaken in 2007. Whilst Ernst & Young were eligible to participate in the 2016 tendering exercise, their total term is subject to a 20 year cap commencing in 2004, which is when the MBO from Aviva Life was completed. Accordingly, Ernst & Youngs' term will expire in 2024 and LSL will complete a tendering exercise ahead of this, and Ernst & Young will not be eligible to participate in this exercise.

Ernst & Young's Audit Engagement Partner is Alistair Denton who has held the role since 2013. Alistair will be replaced as Audit Partner by Mark Morritt with effect from 1st January 2017, subject to Shareholders approving the re-appointment of Ernst & Young at the 2017 AGM.

Auditor 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, the audit tendering exercise benchmarked the quality and effectiveness of the services provided by Ernst & Young, as the incumbent auditor against those offered by other firms, with the aim of obtaining the best quality and most effective audit. Further discussions were held with the Risk and Internal Audit Team and the Management Team with regard to the effectiveness of the audit process.

Auditor appointment

Taking into consideration the audit tendering exercise and the audit effectiveness review, the Audit Committee, acting on behalf of the Directors, has concluded that Ernst & Young is effective, independent and objective, and based on this conclusion, the Board has resolved to recommend to Shareholders the re-appointment of Ernst & Young as external auditor at the 2017 AGM and to seek authority for the Directors to agree the external auditor's remuneration.

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 Audit 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. The Auditor Independence Policy, which takes into account relevant ethical guidance regarding the provision of non-audit services by external audit firms, was reviewed and updated during 2016, specifically taking into account the April 2016 Guidance on Audit Committees.

Both the previous Auditor Independence Policy and the revised policy, which is effective from 1st January 2017 provide that the following categories of fee need pre- approval from the Audit Committee:

a. any fee for specific non-audit services which exceed £25,000; and
b. any fee which has a contingent element.

In addition, the policy provided that the total annual fees for non-audit work allocated to the external auditor shall not exceed the average audit fee paid during the preceding three years (consecutive).

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 from the Company Secretary and LSL's website **(www.lslps.co.uk)**.

The split between audit and non-audit fees for 2016 appears at Note 10 to the Financial Statements. The non-audit fees amounted to £59,000 (2015: £85,000) compared with audit fees and other assurance related services fees of £290,600 (2015: £432,300). This is in line with the provisions of the Auditor Independence Policy. The non-audit fees for the current and prior year relate to taxation services and services to support conversion to FRS 101. The Audit Committee concluded it was in the interests of LSL to procure these non-audit services from Ernst & Young because of their existing knowledge and understanding of the Group's structure.

Internal controls

The Board has overall responsibility for LSL's system of internal controls and for reviewing its effectiveness. The system of internal controls is subject to an ongoing process of change and improvement, and was originally designed in accordance with the guidance of the Turnbull Committee on Internal Controls and it is regularly reviewed. It was updated in 2015 and developed further in 2016 to ensure continued compliance with the guidance set out in the September 2014 FRC "Guidance on Risk Management, Internal Control and Related Financial and Business Reporting".

The arrangements in place for 2016 sought to identify, evaluate and manage significant risks faced by LSL, including assessments by the Board and the Executive Committee of risk appetite levels and measures to define levels of existing risk in relation to this appetite. Where necessary, remedial steps needed to bring risk areas within appetite were considered. The system aims to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss.

Internal control facilitates the effectiveness and efficiency of LSL's operations, helps to ensure the reliability of internal and external reporting and assists 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. The risk framework continued to evolve in 2016 in line with emerging best practice and will continue to develop during 2017.

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

a. ownership of the risk management and internal controls framework by the Board, including a risk framework policy, supported by the Group Chief Financial Officer, the Company Secretary, the Head of Risk and Internal Audit and the Group Financial Controller;

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

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

d. the Board regularly 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;

e. the development and application of LSL's risk appetite statement and associated framework (for further details on steps taken during the year, please see Principal Risks and Uncertainties on pages 22 to 25); and

f. 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.

LSL has in place a Group-wide risk appetite statement and risk framework which will continue to be developed in 2017. This risk framework includes the following:

a. risk framework policy;

b. determination of risk appetite and management or mitigation of risks in line with risk appetite tolerances;

c. assessment of prospects and viability;

d. review of effectiveness of the risk management and internal control systems; and

e. going concern confirmation (for LSL's going concern disclosure please refer to the Report of the Directors).

Further details of LSL's assessment and evaluation of principal risks and uncertainties together with details of key mitigation initiatives are set out in the Strategic Report on pages 22 to 25.

The Group also 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.

LSL operates a 'three lines of defence' structure to facilitate effective oversight of Group operations. The risk framework includes delegated authority levels and functional reporting lines and accountability. LSL also operates a budgeting and financial reporting system to compare 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, with centralization of several payment functions in 2016.

In addition, LSL established the FSMC and the FSRC which are both Executive Committees with roles and responsibilities relating to the management of LSL's FCA regulated Financial Services businesses. Equivalent governance bodies also exist for other business operations, for example, the Estate Agency Management Committee and Surveying Valuation Controls Board. The Audit Committee and the Board receives regular reports from the FSMC and FSRC along with updates from the Group's Executive Committee, whose focus also includes the monitoring of key performance indicators in relation to LSL's key customer groups, being consumers and key lender clients.

During 2016 the Executive Directors have regularly 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 kept under review by the Audit Committee and has been reviewed by the Board during 2016 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 Audit Committee continued reviewed improvements to the controls environment, in particular the effectiveness of the Group Finance function as a second line of defence. In addition, in 2016 the Group established a dedicated Estate Agency Compliance Team, centralised some of the Estate Agency customer service arrangements, and restructured the Financial Services second-line structures.

The principal risks and uncertainties facing LSL together with details of key mitigation initiatives are set out in the Strategic Report on pages 22 to 25.

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

David Stewart
Chairman of the Audit Committee
7th March 2017

Directors' Remuneration Report

Annual Statement

Dear Shareholder

This Report sets out the proposed remuneration policy for the Directors and discloses amounts paid to individuals who were members of the Board over the course of the year ended 31st December 2016.

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 proposed policy being presented for Shareholder approval at the 2017 AGM; and
- **Annual Report on Remuneration**: setting out the remuneration earned by the Directors in the year ended 31st December 2016 and how the proposed Directors' Remuneration Policy will be implemented in 2017.

The Directors' Remuneration Policy (Policy) is subject to a binding vote every three years or sooner if any changes are made to the Policy prior to the expiry of the three years. The Policy was submitted to and was approved by Shareholders at the 2014 AGM and, accordingly, it is being submitted for its triennial binding Shareholder vote at the 2017 AGM.

The Annual Statement and Annual Report on Remuneration are subject to an annual Shareholder advisory vote and will also be presented to Shareholders at the 2017 AGM. Please see the AGM Notice for further details on these resolutions.

Summary of LSL's performance in the year

In 2016, following a strong first half, LSL delivered a resilient second half performance given the changing market conditions and the 2016 bonus awards for the eligible Executive Directors' reflect this. 80% of the 2016 bonus scheme was based on LSL's budgeted Group Underlying Operating Profit and 20% on individually agreed non-financial measures. During 2016, the Executive Directors' bonus scheme was subject to a cap of 100% of basic salary.

Based on LSL's performance in 2016, eligible Executive Directors did not receive an annual bonus in respect of the financial performance element of the bonus scheme. However, they did receive between 70% and 80% of the available 20% of basic salary for performance against their individual non-financial measures. These non-financial measures have been critical in driving strategic initiatives.

Ian Crabb's 2014 LTIP award is not expected to vest during 2017. This is because the challenging Earnings Per Share (EPS) performance targets have not been met and the Remuneration Committee considers it unlikely that the Total Shareholder Return (TSR) targets will be met when they are measured during March 2017. Further details of performance against the targets set for the incentive awards are set out in the Annual Report on Remuneration.

Summary of key decisions in the year and implementation of the Policy in 2017

The Remuneration Committee regularly reviews Executive Director and senior management remuneration including the Policy, to ensure it promotes the attraction, motivation and retention of high quality executives who are key to delivering LSL's strategy, sustainable earnings growth and Shareholder return. The Remuneration Committee's review of the Policy which was conducted in 2016 included an extensive and informative Shareholder consultation process. This review concluded that whilst the current Policy remains broadly appropriate, a limited number of changes would provide some flexibility for the next three years and ensure that LSL's remuneration arrangements are aligned with current best practice.

Summary of proposed Policy changes

In summary, the proposed key changes to the Policy are as follows:

- The annual bonus maximum opportunity under the Policy, for the Group Chief Executive Officer only, will increase from 100% of salary to 125% of basic salary. There is no intention, at this time, to increase the actual maximum opportunity for the Group Chief Executive Officer but this will provide some headroom for the three year Policy period. The maximum opportunity for other Executive Directors will remain at 100% of basic salary. No increases will be made within the Policy without consulting with LSL's significant Shareholders. In the event that the maximum opportunity is increased above 100% of basic salary, it will be subject to the requirement that part of the annual bonus is deferred into Shares with the remainder paid in cash.

- The LTIP maximum award limit under the Policy for all Executive Directors will increase from 100% to 125% of basic salary. There is no intention, at this time, to increase the current award levels of 100% of basic salary but again this provides some headroom for the three year Policy period. No increases will be made within the Policy without consulting with LSL's significant Shareholders.
- Reducing the level of threshold vesting from 35% to 25% for the TSR element of the LTIP award. The EPS part which is currently at 25% will remain at this level.
- Increasing the Executive Directors' alignment with Shareholders and the long-term performance of LSL, by increasing the level of required shareholding in the share ownership guidelines and introducing post-vesting holding periods.
- Increasing flexibility within the Policy to enable the Remuneration Committee to select performance measures for the annual bonus and long-term incentive that are aligned with the strategy of LSL.

All of the changes, including those referred to above, are summarised in the Policy table on page 56. A small number of other minor changes are also being made. The changes to the LTIP maximum award limit will require a change to the LTIP rules and a resolution to make this amendment will be presented to Shareholders for approval at the 2017 AGM. Further details are set out in the AGM Notice.

As part of the Policy review the Remuneration Committee agreed the implementation of the Policy for 2017, details of which are set out in the Annual Report on Remuneration. Small salary increases have been awarded to the Executive Directors in line with the general workforce, and the annual bonus maximum opportunity and long-term incentive awards levels will remain at 100% of base salary. The financial performance measures for the annual bonus and the LTIP will remain the same as in 2016, being Underlying Operating Profit for the annual bonus and EPS and relative TSR for the LTIP awards. The Remuneration Committee has approved a change to the current FTSE 250 relative TSR group to be used for the 2017 and future LTIP awards. This new group comprises of 23 companies that operate in similar business and sectors to LSL and as such will reflect relative performance of LSL to its peers. Further details are set out in the Annual Report on Remuneration.

Appointment of Helen Buck as Executive Director – Estate Agency

The Remuneration Committee agreed the remuneration package for Helen Buck on her appointment as Executive Director – Estate Agency on 2nd February 2017. Helen's remuneration is set in accordance with the Remuneration Policy and comprises a base salary of £300,000 and a maximum annual bonus opportunity and long-term incentive award in line with the other Executive Directors each of 100% of salary.

Payments to past Directors

Adrian Gill stepped down from the Board on 4th January 2017. Adrian was paid salary, benefits and pension to the date of cessation of his employment with LSL, being 4th January 2017. No annual bonus will be paid for the 2016 financial year or for the four days of service in 2017 and all unvested incentive awards lapsed on cessation of his employment.

The Remuneration Committee also confirmed the vesting and exercise of the LTIP award held by David Newnes, who retired from the Board on 31st December 2014. The vested Shares were subject to normal performance conditions and pro-rated to reflect his termination date, in line with his good leaver status.

In addition to the above, the Remuneration Committee also dealt with a compensation payment made to Steve Cooke who left LSL in 2014. No loss of office payments were made at that time. The Remuneration Committee approved a compensation payment to Mr Cooke to settle a claim for his unpaid notice period. The Remuneration Committee took legal advice on this matter and agreed it was in the best interests of LSL and its Shareholders to make the compensation payment.

The Remuneration Committee ensures that the remuneration arrangements for the Executive Directors and senior managers are aligned to LSL's strategic goals and key performance indicators. Further, the Remuneration Committee believes that the proposed revised Policy will continue to promote the long-term success of LSL and incentivise the delivery of strong yet sustainable financial results with the creation of Shareholder value.

The Remuneration Committee trusts that Shareholders will support the resolutions to approve LSL's remuneration arrangements at the 2017 AGM. If Shareholders have any questions or observations then I will be pleased to hear from Shareholders. I can be contacted via the Company Secretary's office (please see details on page 159).

Bill Shannon
Chairman of the Remuneration Committee
7th March 2017

Remuneration Policy

Remuneration Policy approved by Shareholders at the 2014 AGM

The current Policy which is effective until the new proposed Policy is approved by Shareholders at the 2017 AGM is set out in the 2014 and 2015 Annual Report and Accounts, which are available on LSL's website **(www.lslps.co.uk)**.

Set out below is the new proposed Policy which will be put to Shareholders for approval at the 2017 AGM and is intended to be applicable from 1st January 2017. The table included below summarises the main substantive changes between the 2014 Policy and the proposed 2017 Policy. A small number of other minor changes are also being made.

Summary of proposed Policy changes

The table below summarises the proposed changes to the 2014 Policy.

Element of Policy	Current Policy	New Policy
LTIP performance metrics	• Adjusted Basic EPS growth targets; and/ or relative TSR targets. • 25% vests at threshold (35% for TSR) increasing to 100% at maximum.	• At least 30% of the award will be determined by TSR performance with the remainder by other financial metrics. • 25% will vest at threshold for all parts of the LTIP award. • Discretion for the Remuneration Committee to provide for dividend equivalents to accrue from the date of an award to the end of any post-vesting holding period. • The Remuneration Committee will have the discretion to adjust the LTIP vesting outcome if it considers it is not reflective of the underlying performance of LSL.
LTIP post-vesting holding periods	• No post-vesting holding periods under the current Policy.	• As and when LTIP awards are made in excess of 100% of basic salary then two year post-vesting holding periods will apply to those awards in their entirety.
Share ownership guidelines	• 100% of basic salary to be achieved within three years of appointment through the retention of vested Shares and/or through open market purchases.	• 150% of salary to be achieved within five years of appointment through the retention of vested Shares and/or through open market purchases. Executive Directors are also expected to retain all vested LTIP awards (subject to any sales necessary to meet tax liability on vesting) until the Share ownership guideline is met.
LTIP performance metrics	• Adjusted Basic EPS growth targets; and/or relative TSR targets • 25% vests at threshold (35% for TSR) increasing to 100% at maximum	• At least 30% of the award will be determined by TSR performance with the remainder by other financial metrics. • 25% will vest at threshold for all parts of the LTIP award. • Discretion for the Remuneration Committee to provide for dividend equivalents to accrue from the date of an award to the end of any post-vesting holding period. • The Remuneration Committee will have the discretion to adjust the LTIP vesting outcome if it considers it is not reflective of the underlying performance of LSL.
LTIP post-vesting holding periods	• No post-vesting holding periods under the current Policy.	• As and when LTIP awards are made in excess of 100% of basic salary then two year post-vesting holding periods will apply to those awards in their entirety.
Share ownership guidelines	• 100% of basic salary to be achieved within three years of appointment through the retention of vested Shares and/or through open market purchases.	• 150% of salary to be achieved within five years of appointment through the retention of vested Shares and/or through open market purchases. Executive Directors are also expected to retain all vested LTIP awards (subject to any sales necessary to meet tax liability on vesting) until the Share ownership guideline is met.

Remuneration Policy (submitted for Shareholder approval at the 2017 AGM)

Directors' Remuneration Policy (Policy)

Introduction and overview

The Board recognises that 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 relating to non-financial performance measures, in order 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 Director remuneration packages designed to attract, motivate and retain Executive Directors of the calibre necessary to maintain and improve the Group's profitability and to reward individuals for enhancing Shareholder value and return. To do this, LSL aims to provide a market competitive (but not excessive) package of pay and benefits. LSL'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 LSL'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 LSL's objectives.

Consideration of Shareholder views

The Remuneration Committee considers Shareholder feedback received in relation to LSL's Annual Report and Accounts, including the Directors' Remuneration Report, each year at a meeting following publication of the Annual Report and Accounts and the AGM Notice. This feedback, plus any additional feedback received during any meetings with Shareholders from time to time, is then considered as part of LSL's annual review of the Policy and implementation. In addition, the Remuneration Committee engages directly with significant Shareholders and their representative bodies in respect of the proposed changes to the Policy and, as appropriate, to implementation of that Policy. Details of votes cast for and against the resolution to approve the previous 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 and is cognisant of the Group's overall employment arrangements when reviewing and implementing the Executive Directors' Remuneration Policy. The Remuneration Committee did not consult with other employees with regard to remuneration of the Executive Directors.

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 comparison 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 basic salary levels are set out in the Annual Report on Remuneration.	• Not applicable.

Element	How component supports corporate strategy	Operation	Maximum	Performance metrics and period
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. • The Remuneration Committee has the discretion to adjust the annual bonus payment made if the Remuneration Committee considers it is not reflective of the underlying performance of LSL. • Where the Group Chief Executive Officer's maximum bonus opportunity is increased above 100% of basic salary, a portion of the annual bonus will be deferred in Shares, with the balance being paid in cash. • Not pensionable. • Bonus awards are subject to clawback and malus applicable for three years from payment of the bonus or vesting of deferred bonus in circumstances of: material misstatement of financial results, error, inaccurate or misleading information in determining a performance condition or any other matter determining the vesting of an award, breach of relevant regulations, an act or omission during vesting period to the significant detriment of customers, or an act or omission leading to gross misconduct. Recovery can be made through scaling back of existing awards, reduction of future awards including under the LTIP and requesting repayment as cash sum.	• Group Chief Executive Officer capped at 125% of basic salary.* • Other Executive Directors capped 100% of basic salary. *Maximum opportunity will not be increased above 100% of basic salary without significant Shareholder consultation.	• Performance period of one year. • Performance metrics: - A maximum of 30% of the award will be determined by non-financial measures and a minimum of 70% by financial measures. - Not more than 20% of the financial measures will pay out at threshold.

Element	How component supports corporate strategy	Operation	Maximum	Performance metrics and period
LTIP awards (approved by Shareholders at 2016 AGM, with an amendment to be approved at the 2017 AGM)	• Aligned to key performance indicators of the Group that drive the strategy and performance of the business.	• 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. • The Remuneration Committee will have the discretion to adjust the LTIP vesting outcome if it considers that it is not reflective of the underlying performance of LSL. • Discretion for the Remuneration Committee to provide for dividend equivalents to accrue from the date of award to the vesting date or, if applicable, to the end of any post-vesting holding period. • LTIP awards are subject to clawback and malus; applicable for six years from vesting in circumstances of: material misstatement of financial results, error, inaccurate or misleading information in determining a performance condition or any other matter determining the vesting of an award, breach of relevant regulations, act or omission during vesting period to the significant detriment of customers, act or omission leading to gross misconduct. Recovery can be made through scaling back of existing awards, reduction of future awards including under the annual bonus and deferred annual bonus plan and requesting repayment as cash sum.	• Normal maximum limit of 125% of basic salary with grants of up to 200% of basic salary being made in exceptional circumstances.* *Award value will not be increased above 100% of basic salary without significant Shareholder consultation.	• Performance period: normally three years. • As and when LTIP awards are made in excess of 100% of basic salary, then two year post-vesting holding periods will apply to those awards in their entirety. • At least 30% of the award will be determined by TSR performance with the remainder by other financial metrics. • 25% vests at threshold for all parts of the LTIP increasing to 100% at maximum.

Element	How component supports corporate strategy	Operation	Maximum	Performance metrics and period
All-employee Share schemes: SAYE, SIP/ BAYE and CSOP	• Encourages long-term shareholding in LSL.	• Invitations made by the Remuneration Committee under the approved SAYE, SIP/BAYE and CSOP.	• As per HMRC limits.	None.
Executive Share ownership guidelines	• To provide alignment between Executive Directors and Shareholders.	• Executive Directors are required to build and maintain a minimum shareholding equivalent to 150% of basic salary over a period of five years from the date of appointment through the retention of vested Share award and/or through open market purchases. Executive Directors are expected to retain all vested long-term incentive awards (subject to any sales necessary to meet tax liability on vesting or exercise) until the guideline is met.	• Minimum of 150% of basic salary – no maximum.	None.
Benefits	• Provides insured benefits to support the Executive Directors and their family during periods of ill health, accident or death. • Access to car allowance to facilitate travel.	• Includes car allowance, life assurance and private medical insurance. Other benefits may be provided where appropriate. • Any reasonable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	• 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 a new Executive Director to recommend a 5% match of basic salary.	None.
Chairman and 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. • Any reasonable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	• There is no prescribed maximum annual fee increase, although the total fee cap is £750,000. • Decisions on fee levels are 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:

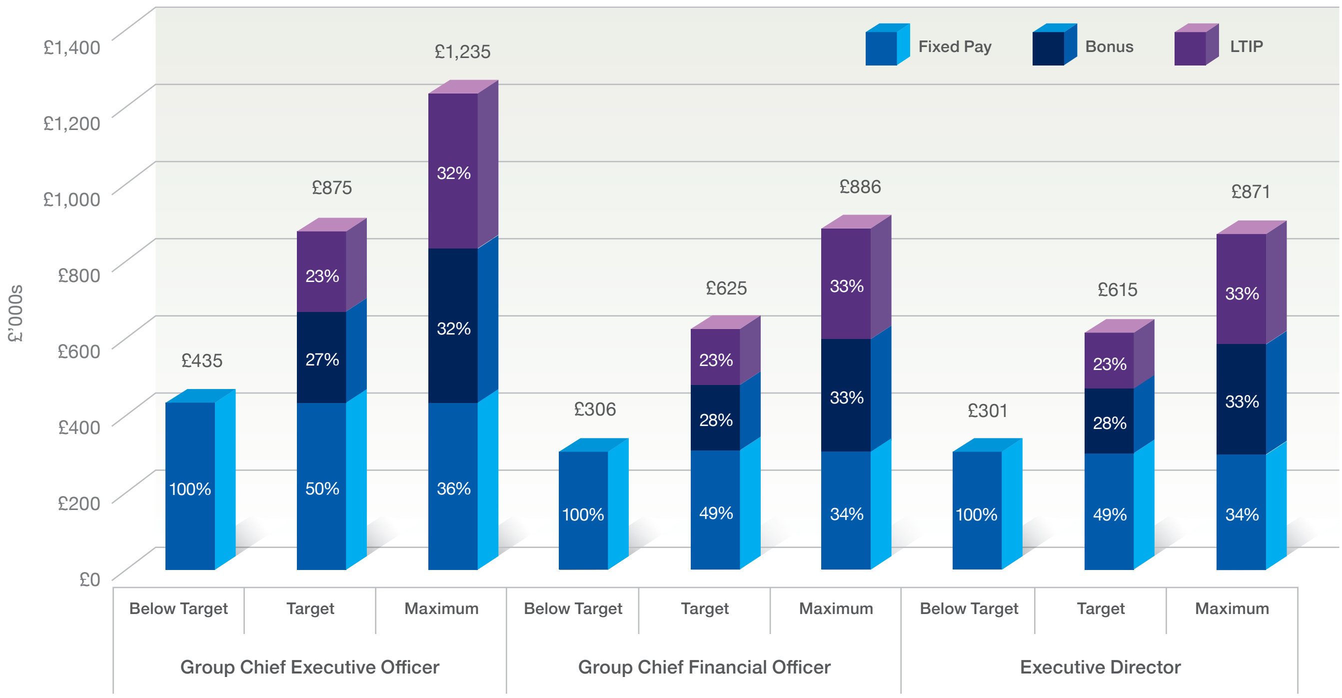
1. A description of how LSL will operate the Policy in 2017 is detailed in the Annual Report on Remuneration.
2. The following differences exist between LSL’s Policy for the remuneration of Executive Directors as set out in the table and its approach to the payment of LSL employees generally:
   a. A lower level of maximum annual bonus (or no bonus) opportunity may apply to employees other than the Executive Directors.
   b. Participation in the LTIP is limited to the Executive Directors and certain selected senior managers. All employees are eligible to participate in LSL’s employee share schemes: save as you earn (SAYE), self-invested plan/buy as you earn (SIP/BAYE); and company share ownership plan (CSOP) 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. Senior employees are offered the opportunity to join the enhanced scheme after one years’ service; this enables a 5% match of basic salary. The Remuneration Committee may use its discretion on the appointment of new Executive Directors to recommend a 5% match of basic salary.

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 New Bridge Street (NBS) whilst LSL’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 UKLA and the Remuneration Committee terms of reference are consistent with market practice; this retains discretion over a number of areas relating to the operation and administration of the plan. The Remuneration Committee has the discretion under the plan rules, in certain circumstances, to grant and/or settle an award in cash. In practice this will only be used in exceptional circumstances for Executive Directors.
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 LTIP award grant policies.
7. The employee Share 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 Executive 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 this and previous remuneration reports. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

Reward scenarios (illustration of application of Remuneration Policy for financial year 2017)

The chart below shows how the composition of each of the remuneration packages, as applicable for each of the Executive Directors currently holding office, varies at different levels of performance under the Policy set out above; both as a percentage of total remuneration opportunity and as a total value:



Notes to the reward scenarios:

1. The 'below target' performance scenario comprises the fixed elements of remuneration only, including:
   a. basic salary, applying from 1st January 2017, or on appointment;
   b. pension, as per the Policy; and
   c. estimated benefits using the value reported for the previous financial year.
2. The target level of bonus is taken to be 60% of the maximum bonus opportunity (100% of basic 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 basic salary). These values are included in addition to the components/values of minimum remuneration.
3. Maximum remuneration assumes full bonus pay-out (100% of basic salary) and the full face value of the LTIP (100% of basic salary), in addition to fixed components of remuneration.
4. No Share price growth has been factored into the calculations.
5. The assumptions noted for 'on-target' performance in the graph above are provided for illustration purposes only.

Approach to recruitment and promotions

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

Basic salary will 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 will be limited to 125% of basic salary for the Group Chief Executive Officer and 100% of basic salary for other Executive Directors and for all Executive Directors, grants under the LTIP will be limited to 125% of basic salary or 200% of basic salary in exceptional circumstances. Depending on the timing of the appointment, the Remuneration Committee may deem it appropriate to set different annual bonus performance metrics to the existing Executive Directors for the first performance year of appointment. 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 ongoing 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 Group Chief Executive Officer	9th September 2013	Nine months
Adam Castleton Group Chief Financial Officer	2nd November 2015	Nine months
Helen Buck Executive Director – Estate Agency	2nd February 2017	Nine 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 basic 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	Nine 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' basic salary and benefits.

The Remuneration Committee may pay reasonable outplacement and legal fees where appropriate, and may pay any statutory entitlements or settle or compromise claims in connection with a termination of employment, where considered in the best interests of LSL.

Subject to the performance conditions being met, 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 payment 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 for good leavers will vest at the original specified vesting date, unless specifically determined by the Remuneration Committee that the award(s) for an individual will lapse. Awards to Executive Directors, who are not good leavers, lapse immediately on cessation. 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.

Subject to Board approval and any conditions stipulated by the Board, Executive Directors may accept appropriate outside commercial non-executive director appointments provided that the aggregate commitment is compatible with their duties as an Executive Director.

Non Executive Directors

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

Non Executive Directors, including the Chairman, have letters of appointment which set out their duties and responsibilities. The Non Executive Directors, including the 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
Kumsal Bayazit Besson Non Executive Director	1st September 2015	–	31st August 2018
Simon Embley Chairman	1st January 2015	–	31st December 2017
Bill Shannon Deputy Chairman and Senior Independent Director	7th January 2014	7th January 2017	6th January 2020
David Stewart Non Executive Director	1st May 2015	–	30th April 2018

Annual report on remuneration

Implementation of the Policy for the year ending 31st December 2017 (unaudited information)

This section of the Directors' Remuneration Report sets out how the Policy will be implemented for the year ending 31st December 2017.

Basic salary

Executive Directors' basic salaries are reviewed annually by the Remuneration Committee, taking into account the responsibilities, skills and experience of each individual, as well as the pay and employment conditions within LSL and basic salary levels within listed companies of a similar size.

Basic salary levels as at 1st January 2017 and for 2016 for the current Executive Directors are set out below:

Director	Notes	Role	2017 (£)	% increase	2016 (£)
Ian Crabb		Group Chief Executive Officer	406,000	1.5%	400,000
Adam Castleton		Group Chief Financial Officer	294,000	1.4%	290,000
Adrian Gill	1	Executive Director – Estate Agency	285,000	0%	285,000
Helen Buck	2	Executive Director – Estate Agency	300,000		

2017 basic salary increases for Directors are in line with those of non-commission earning employees.

Notes to summary of fees for the Executive Directors:

1. Adrian Gill stepped down from the Board on 4th January 2017.
2. Helen Buck was appointed Executive Director – Estate Agency on 2nd February 2017 and her basic salary is in line with the 2014 Policy and proposed 2017 Policy.

Annual bonus payments 2017

The Remuneration Committee will operate an annual bonus plan for Executive Directors during 2017 that is broadly similar to that operated in 2016. The maximum bonus continues to be capped at 100% of basic salary. There will be a sliding scale of performance targets based on LSL's budgeted Group Underlying Operating Profit (after the payment of bonuses) for 80% of the potential bonus with the remaining 20% of the potential bonus based on challenging non-financial performance measures.

The Remuneration Committee has determined that LSL will not disclose the non-financial measures or targets in advance, as they contain items that are considered to be commercially sensitive. However, 2017 targets will be summarised in the Annual Report and Accounts 2017, which will be published in 2018. The Remuneration Committee is satisfied that the non-financial targets are challenging and demanding, reflect LSL's ongoing business expectations and have a clear link to LSL's strategy. The Group Underlying Operating Profit targets require LSL's performance to be significantly better than budget for full pay-out.

Disclosure of annual bonus non-financial measures

Further to the disclosure commitment included in the Annual Report and Accounts 2015, detailed below is a summary of the non-financial measures which were in place for Ian Crabb and Adrian Gill in relation to their 2015 annual bonus, which were not previously disclosed due to their commercial sensitivity. For details of the 2016 targets, see page 69.

Ian Crabb, Group Chief Executive Officer was targeted against the following three specific measures accounting for 20% of the total bonus (and 20% of basic salary):

a. Design, development and delivery of a revised Group-wide strategy;

b. A range of risk management and corporate governance initiatives to deliver good customer outcomes; and

c. A range of management initiatives including the development of Executive Directors and senior management.

The Remuneration Committee undertook an independent assessment of Ian Crabb's performance against each of these objectives and concluded that two of the three objectives (a. and b.) were achieved in full. As such 66.6% of this element of the bonus was achieved resulting in a payment of 13.65% of basic salary, which was disclosed in the Annual Report on Remuneration included in the Annual Report and Accounts 2015.

Adrian Gill was targeted against the following four specific measures accounting for 20% of the total bonus (and 20% of basic salary):

a. The delivery of an effective acquisition strategy for LSLi acquisitions to deliver value enhancing acquisitions in 2015;
b. The delivery of a specific number and value of letting book acquisitions in 2015;
c. A range of risk management and corporate governance initiatives to deliver good customer outcomes; and
d. Specific targets in relation to leadership development.

The Remuneration Committee undertook an independent assessment against each of these objectives and concluded that two of the four objectives (b. and c.) were achieved in full. As such 50% of this element of the bonus was achieved resulting in a payment of 10% of basic salary, which was disclosed in the Annual Report on Remuneration included in the Annual Report and Accounts 2015.

Long-term incentive plan (LTIP)

The current 2016 LTIP scheme received Shareholder approval at the 2016 AGM. Awards to be granted in 2017 to the Executive Directors will be made over Shares with a value at the date of grant of 100% of basic salary. Awards will be subject to Adjusted Basic Earnings Per Share growth targets (70% of an award) and a relative TSR condition (30% of an award), and measured over a period of three financial years commencing 1st January 2017 as follows:

1. 25% of the 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 at the same time as announcing the grants of the awards.
2. 25% of the TSR part of the award will vest if LSL's TSR is equal to the TSR of the median company increasing pro-rata to full vesting of this part of the award for upper quartile performance, as measured against the constituents of the comparator group (as listed below). 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.

TSR comparator group

As part of LSL's review of its Policy, the Remuneration Committee agreed a new comparator group for the relative TSR part of LTIP awards to be made in 2017 and subsequent years. The peer group comprises the following 23 companies that are operating in similar or related sectors:

- Barratt Developments plc,
- Bellway plc,
- Belvoir Lettings plc,
- Bovis Homes Group plc,
- Countryside Properties plc,
- Countrywide plc,
- Crest Nicholson Holdings plc,
- Foxtons Group plc,
- Grainger plc,
- Howden Joinery Group plc,
- Hunters Property plc,
- M Winkworth plc,
- MartinCo plc,
- Mccarthy And Stone plc,
- Mortgage Advice Bureau plc,
- Paragon Group Of Companies plc,
- Purplebricks Group plc,
- Redrow plc,
- Rightmove plc,
- Shawbrook Group plc,
- St Modwen Properties plc,
- Travis Perkins plc,
- Zoopla Property Group plc.

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

Ian Crabb will continue to receive a 5% of basic salary matching pension contribution. The other Executive Directors do not make pension contributions and no matching element is therefore made.

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.

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

Director	Notes	2017 (£)	2016 (£)
Kumsal Bayazit Besson Non Executive Director		40,000	40,000
Simon Embley Chairman		130,000	130,000
Bill Shannon Deputy Chairman and Senior Independent Director	1	70,000	70,000
David Stewart Non Executive Director	2	45,000	45,000

Helen Buck ceased to be a Non Executive Director on 2nd February 2017 and received a fee of £40,000 for her role as Non-Executive Director during 2016.

Notes to summary of fees for the Non Executive Directors:

1. Bill Shannon's fee is paid for his role as a Non Executive Director and his additional responsibilities as Deputy Chairman, Senior Independent Director and Chairman of the Nominations Committee and the Remuneration Committee.
2. David Stewart's fee is paid for his role as a Non Executive Director and his additional responsibility as Chairman of the Audit Committee which was effective from 28th April 2016. Accordingly, his fee increased from £40,000 to £45,000 is with effect from 28th April 2016.

Payments for loss of office

Adrian Gill stepped down from the Board on 4th January 2017. Adrian's remuneration on the cessation of his employment is set out below:

a. Basic salary, benefits and pension was paid to the date of cessation of employment on 4th January 2017.

b. No annual bonus will be paid for the financial year 2016 or the four days of financial year 2017 to the date of cessation.

c. All unvested long-term incentive awards lapsed on the date of cessation. There are no vested unexercised long-term incentive awards.

Audited information

Directors' remuneration

The remuneration of the Directors for 2016 was as follows:

	Notes		Basic salary or fees £	Benefits[6] £	Pension contributions[7] £	Annual bonus[8] £	Gain on Share awards[9,10] £	Other[11] £	Total £
Chairman									
Simon Embley		2016	130,000	-	-	-	-	-	130,000
		2015	130,000	-	-	-	95,574	-	255,574
Executive Directors									
Adam Castleton	1	2016	290,000	16,676	-	40,600	-	-	347,276
		2015	48,333	2,784	-	-	-	100,000	151,117
Ian Crabb		2016	400,000	15,000	20,000	64,000	-	-	499,000
		2015	365,000	15,000	18,250	345,333	109,286	-	852,869
Adrian Gill		2016	285,000	16,676	-	-	-	-	301,676
		2015	280,000	16,663	-	126,000	-	-	422,663
Non Executive Directors									
Kumsal Bayazit Besson	2	2016	40,000	-	-	-	-	-	40,000
		2015	13,333	-	-	-	-	-	13,333
Helen Buck	3	2016	87,500	-	-	-	-	-	87,500
		2015	40,000	-	-	-	-	-	40,000
Mark Morris	4	2016	15,667	-	-	-	-	-	15,667
		2015	47,000	-	-	-	-	-	47,000
Bill Shannon		2016	70,000	-	-	-	-	-	70,000
		2015	70,000	-	-	-	-	-	70,000
David Stewart	5	2016	43,365	-	-	-	-	-	43,365
		2015	26,667	-	-	-	-	-	26,667
Total		2016	1,361,532	48,352	20,000	104,600	-	-	1,534,484
		2015	1,020,333	34,447	18,250	471,333	204,860	100,000	1,849,223

Notes to Directors' remuneration table:

1. Adam Castleton was appointed to the Board as Group Chief Financial Officer on 2nd November 2015.
2. Kumsal Bayazit Besson was appointed to the Board on 1st September 2015.
3. Helen Buck's 2016 remuneration includes £47,500 paid in respect of consultancy services to the Estate Agency Division. Helen Buck ceased to be a Non Executive Director on 2nd February 2017.
4. Mark Morris retired from the Board on 28th April 2016.
5. David Stewart was appointed to the Board on 1st May 2015.
6. Benefits refers to benefits in kind, which excludes pension provision, and is comprised of private medical cover and company car or car allowance.
7. Only the pension for Ian Crabb comprises a Company matching contribution of 5% of basic salary.
8. LSL's performance in 2016 results in the Executive Directors earning an annual bonus of between 14% and 16% of their basic salary in relation to the non-financial performance element of the scheme. LSL's performance in 2015 resulted in the Executive Directors at the time, earning an annual bonus of between 35% and 80% of their basic salary for the financial and non-financial performance element of the scheme. See page 68 for further details of the 2015 and 2016 bonus payments.

9. As disclosed in the Annual Report on Remuneration included in the Annual Report and Accounts 2015, the gain on Share award values for 2015 presented in the table were based on the 2013 LTIP award, which vested during 2016 based on performance for the three years ended 31st December 2015. These figures now reflect the actual Share price at vesting (300 pence for Simon Embley's award which vested on 4th April 2016 and 222 pence for Ian Crabb's award which vested on 23rd September 2016).
10. The EPS performance condition for the 2014 LTIP has not been met and the TSR condition is not expected to be met and therefore no payments will be due. Should there be any vesting of the TSR element (to be tested on 9th April 2017) the figures will be restated in the 2017 Director's Remuneration Report to reflect this and the actual Share price at vesting as appropriate.
11. Adam Castleton was not entitled to an annual bonus for 2015 under the LSL Executive Director bonus arrangements, given that he only served 2 months of the 2015 financial year. However, as part of his recruitment arrangements, LSL agreed to compensate him for the annual bonus forgone in respect of leaving his previous employer during 2015. The compensation, which is consistent with the 2014 Policy, amounted to £100,000 and was paid on the normal LSL annual bonus payment date.

Annual bonus

Annual bonus payments 2016 – audited

Set out in the table below is a summary of the Executive Directors' bonus scheme for 2016:

Bonus element	Targets for 2016	Performance against targets for 2016	Bonus achieved for 2016
Group Underlying Operating Profit up to 80% of basic salary for Ian Crabb and Adam Castleton, and 20% for Adrian Gill	Stepped scale from threshold of £42.9m (12.5%) of this part is payable increasing to £47.8m (100%).	No bonus in respect of this element (based on Group Underlying Operating Profit of £34.6m) was awarded any of the Executive Directors.	Ian Crabb received a total bonus of 16% of basic salary. Adam Castleton received a total bonus of 14% of basic salary. Adrian Gill did not receive a bonus.
Estate Agency Underlying Operating Profit, up to 60% of basic salary (Adrian Gill only)	Stepped scale from threshold of £27.2m (12.5%) of this part is payable increasing to £35.2m (100%).	No bonus in respect of this element (based on Estate Agency Underlying Operating Profit of £19.4m) was awarded to Adrian Gill.	
Non-financial measures up to 20% of basic salary	Four targets aligned to the longer term strategic goals of the Group.	A bonus of 80% of this element (16% of basic salary) was awarded to Ian Crabb, and 0% (14% of basic salary) was awarded to Adam Castleton with regard to these measures. No bonus was awarded to Adrian Gill.	

Detailed below is a summary of the non-financial measures which were in place for Ian Crabb and Adam Castleton for their 2016 annual bonus.

Ian Crabb, Group Chief Executive Officer was targeted against the following four specific measures accounting for 20% of the total bonus (and 20% of basic salary):

a. Delivery of Group-wide strategy;
b. Delivery of organic growth of the Estate Agency business and the design and development of Estate Agency strategy;
c. Delivery of business specific key lender contract renewals; and
d. A range of management initiatives including the development of Executive Directors and senior management.

The Remuneration Committee undertook an independent assessment of Ian Crabb's performance against each of these objectives and concluded that two of the four objectives (c and d) were achieved in full and two in part (a and b). As such 80% of this element of the bonus was achieved resulting in a payment of 16% of basic salary.

Adam Castleton was targeted against the following three specific measures accounting for 20% of the total bonus (and 20% of basic salary):

a. Completion of LSL's banking refinancing process;
b. Design, development and delivery of a Group-wide IT strategy; and
c. A range of management initiatives including the development of the Group Finance team.

The Remuneration Committee undertook an independent assessment against each of these objectives and concluded that one of the three objectives (a) was achieved in full and two were achieved in part (b. and c.). As such 70% of this element of the bonus was achieved resulting in a payment of 14% of basic salary.

The Remuneration Committee is satisfied that these non-financial measures were challenging and demanding, reflective of LSL's ongoing business expectations and have a clear link to LSL's strategy. The financial performance element of the scheme requires LSL's performance to be significantly better than budget for full pay-out.

2014 LTIP awards (nil cost options)

Director	Date of grant	Basis of Award (% of basic salary)	Number of Shares under award	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
Ian Crabb Group Chief Executive Officer	10th April 2014	100%	**81,395**	**£349,998**	**25% (EPS)** **35% (TSR)**	100%	TSR: three years from grant date EPS: three years to 31st December 2016	Nil	Nil

Notes to 2014 LTIP awards:

[1] Based on the number of Shares granted multiplied by the three day average Share price immediately prior to the grant date (430 pence).

[2] Based on EPS performance for the three-year performance to 31st December 2016, 0% of this element (representing 70% of the award) will vest on 10th April 2017. TSR performance will be tested over the three year period to 9th April 2017; based on TSR performance to 31st December 2016, it is expected that 0% of this element (representing 30% of the award) will vest on 10th April 2017.

Share awards granted during 2016

2016 LTIP awards (nil cost options)

Details of LTIP awards granted in 2016 are as follows:

<table>
<tr><th>Executive Director</th><th>Date of grant</th><th>Basis of award (% of salary)</th><th>Number of Shares under award</th><th>Face value at grant date[1]</th><th>Vesting at threshold</th><th>Vesting at maximum</th><th>Performance period</th></tr>
<tr><td>Ian Crabb
Group Chief Executive Officer</td><td>31st March 2016</td><td>100%</td><td>140,105</td><td>£400,000</td><td rowspan="3">25% (EPS)
35% (TSR)</td><td rowspan="3">100%</td><td rowspan="3">TSR: three years to 31st December 2018
EPS: three years to 31st December 2018</td></tr>
<tr><td>Adrian Gill
Executive Director – Estate Agency[2]</td><td>31st March 2016</td><td>100%</td><td>99,824</td><td>£284,998</td></tr>
<tr><td>Adam Castleton
Group Chief Financial Officer</td><td>31st March 2016</td><td>100%</td><td>101,576</td><td>£289,999</td></tr>
</table>

Notes to 2016 LTIP awards:

[1] Based on the number of Shares granted multiplied by the three day average Share price immediately prior to the grant date (285.5 pence for grants made on 31st March 2016).

[2] Adrian Gill's awards lapsed on the date of his cessation of employment (4th January 2017).

For awards presented above:

1 For 70% of awards: 25% of this part of an award will vest for Adjusted Basic EPS growth of 7.5% p.a. increasing pro-rata to 100% of this part of an award vesting for Adjusted Basic EPS growth of 17.5% p.a. for the three years ending 31st December 2018. There is no vesting for Adjusted Basic EPS growth less than 7.5% p.a.

2 For 30% of awards: 35% of this part of an award will vest for a median TSR for the three years ending 31st December 2018, 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.

External appointments

During 2016, other than Adrian Gill's appointment as a non executive director of Lifetime Legal Limited, none of the Executive Directors held any other non executive directorships of any other companies other than to represent the majority or minority interests of the Group or to participate in representative trade bodies.

Payments to past Directors

David Newnes:

David Newnes retired from the Board on 31st December 2014. As part of his leaving arrangements David Newnes retained his unvested 2013 and 2014 long-term incentive awards which were pro-rated to reflect the period of service to his date of retirement and remained subject to the original performance conditions and vesting dates.

a. The 2013 LTIP award vested in 2016 and on exercise of the pro-rated award in September 2016, David Newnes received 21,651 Shares.

b. The EPS performance conditions for the 2014 LTIP award have not been met and the TSR conditions, as noted above, are unlikely to be met. It is not therefore expected that the pro-rated 2014 LTIP award will vest.

Except as disclosed above, there are no outstanding incentive awards or payments due to David Newnes.

Steve Cooke:

Steve Cooke stepped down from the Board on 19th December 2014. No payments for loss of office were made at that time. In September 2016, in full and final settlement of claims he subsequently brought for payment of his contractual notice period and incentive payments, LSL made a compensation payment of £350,000 (which included a £130,000 contribution to legal fees).

Outstanding Share awards

Options granted to Executive and Non 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 2016	Awards granted	Awards lapsed	Awards exercised	Awards vested	As at 31st December 2016	Exercise period
Ian Crabb Group Chief Executive Officer	LTIP	23rd September 2013	479.00p	Nil	73,684	-	24,456	-	(49,228)	49,228*	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
	SAYE	1st June 2014	414.00p	416.00p	4,326	-	-	-	-	4,326	1st June 2017 to 1st December 2017
	LTIP	16th April 2015	364.00p	Nil	101,648	-	-	-	-	101,648	16th April 2018 to 16th April 2025
	LTIP	31st March 2016	285.50p	Nil	-	140,105	-	-	-	140,105	31st March 2019 to 31st March 2026
Simon Embley Chairman	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	240.00p	240.00p	12,500	-	-	-	(12,500)	12,500*	11th June 2013 to 11th June 2020
	LTIP	2nd April 2012	275.00p	Nil	58,333	-	-	-	(58,333)	58,333*	2nd April 2015 to 2nd April 2022
	LTIP	2nd April 2013	337.00p	Nil	47,685	-	15,827	31,858	-	0	2nd April 2016 to 2nd April 2023
Adam Castleton Group Chief Financial Officer	LTIP	1st December 2015	306.00p	Nil	94,771	-	-	-	-	94,771	1st December 2018 to 1st December 2025
	LTIP	31st March 2016	285.50p	Nil	-	101,576	-	-	-	101,576	31st March 2019 to 31st March 2026
Adrian Gill Executive Director – Estate Agency	LTIP	16th April 2015	364.00p	Nil	76,923	-	-	-	-	76,923	16th April 2018 to 16th April 2025
	LTIP	31st March 2016	285.50p	Nil	-	99,824	-	-	-	99,824	31st March 2019 to 31st March 2026

* These awards have vested and are currently within the exercise period

Notes to outstanding Share awards:

1. All of the above are scheme interests. Details of long-term incentive awards granted in 2016 are presented in a separate paragraph while details of previous outstanding awards are presented in the previous year's Directors' Remuneration Report and are included in Note 13 to the Financial Statements.
2. The Ordinary Share mid-market price ranged from 180 pence to 319.75 pence and averaged 248 pence during 2016. The Share price on 31st December 2016 was 230.5 pence compared to 284 pence on 1st January 2016.
3. Simon Embley's Shares awards have been pro-rated to reflect his change of role to Chairman on 1st January 2015 and his 'good leaver' status under the scheme rules as at the 31st December 2014.

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 2016	31st December 2015	Unvested	Vested but unexercised	31st December 2016	(% of basic salary)
Kumsal Bayazit Besson Non Executive Director	-	-	-	-	-	N/A
Helen Buck[2] Executive Director – Estate Agency	-	-	-	-	0	0
Adam Castleton[3] Group Chief Financial Officer	458	-	196,347	-	458	0.4
Ian Crabb[4] Group Chief Executive Officer	1,878	1,089	327,474	49,228	51,106	29.4
Simon Embley Chairman	6,101,367	6,069,509	-	154,761	6,256,128	N/A
Adrian Gill[5] Executive Director – Estate Agency	925	179	176,747	-	925	0.7
Bill Shannon Deputy Chairman and Senior Independent Director	22,234	21,274	-	-	22,234	N/A
David Stewart Non Executive Director	-	-	-	-	-	N/A

Notes on Directors' interest in Shares:

1. Under the current Policy, Executive Directors are required to build and maintain a shareholding equivalent to one year's basic 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). The shareholding is calculated based on Shares owned at 31st December 2016, Share price at 31st December 2016 of 230.5 pence per Share and the Executive Director's basic salary at 31st December 2016. The proposed Policy, to be presented for Shareholder approval at the 2017 AGM, increases the shareholding requirement to 150% of basic salary over a period of five years. The Remuneration Committee will monitor Executive Director shareholdings during 2017.
2. Helen Buck was appointed as Executive Director – Estate Agency on 2nd February 2017.
3. Adam Castleton was appointed to the Board on 2nd November 2015 and he has purchased Shares as a participant in LSL's SIP/BAYE since 1st June 2016. The Shares specified in the table were purchased by the Trust at the prevailing market value.
4. Ian Crabb was appointed to the Board on 9th September 2013 and he has purchased Shares as a participant in LSL's SIP/BAYE. The Shares specified in the table were purchased by the Trust at the prevailing market value.
5. Adrian Gill was appointed to the Board on 24th September 2014 and he has purchased Shares as a participant in LSL's SIP/BAYE. The Shares specified in the table were purchased by the Trust at the prevailing market value.

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

There have been no changes in the interests of any Director between 1st January 2017 and the date of this Report other than the purchases of Shares by Ian Crabb (211 Shares) and Adam Castleton (211 Shares) as participants of LSL's SIP/BAYE scheme. These Shares were purchased by the Trust at the prevailing market rate.

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

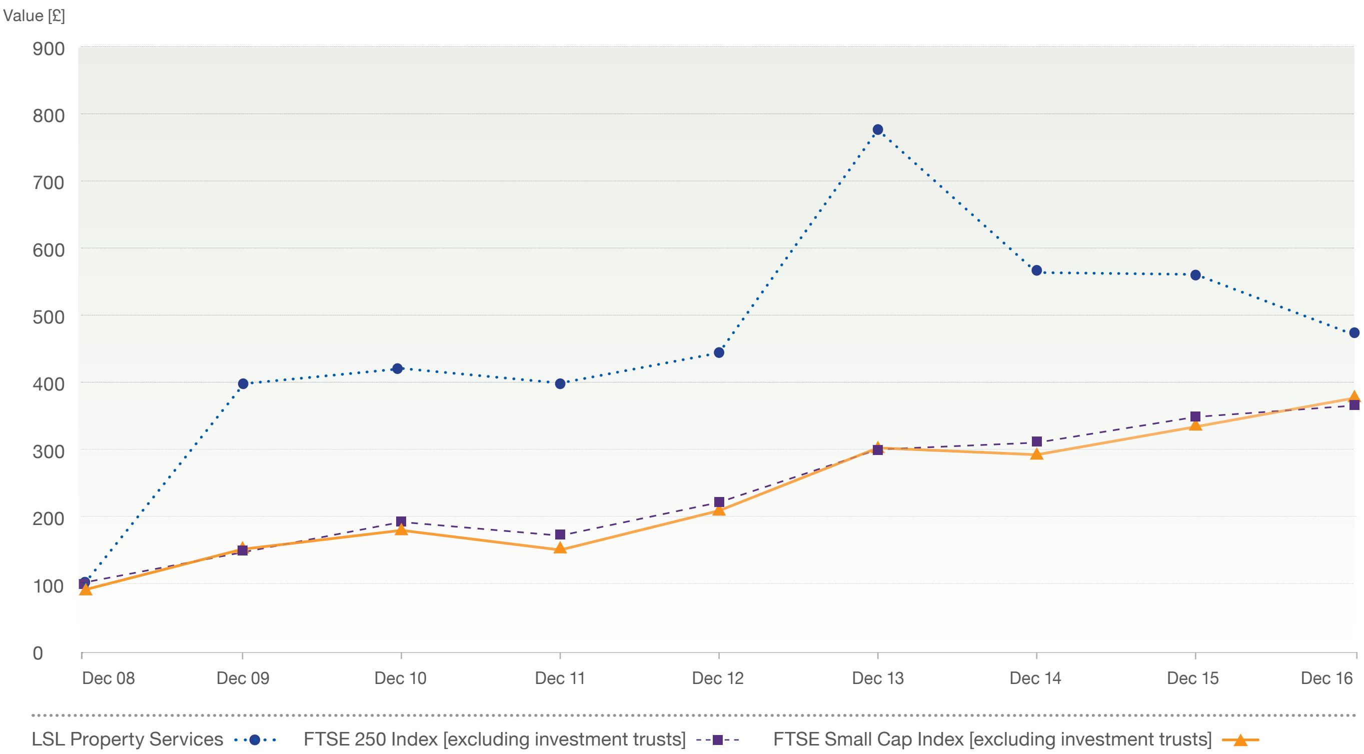
Performance graph and table

The following graph shows the value, up to the 31st December 2016, 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 on 31st December 2008. 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.

For 2017 TSR monitoring see TSR comparitor graph below.

Total Shareholder return

Source: Datastream (Thomson Reuters)



This graph shows the value, by 31st December 2016, of £100 invested in LSL Property Services on 31st December 2008, compared with the value of £100 invested in the FTSE 250 and FTSE Small Cap Indices (excluding investment trusts) on the same date.

The other points plotted are the values at intervening financial year-ends.

Group Chief Executive Officer's total remuneration

The total remuneration figures for the role of Group Chief Executive Officer during each of the last eight 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 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	2015	2016
Total remuneration	£373,754	£517,716	£308,747	£525,018	£500,862[1]	£119,522	£571,500	£852,869	£499,00
Annual bonus	100%	97.5%	9.6%	60%	91.7%	N/A	54%	93.3%	16%
LTIP vesting	N/A	N/A	N/A	55%	0%	N/A	N/A	66.81%	0%

Notes to Group Chief Executive Officer's total remuneration:

[1] The total remuneration disclosed for the year ended 31st December 2013 is Simon Embley's total remuneration although he ceased being Group Chief Executive Officer and became Deputy Chairman on 9th September 2013, prior to becoming Non Executive Chairman on the 1st January 2015.

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 2015 and 2016, compared to that of the total remuneration for all employees of the Group for each of these elements of pay.

	Basic salary change	Benefits change	Bonus change
Group Chief Executive Officer	+8.1%[2]	Nil	-81.5%
All employees[1]	+2.0%	Nil	-53.7%
Average number of employees[1]	155		

Notes on percentage change in Group Chief Executive Officer's remuneration:

[1] Refers to a subset of employees outside the Estate Agency commission structure.

[2] Ian Crabb's basic salary was increased on 1st January 2016 by 8.1% for 2016 as disclosed in the Annual Report and Accounts 2015 and on 1st January 2017 by 1.5% for 2017, in line with other non-commission earning employees within the Group.

Relative importance of spend on pay

The following table shows LSL's actual spend on pay (for all employees) relative to dividends paid and profit earned:

	2016 (£m)	2015 (£m)	Change (%)
Staff costs[1]	179.3	171.2	+4.7
Dividends (excluding any special dividend)	10.6	12.9	-18.1
Profit after tax	50.5	30.5	+65.6
Adjusted profit after tax[2]	26.6	32.3	-17.6

[1] See Note 13 of the Financial Statements for calculation of staff costs.

[2] See Note 11 to the Financial Statements.

Statement of Shareholder voting

The Directors' Remuneration Report for the financial year ending 31st December 2015 was presented to Shareholders at the 2016 AGM which was held on 28th April 2016. The voting outcomes were as follows:

	Annual Statement and Annual Report on Remuneration	
Votes cast in favour	82,458,028	99.69%
Votes cast against	259,237	0.31%
Total votes cast	82,717,265	100%
Abstentions	0	-

Remuneration Committee

Role and membership

Details of the Remuneration Committee's composition and responsibilities are set out in the Corporate Governance Report at page 40 of this Report. During 2016 the Remuneration Committee was chaired by Bill Shannon and its other members were Kumsal Bayazit Besson, Helen Buck, David Stewart and Mark Morris (until his term of office ended on 28th April 2016). The terms of reference of the Remuneration Committee are available from the Company Secretary or LSL's website **(www.lslps.co.uk)**.

Committee's advisers

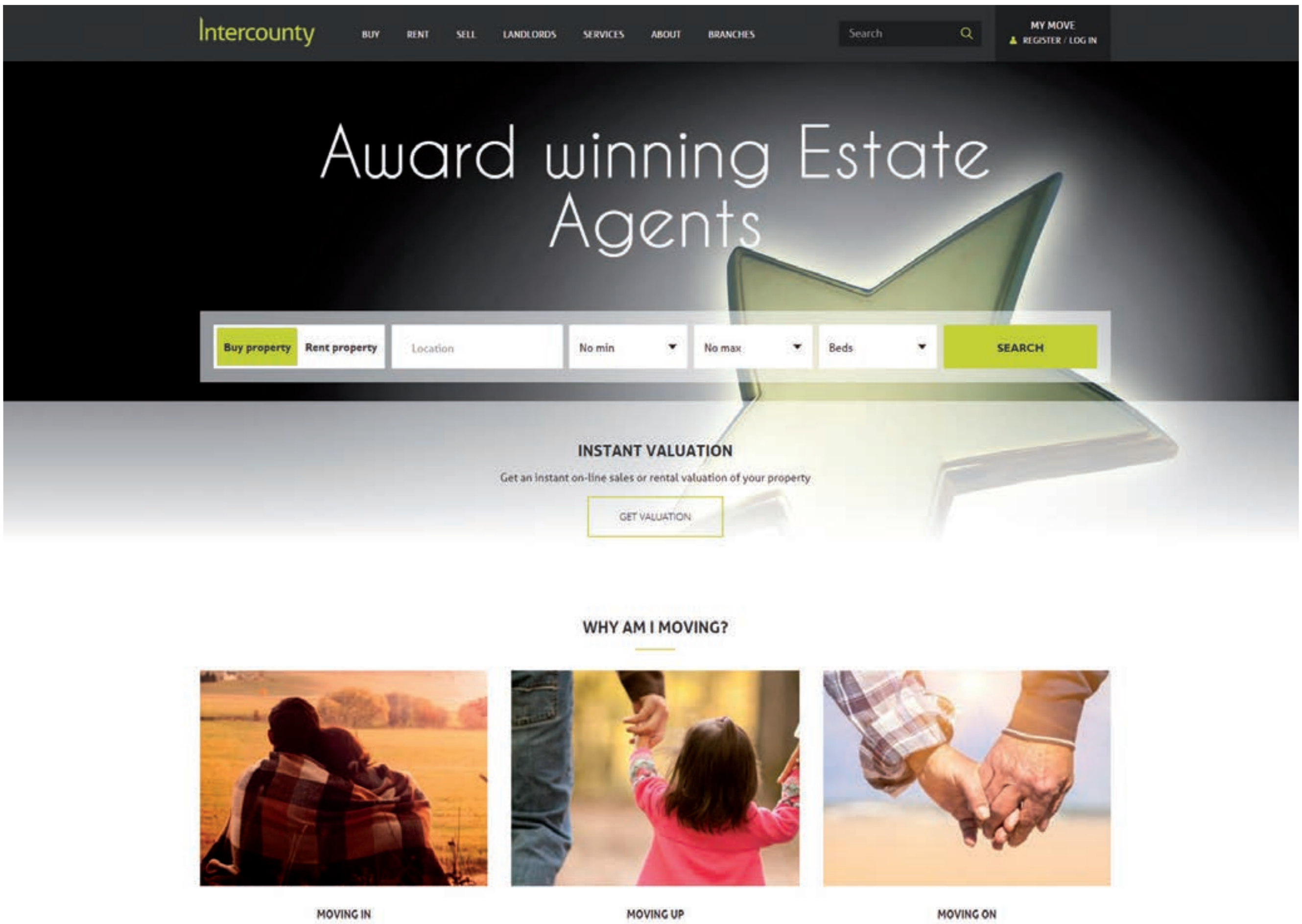
The Remuneration Committee took independent advice from NBS on matters relating to senior management and Executive Director remuneration. No other services are provided to LSL by the Aon group (of which NBS is a part). NBS provided advice to the Remuneration Committee in relation to the disclosures required in this Report, the creation of the new Policy, the assessment of TSR performance for the LTIP and benchmarking of the Executive Director roles. Their fees, charged on a time spent basis for 2016 were £33,470 (ex VAT). NBS is a signatory to the Remuneration Consultants' Code of Conduct and has confirmed to the Remuneration Committee that it adheres in all respects to the terms of the Code. The Remuneration Committee considers its advice 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
7th March 2017

Financial Statements

In this section



Intercounty's website, launched January 2016

Independent Auditor's Report

for the year ended 31st December 2016

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

Our opinion on the Financial Statements

In our opinion:

- LSL Property Services plc's Group Financial Statements and Parent Company Financial Statements (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 2016 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 EU;
- the Parent Company Financial Statements have been properly prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006; 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

LSL Property Services plc's Financial Statements comprise:

Group	Parent Company
Consolidated Balance Sheet as at 31st December 2016	Balance Sheet as at 31st December 2016
Consolidated Income Statement for the year then ended	Statement of Changes in Equity for the year then ended
Consolidated Statement of Comprehensive Income for the year then ended	Cash-flow statement for the year then ended
Consolidated cash-flow statement for the year then ended	Related Notes 1 to 16 to the Financial Statements
Consolidated Statement of Changes in Equity for the year then ended	
Related Notes 1 to 34 to the Financial Statements	

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company Financial Statements, as applied in accordance with the provisions of the Companies Act 2006.

Overview of our audit approach

Risks of material misstatement	• Revenue recognition (including lapse provision) • Recognition and measurement of professional indemnity ("PI") liabilities for inaccurate surveys • Accounting for acquisitions • Client monies
Audit scope	• We performed an audit of the complete financial information of nine components and audit procedures on specific balances for a further four components out of a total of 17 components. • The components where we performed full or specific audit procedures accounted for 100% of profit before tax, 99% of Revenue.
Materiality	• Overall Group materiality of £1.53m which represents 5% of adjusted profit before tax.

Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the Financial Statements as a whole and, consequently, we do not express any opinion on these individual areas.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Revenue recognition (including lapse provision) *Refer to the Audit Committee Report (page 46); Accounting policies (page 93); and Note 3 of the Consolidated Financial Statements (page 102)* The Group has reported revenues of £307.8m (2015: £300.6m). We focused primarily on the timing of revenue recognised, as given the number of products and services offered there are inherent complexities surrounding the timing of revenue recognition. 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 identified two specific risks of fraud (either through management override or error) in respect of improper revenue recognition: • Inappropriate cut off of revenue focusing around the year-end timing of revenue recognised both through error or management bias. • Inaccurate estimate of lapse rates which could lead to revenue being manipulated by understating the provision.	We performed full and specific scope audit procedures over this risk area in nine locations, which covered 91% of the revenue balance and 100% of the lapsed commission provision. • We understood the key processes used to record revenue transactions; • At certain locations we identified and tested key revenue controls; • We performed analytical procedures including data analytics and overall analytical review; • We examined material journal entries that were posted to revenue accounts around the year-end; and • We performed detailed cut off testing of revenue transactions either side of the Balance Sheet date. For the estimate of repayable commissions we performed the following: • We obtained management's workings and checked the underlying calculations for arithmetical accuracy; • We tested the integrity of the underlying data used in management's assumptions by selecting a sample of policies that had lapsed and vouching them to claims from the lender and bank statements; and • We identified that each item in our sample had been correctly included in the historical lapse rate calculation.	Based on our audit procedures we concluded that revenue is appropriately recognised in accordance with IAS 18, and that there was no evidence of management override. The lapsed commission rates used to calculate the lapse provision are based on historical trend analysis, and sit within an acceptable range.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Recognition and measurement of professional indemnity ("PI") liabilities for inaccurate valuations or surveys. *Refer to the Audit Committee Report (page 46); Accounting policies (page 93); and Note 23 of the Consolidated Financial Statements (page 123).* The Group has recognised a professional indemnity provision of £20.7m (2015: £29.7m) as at 31st December 2016. 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. In the current year, a release of the provision has generated a £1.6m gain recognised in the Income Statement as an exceptional item. 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.	We performed the following procedures across three full scope locations providing 100% coverage across the professional indemnity provision. Our procedures have focused on management's estimation process, including whether bias exists in determining the professional indemnity provision. • We recalculated and validated management's calculations, with reference to source documentation; • We compared these calculations to expectations and investigated and corroborated any material variances; • We corroborated material assumptions in relation to the incidence of claims, the propensity for claims to result in financial loss and the resultant loss per claim used by management and verified that these were appropriate; • We interrogated the data around the current level of claims to assess management's assumptions relating to how the level of claims will change over time; • We traced a sample of payments to bank statements and reviewed the post year-end settlements against management's estimates in order to assess management's accuracy in estimating claim costs; • We inquired with legal counsel for certain claims and investigations to understand the most current legal standing; and • We reviewed the disclosures in respect of the nature and movements of the provision included within the Financial Statements for completeness and appropriateness in line with IAS 37. In addition, we reviewed the disclosure required by IAS 1 of the sensitivity of the carrying amount of the provision to changes in key estimates.	Based on our procedures we believe that the estimate for PI liabilities is in accordance with IAS 37 and the estimate is within an acceptable range. We concluded that the exceptional provision release of £1.6m was appropriate. We concluded that the disclosures were compliant with IAS 37 and IAS 1.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for acquisitions *Refer to the Audit Committee Report (page 46); Accounting policies (page 93); and Note 28 of the Consolidated Financial Statements (page 125)* The Group is acquisitive in nature, and acquisitions frequently include earn-out arrangements in respect of key management. 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 acquired a 65% stake in Group First Ltd, alongside put and call options which provide the option to purchase the remaining 35% for a contingent sum. The total consideration, being both cash and deferred / contingent consideration amounts to £15.7m. A number of other businesses were also acquired for combined consideration of £4.2m. As at the 31st December 2016, the Group has recognised a financial liability of £10.1m in relation to contingent consideration (2015: £9.9m).	We have performed the following procedures across all material acquisitions within the Group. • We obtained and read all material sales and purchase agreements (SPA); • We verified the appropriateness of the allocation of the purchase price and the recognition of intangible assets; • We identified within the SPA any earn-out and contingent consideration clauses and considered whether these had been appropriately classified as either consideration or remuneration; • For acquisitions that arose in prior periods we tested the subsequent measurement of contingent consideration liabilities with reference to SPA, actual and forecast financial results; and • Reviewed necessary disclosures in the Financial Statements including the (provisional) allocation of fair values.	Based on our audit procedures we conclude that the accounting for acquisitions has been performed correctly in line with IFRS 3, and that intangible assets acquired have been appropriately identified. Furthermore, we conclude that financial liabilities held in relation to earn-out arrangements have been appropriately valued.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Client Monies Refer to the Audit Committee Report (*page 46*); Accounting policies (page 93); and Note 29 of the Consolidated Financial Statements (*page 128*). As at 31st December 2016 the Group holds £100.6m (2015: £93.8m) on behalf of Estate Agency customers. These amounts do not belong to the Group and are held on behalf of clients, so as such are held off balance sheet. There is a risk of loss or misappropriation of monies held which, if it arose, would result in a financial cost to the Group.	We performed procedures across five full scope locations and one specific scope location providing 100% coverage across the client money balance. We performed the following procedures: • We obtained client account reconciliations and agreed material reconciling items to supporting evidence; • We agreed the amounts held in client monies accounts to the bank letters; and • We performed a cashbook review of the trading accounts, with a particular focus on the appropriateness and cut off of transfers to and from client accounts.	Based on the procedures we have performed we conclude that client monies are appropriately held off balance sheet and reconcile to third party confirmations.

The scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated Financial Statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

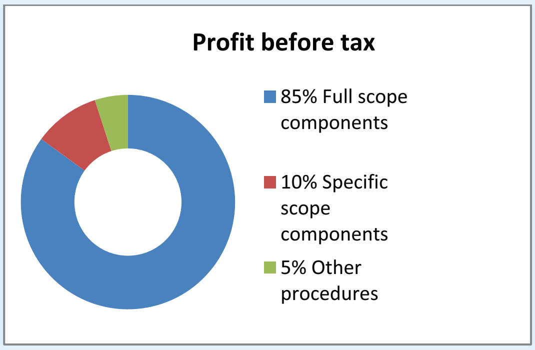
In assessing the risk of material misstatement to the Group Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the Financial Statements, of the 17 reporting components of the Group, we selected 13 components covering entities which represent the principal business units within the Group.

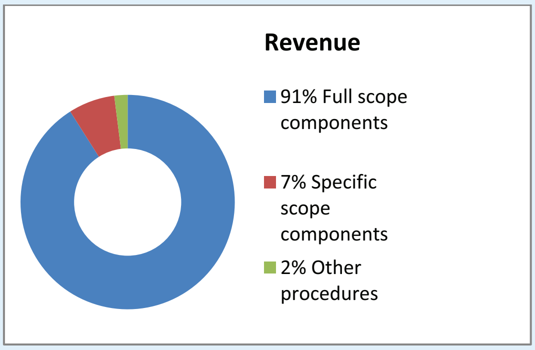
Of the 13 components selected, we performed an audit of the complete financial information of nine components (“full scope components”) which were selected based on their size or risk characteristics. For the remaining four components (“specific scope components”), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the Financial Statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2015: 95%) of the Group’s profit before tax and 99% (2015: 98%) of the Group’s revenue. For the current year, the full scope components contributed 93% (2015: 85%) of the Group’s profit before tax and 91% (2015: 91%) of the Group’s revenue. The specific scope components contributed 7% (2015: 10%) of the Group’s profit before tax and 8% (2015: 7%) of the Group’s revenue. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group. The Group audit risk in relation to revenue recognition was subject to audit procedures across nine full scope locations. The Group audit risk in relation to professional indemnity liabilities was subject to specific procedures at three full scope locations. The Group audit risk in relation to acquisition accounting was subject to audit procedures at four full scope locations. The Group audit risk in relation to client monies was subject to audit procedures across five full scope locations and one specific scope location.

Of the remaining four components that together represent 0% of the Group’s profit before tax none are individually greater than 1% of the Group’s profit before tax. For these components, we performed analytical review procedures to respond to any potential risks of material misstatement to the Group Financial Statements.

The charts below illustrate the coverage obtained from the work performed by our audit teams.





Changes from the prior year

The above scope is consistent with the prior year except for the inclusion of three components as full scope this year in comparison to being specific scope in the prior year. These changes in our scope are as a result of our evaluation of the relative size and risk assessment of each location.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team. All locations are audited by EY and all reside within the United Kingdom.

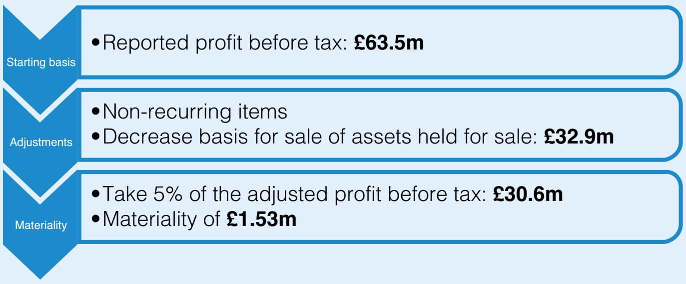
Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £1.53m (2015: £1.7m), which is 5% (2015: 5%) of an adjusted profit before tax measure. We believe that profit before tax excluding the non-underlying profit from the disposal of available for sale financial assets, provides us with the most relevant measure of Group profitability. In the prior year we did not use an adjusted measure as there were no non-underlying items that we believed required adjustment.



Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2015: 50%) of our planning materiality, namely £0.8m (2015: £0.9m). We have set performance materiality at this percentage to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level of £1.6m.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.4m to £0.2m (2015: £0.5m to £0.2m).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.08m (2015: £0.09m), which is set at 5% of planning materiality, 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 light of other relevant qualitative considerations in forming our opinion.

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.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 35, 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.

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.

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
- based on the work undertaken in the course of the audit:
  - 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; and
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.
- based on the work undertaken in the course of the audit, the information given in the Corporate Governance Report set out on page 40, with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures and in compliance with rules 7.2.5 and 7.2.6 of the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority:
  - is consistent with the Financial Statements; and
  - has been prepared in accordance with applicable legal requirement.
- based on the work undertaken rules 7.2.2, 7.2.3 and 7.2.7 in the Disclosure Guidance and Transparency Rules sourcebook made by the Financial Conduct Authority (with respect to the Company's corporate governance code and practices about its administrative, management and supervisory bodies and their committees) have been complied with if applicable.

Matters on which we are required to report by exception

ISAs (UK and Ireland) reporting	We are required to report to you if, in our opinion, financial and non-financial 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 • otherwise misleading. In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.	We have no exceptions to report.
Companies Act 2006 reporting	In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report, Report of the Directors or Corporate Governance Report set out on pages 11, 36 and 40. • 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. • a Corporate Governance Report has not been prepared by the Company	We have no exceptions to report.
Listing rules review requirements	We are required to review: • the Directors' statement in relation to going concern, set out on page 38, and longer-term viability, set out on page 37; and • the part of the Corporate Governance Report relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.	We have no exceptions to report.

Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

ISAs (UK and Ireland) reporting	We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to: • the Directors' confirmation in the Annual Report and Accounts that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity; • the disclosures in the Annual Report and Accounts that describe those risks and explain how they are being managed or mitigated; • the Directors' statement in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the Financial Statements; and • the Directors' explanation in the Annual Report and Accounts as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.	We have nothing material to add or to draw attention to.

Alistair Denton (Senior Statutory Auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

7th March 2017

Notes:

1. The maintenance and integrity of the LSL Property Services plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdiction.

Group Income Statement

for the year ended 31st December 2016

	Note	2016 £'000	2015 £'000
Revenue	3	**307,750**	300,594
Operating expenses:			
Employee and subcontractor costs	13	**(182,687)**	(171,216)
Establishment costs		**(19,888)**	(19,012)
Depreciation on property, plant and equipment	16	**(5,475)**	(5,296)
Other		**(67,282)**	(65,180)
		(275,332)	(260,704)
Other operating income	3	**1,165**	1,865
(Loss) on sale of property, plant and equipment		**(9)**	(44)
Income from joint ventures	18	**1,049**	1,156
Group Underlying Operating Profit	5	**34,623**	42,867
Share-based payments	13	**(1,263)**	(871)
Amortisation of intangible assets	15	**(3,914)**	(1,803)
Exceptional gains	8	**34,531**	–
Exceptional cost	8	**(2,341)**	(258)
Contingent consideration	8	**3,785**	1,477
Group operating profit	4	**65,421**	41,412
Finance income	6	**–**	5
Finance costs	7	**(1,896)**	(2,817)
Net financial costs		**(1,896)**	(2,812)
Profit before tax	9	**63,525**	38,600
Taxation			
– related to exceptional items and contingent consideration		**(6,432)**	52
– others		**(6,601)**	(8,190)
	14	**(13,033)**	(8,138)
Profit for the year		**50,492**	30,462
Attributable to			
– Owners of the parent		**50,493**	30,414
– Non-controlling interest		**(1)**	48
Earnings per Share expressed in pence per Share:			
Basic	11	**49.2**	29.7
Diluted	11	**49.0**	29.5

Group Statement of Comprehensive Income

for the year ended 31st December 2016

	Note	2016 £'000	2015 £'000
Profit for the year		**50,492**	30,462
Items to be reclassified to profit and loss in subsequent periods:			
Reclassification adjustments for disposal of financial assets	17	**(33,022)**	(440)
Income tax effect	14	**5,914**	53
Revaluation of financial assets	17	**11,816**	5,130
Income tax effect	14	**(2,015)**	(580)
Net other comprehensive (loss)/income to be reclassified to profit and loss in subsequent periods:		**(17,307)**	4,163
Total other comprehensive (loss)/income for the year, net of tax		**(17,307)**	4,163
Total comprehensive income for the year, net of tax		**33,185**	34,625
Attributable to			
– Owners of the parent		**33,186**	34,577
– Non-controlling interest		**(1)**	48

Group Balance Sheet

as at 31st December 2016

Company No. 05114014

	Note	2016 £'000	2015 £'000
Non-current assets			
Goodwill	15	**151,901**	136,395
Other intangible assets	15	**33,249**	30,517
Property, plant and equipment	16	**18,842**	19,393
Financial assets	17	**4,603**	28,871
Investments in joint ventures	18	**8,762**	8,778
Total non-current assets		**217,357**	223,954
Current assets			
Trade and other receivables	19	**32,263**	35,366
Cash and cash equivalents	20	**–**	5,603
Total current assets		**32,263**	40,969
Total assets		**249,620**	**264,923**
Current liabilities			
Financial liabilities	22	**(10,739)**	(15,777)
Trade and other payables	21	**(50,900)**	(50,102)
Current tax liabilities		**(7,581)**	(2,525)
Provisions for liabilities	23	**(5,742)**	(12,100)
Total current liabilities		**(74,962)**	(80,504)
Non-current liabilities			
Financial liabilities	22	**(26,469)**	(52,511)
Deferred tax liability	14	**(3,801)**	(6,927)
Provisions for liabilities	23	**(15,622)**	(17,625)
Total non-current liabilities		**(45,892)**	(77,063)
Total Liabilities		**(120,854)**	(157,567)
Net assets		**128,766**	**107,356**
Equity			
Share capital	25	**208**	208
Share premium account	26	**5,629**	5,629
Share-based payment reserve	26	**4,303**	3,564
Treasury shares	26	**(5,368)**	(5,988)
Fair value reserve	26	**3,571**	20,878
Retained earnings		**120,239**	82,880
Equity attributable to owners of parent		**128,582**	107,171
Non-controlling interests		**184**	185
Total equity		**128,766**	107,356

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

Ian Crabb
Group Chief Executive Officer
7th March 2017

Adam Castleton
Group Chief Financial Officer
7th March 2017

Group Statement of Cash-Flows

for the year ended 31st December 2016

	Note	31st December 2016		31st December 2015	
		£'000	£'000	£'000	£'000
Cash generated from operating activities					
Profit before tax			**63,525**		38,600
Adjustments to reconcile profit before tax to net cash from operating activities					
Exceptional operating items and contingent consideration	8	**(35,975)**		(1,219)	
Amortisation of intangible assets	15	**3,914**		1,803	
Finance income	6	**–**		(5)	
Finance costs	7	**1,896**		2,817	
Share-based payments	13	**1,263**		871	
Total adjustments			**(28,902)**		4,267
Group operating profit before amortisation and share-based payments			**34,623**		42,867
Depreciation	16	**5,475**		5,296	
Dividend income		**(492)**		(835)	
Share of results of joint ventures		**(1,049)**		(1,156)	
Loss/(gain) on sale of property, plant and equipment and financial assets	9	**9**		(253)	
			3,943		3,052
Decrease in trade and other receivables		**3,265**		975	
(Decrease) in trade and other payables		**(614)**		(1,026)	
(Decrease) in provisions		**(8,561)**		(9,345)	
			(5,910)		(9,396)
Cash generated from operations			**32,656**		36,523
Interest paid		**(1,948)**		(1,852)	
Tax paid		**(8,861)**		(5,613)	
			(10,809)		(7,465)
Net cash generated from operating activities			**21,847**		29,058

Group Statement of Cash-Flows continued.

for the year ended 31st December 2016

	Note	31st December 2016 £'000	31st December 2016 £'000	31st December 2015 £'000	31st December 2015 £'000
Cash-flows from investing activities					
Cash acquired on purchase of subsidiary undertaking	28	**1,593**		774	
Acquisitions of subsidiaries and other businesses	28	**(8,451)**		(13,202)	
Payment of contingent consideration		**(3,537)**		(4,015)	
Investment in financial assets	17	**–**		(1,178)	
Investment in joint venture	18	**(2)**		–	
Cash received on sale of financial assets		**35,991**		297	
Dividends received from joint venture		**–**		1,499	
Dividends received from financial assets		**778**		549	
Interest received	6	**–**		5	
Purchase of property, plant and equipment and intangible assets	15,16	**(6,064)**		(7,991)	
Proceeds from sale of property, plant and equipment	16	**69**		328	
Net cash generated/(expended) on investing activities			**20,377**		(22,934)
Cash-flows from financing activities					
Repayment of loans		**(25,243)**		–	
Drawdown of loans		**–**		11,500	
Repayment of overdraft		**–**		(718)	
Repayment of loan notes		**(7,294)**		(63)	
Payment of deferred consideration		**(2,422)**		–	
Proceeds from exercise of share options		**48**		1,314	
Dividends paid	12	**(12,916)**		(12,554)	
Net cash used in financing activities			**(47,827)**		(521)
Net (decrease)/increase in cash and cash equivalents			**(5,603)**		5,603
Cash and cash equivalents at the beginning of the year			**5,603**		–
Cash and cash equivalents at the end of the year	20		**–**		5,603

Group Statement of Changes in Equity

for the year ended 31st December 2016

Year Ended 31st December 2016

	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 2016	**208**	**5,629**	**3,564**	**(5,988)**	**20,878**	**82,880**	**107,171**	**185**	**107,356**
Disposal of financial assets (net of tax)	–	–	–	–	(27,108)	–	(27,108)	–	(27,108)
Revaluation of financial assets (net of tax)	–	–	–	–	9,801	–	9,801	–	9,801
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**(17,307)**	**–**	**(17,307)**	**–**	**(17,307)**
Profit for the year	–	–	–	–	–	50,493	50,493	(1)	50,492
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(17,307)**	**50,493**	**33,186**	**(1)**	**33,185**
Exercise of options	–	–	(524)	620	–	(218)	(122)	–	(122)
Share-based payments	–	–	1,263	–	–	–	1,263	–	1,263
Dividend payment	–	–	–	–	–	(12,916)	(12,916)	–	(12,916)
At 31st December 2016	**208**	**5,629**	**4,303**	**(5,368)**	**3,571**	**120,239**	**128,582**	**184**	**128,766**

During the year ended 31st December 2016, the Trust acquired nil Shares. During the period 176,955 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received £49,000 on exercise of these options.

Year Ended 31st December 2015

	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 2015	**208**	**5,629**	**3,498**	**(7,922)**	**16,715**	**64,835**	**82,963**	**137**	**83,100**
Disposal of financial assets (net of tax)	–	–	–	–	(387)	–	(387)	–	(387)
Revaluation of financial assets (net of tax)	–	–	–	–	4,550	–	4,550	–	4,550
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**4,163**	**–**	**4,163**	**–**	**4,163**
Profit for the year	–	–	–	–	–	30,414	30,414	48	30,462
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**4,163**	**30,414**	**34,577**	**48**	**34,625**
Exercise of options	–	–	(805)	1,934	–	185	1,314	–	1,314
Share-based payments	–	–	871	–	–	–	871	–	871
Dividend payment	–	–	–	–	–	(12,554)	(12,554)	–	(12,554)
At 31st December 2015	**208**	**5,629**	**3,564**	**(5,988)**	**20,878**	**82,880**	**107,171**	**185**	**107,356**

During the year ended 31st December 2015, the Trust acquired no Shares. During the period 551,446 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received £1,314,000 on exercise of these options.

Notes to the Group Financial Statements

for the year ended 31st December 2016

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 2016 were authorised for issue by the Board of the Directors on 7th March 2017 and the Balance Sheet was signed on the Board's behalf by Ian Crabb, Group Chief Executive Officer and Adam Castleton, Group Chief Financial Officer. LSL is a listed company, in London, incorporated and domiciled in England and the Group operates a network of estate agencies, surveying and valuation and other related businesses.

The Group's Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU 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 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 2016. 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

There are no IFRS amendments or IFRIC interpretations effective for the first time this financial year that had a material impact on the Group.

Judgements and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements

Areas of judgment that have the most significant effect on the amounts recognised in the consolidated Financial Statements are:

Revenue recognition

Revenue recognition is an area of judgment and a misstatement could be material to the Group although the nature of the revenue recognised in the Group is not considered complex. The Group sells a number of different products and services and operates in multiple locations throughout the UK.

Exceptional items

The Group recognises certain items as exceptional where, in the judgment of the Directors, they are required to be disclosed separately due to them being material in size and unusual in nature. This is reviewed in accordance with IAS 1.

Intangible assets

The recognition of intangible assets, particularly on acquisition, is an area of judgement. On acquisition Management seek to identify any assets that meet the criteria of an intangible asset, namely that it is separately identifiable, the Group has power over the asset and future economic benefits will be derived from the asset.

Deferred tax

The Group recognises deferred tax assets on all applicable temporary differences where it is probable that future taxable profits will be available for utilisation. This requires Management to make judgments and assumptions regarding the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits. Deferred tax liabilities are provided for in full.

2. Accounting policies (continued)

Estimates

The key assumptions affected by future uncertainty that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are:

Lapse provision

Certain subsidiaries sell life assurance products which are cancellable without a notice period, and if cancelled within a set period require that a portion of the commission earned must be repaid. The lapse provision is recognised as a reduction in revenue.

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. The value of the intangible asset is measured at cost and the useful life of the asset is determined by assessing the period over which the Group can benefit from the asset.

Valuation of financial assets

The Group owns minority interests in two 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 17 to these Financial Statements. A sensitivity calculation which shows the impact of changes in assumption is shown in Note 30.

Professional indemnity (PI Cost) claims

Significant judgement is required when provisioning for PI claims. Details of key assumptions in these areas are disclosed in Notes 8 and 23 to these Financial Statements. A sensitivity calculation which illustrates the impact of different assumptions on the required PI Costs provision is included in Note 23.

Valuations in acquisitions

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

Impairment of intangible assets

The Group determines whether indefinite life intangible assets (including goodwill) are impaired on an annual basis and this requires an estimation of the value in use of the cash generating units to which the intangible assets are allocated. This involves estimation of future cash-flows and choosing a suitable discount rate (see Note 15).

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 put and call options to purchase 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 22 to these Financial Statements. A sensitivity calculation which shows the impact of changes in assumption is shown in Note 30.

Income tax

The Group will pay income taxes based on the tax computations of the subsidiary entities. While the outcome of these tax computations cannot be determined with certainty until the completion of subsidiary accounts, Management estimates of income taxes are used to determine the tax charges and provisions carried by the Group.

Basis of consolidation

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 entity and has the ability to affect those returns through its power over the entity. Specifically, the Group controls an entity if, and only if, the Group has:

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

2. Accounting policies (continued)

The Financial Statements of subsidiaries used in the preparation of the consolidated Financial Statements are prepared on the same reporting year as the Parent Company and are based on consistent accounting policies. All intra-Group balances and transactions, including unrealised profits arising from them, are eliminated in full.

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

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.

Non GAAP measures / alternative performance measures
In the analysis of the Group's financial performance, LSL reports a number of Alternative Performance Measures (APMs) that are designed to assist with the understanding of the underlying performance of the Group. The Group seeks to present a measure of underlying performance which is not impacted by the inconsistency in profile of exceptional gains and exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments. These measures are not defined under IFRS and, as a result, do not comply with Generally Accepted Accounting Practice (known as non-GAAP measures) and may not be directly comparable with other companies' non-GAAP measures. They are not designed to be a substitute for any of the IFRS measures of performance. The principal APMs used within the consolidated Financial Statements and the location of the reconciliations to equivalent IFRS measures are:

• Group Underlying Operating Profit (reconciled in Note 5)

• Adjusted basic EPS (reconciled in Note 11)

• Adjusted diluted EPS (reconciled in Note 11)

The Directors consider that these adjusted measures give a better and more consistent indication of the Group's underlying performance. These measures form part of Management's internal financial review and are contained within the monthly management information reports reviewed by the Board.

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, within Group 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 ventures 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.

2. Accounting policies (continued)

Intangible assets

Business combinations from 1st January 2010
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. The choice of measurement of non-controlling interest, either at fair value or at the proportionate share of the acquiree's identifiable net assets, is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date.

Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or in other comprehensive income. If contingent consideration is linked to a service condition, then expected payments are recognised 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.

Other intangible assets
Intangible assets other than goodwill that are acquired separately are measured at cost on initial recognition. Following the initial recognition, intangible assets are carried at cost less accumulated amortisation and impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

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

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:	
Residential Sales customer contracts	– three to ten years
Surveying and Valuation customer contracts	– between three and five years
Lettings contracts	– five years
Order book:	
Estate Agency pipeline	– three months
Surveying pipeline	– one week
Estate Agency register	– twelve months
Others:	
Franchise agreements	– ten years
In-house software	– between three and five years

2. Accounting policies (continued)

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.

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

Dividends

Equity dividends are recognised when they become legally payable. In the case of interim dividends to equity Shareholders, this is when paid. In the case of final dividends, this is when approved by the Shareholders at the AGM.

2. Accounting policies (continued)

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.

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 11).

Treasury shares

The Group has an employee share trust (ESOT) and an employee benefit trust (Trust) for the granting of Shares to Executive Directors and selected senior employees. Shares 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.

2. Accounting policies (continued)

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 of all Group Companies. The assets of the scheme are invested and managed independently of the finances of the Group. The pension cost charge represents contributions payable in the year.

Provisions

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

Financial instruments

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

The subsequent measurement of financial assets depends on their classification.

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

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as such or are not classified as held to maturity, loan and receivables or fair value through profit or loss. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised 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.

2. Accounting policies (continued)

In relation to trade receivables carried at amortised cost, 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.

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.

Assets carried at cost
If there is objective evidence of 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.

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 Valuations or Surveys 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 protection 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.

2. Accounting policies (continued)

New standards and interpretations not applied

The following new standards, new interpretations and amendments to standards and interpretations that the Directors consider relevant to the Group, have been issued but are not effective for the financial year beginning 1st January 2016 and have not been early adopted:

International Accounting Standards (IAS/IFRSs)		Effective date
IFRS 2	Share-Based Payment Transaction: Classification and Measurement This amendment to IFRS 2 is intended to eliminate diversity of classification and measurement.	1st January 2018
IFRS 9	Financial Instruments: Classification and Measurement This final version of IFRS 9 adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments.	1st January 2018
IFRS 15	Revenue from Contracts with Customers This Standard specifies how, and when, an IFRS reporter will recognise revenue, as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.	1st January 2018
IFRS 16	Leases This Standard specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.	1st January 2019
Amendment to IAS 7	Statement of Cash-Flows Disclosure initiative to improve the understanding of an entity's debt.	1st January 2017

The Directors continue to evaluate the impact of IFRS 16. They do not anticipate that the adoption of any of the other standards and interpretations above will have a material impact on the Group's Financial Statements, other than additional disclosures, in the period of initial application but will continue to review the potential impact and expect to conclude on their findings during 2017.

3. Revenue

The revenue and pre-tax income is attributable to the continuing activity of Estate Agency and Related Services and the provision of Surveying and Valuation Services on residential property. All revenue arises in the United Kingdom.

Revenue is analysed as follows:

	2016 £'000	2015 £'000
Revenue from services	**307,750**	300,594
Operating revenue	**307,750**	300,594
Rental income	**673**	729
Dividend income	**492**	835
Gain on disposal of financial assets	**–**	301
Other operating income	**1,165**	1,865
Finance income	**–**	5
Total revenue	**308,915**	302,464

Dividend income was received in the year from the Group's investments in Zoopla and GPEA. Further details of LSL's investments are shown in Note 17.

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 revenue included within the Estate Agency Division includes two mortgage and insurance distribution networks providing products and services for sale via financial intermediaries. A significant proportion of the results of the Financial Services are inextricably linked to the Estate Agency business. They have therefore been aggregated with those of the Estate Agency and Related Service segment.
- 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 19 under the Business Review sections 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 2016 and financial year ended 31st December 2015 respectively.

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

Year ended 31st December 2016

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Income Statement information				
Segmental revenue	243,036	64,714	–	**307,750**
Segmental result:				
– before exceptional costs, contingent consideration, amortisation and share-based payments	24,500	17,508	(7,385)	**34,623**
– after exceptional costs, contingent consideration, amortisation and share-based payments	22,344	18,030	25,047	**65,421**
Finance income				**–**
Finance costs				**(1,896)**
Profit before tax				**63,525**
Taxation				**(13,033)**
Profit for the year				**50,492**

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Balance Sheet information				
Segment assets – intangible	172,736	12,414	–	**185,150**
Segment assets – other	56,574	6,873	1,023	**64,470**
Total Segment assets	229,310	19,287	1,023	**249,620**
Total Segment liabilities	(53,997)	(32,780)	(34,077)	**(120,854)**
Net assets/(liabilities)	**175,313**	**(13,493)**	**(33,054)**	**128,766**
Other segment items				
Capital expenditure including intangible assets	(4,927)	(1,325)	–	**(6,252)**
Depreciation	(5,077)	(398)	–	**(5,475)**
Amortisation of intangible assets	(3,914)	–	–	**(3,914)**
Share of results of joint venture	1,049	–	–	**1,049**
Professional indemnity claim (PI Costs)	–	(20,686)	–	**(20,686)**
Onerous leases provision	(678)	–	–	**(678)**
Share-based payment	(200)	(562)	(501)	**(1,263)**

Unallocated net liabilities comprise plant and equipment (£8,000), other assets (£1,015,000), accruals (£436,000), financial liabilities (£5,759,000), deferred and current tax liabilities (£11,382,000), revolving credit facility (£16,500,000).

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

Year ended 31st December 2015

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	**Total £'000**
Income Statement information				
Segmental revenue	236,525	64,069	–	**300,594**
Segmental result:				
– before exceptional costs, contingent consideration, amortisation and share-based payments	31,288	18,104	(6,525)	**42,867**
– after exceptional costs, contingent consideration, amortisation and share-based payments	29,347	17,459	(5,394)	**41,412**
Finance income				**5**
Finance costs				**(2,817)**
Profit before tax				**38,600**
Taxation				**(8,138)**
Profit for the year				**30,462**

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	**Total £'000**
Balance Sheet information				
Segment assets – intangible	155,670	11,242	–	**166,912**
Segment assets – other	82,883	8,659	6,469	**98,011**
Total Segment assets	238,553	19,901	6,469	**264,923**
Total Segment liabilities	(43,052)	(42,461)	(72,054)	**(157,567)**
Net assets/(liabilities)	**195,501**	**(22,560)**	**(65,585)**	**107,356**
Other segment items				
Capital expenditure including intangible assets	(7,401)	(590)	–	**(7,991)**
Depreciation	(4,874)	(422)	–	**(5,296)**
Amortisation of intangible assets	(1,798)	(5)	–	**(1,803)**
Share of results of joint venture	1,156	–	–	**1,156**
Professional indemnity claim (PI Costs) provision	–	(2,109)	–	**(2,109)**
Onerous leases provision	133	–	–	**133**
Share-based payment	(496)	(640)	265	**(871)**

Unallocated net liabilities comprise plant and equipment (£9,000), other assets (£857,000), cash (£5,603,000), accruals (£1,554,000), financial liabilities (£15,548,000), deferred and current tax liabilities (£9,452,000), revolving credit facility (£45,500,000).

5. Adjusted performance measures

In addition to the various performance measures defined under IFRS, the Group reports a number of alternative performance measures that are designed to assist with the understanding of the underlying performance of the Group. The Group seeks to present a measure of underlying performance which is not impacted by the inconsistency in profile of exceptional gains and exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments. Share-based payments are excluded from the underlying performance due to the fluctuations that can impact the charge, such as lapses and the level of annual grants. The three adjusted measures reported by the Group are:

- Group Underlying Operating Profit
- Adjusted Basic EPS
- Adjusted diluted EPS.

5. Adjusted performance measures (continued)

The Directors consider that these adjusted measures shown below give a better and more consistent indication of the Group's underlying performance. These measures form part of Management's internal financial review and are contained within the monthly management information reports reviewed by the Board.

The calculations of Adjusted Basic and adjusted diluted EPS are given in Note 11 and a reconciliation of Group Underlying Operating Profit is shown below:

	Note	2016 £'000	2015 £'000
Group operating profit	3	**65,421**	41,412
Share-based payments		**1,263**	871
Amortisation of intangible assets		**3,914**	1,803
Exceptional gains	8	**(34,531)**	–
Exceptional costs	8	**2,341**	258
Contingent consideration	8	**(3,785)**	(1,477)
Group Underlying Operating Profit		**34,623**	42,867

6. Finance income

	2016 £'000	2015 £'000
Interest receivable on funds invested	**–**	5

7. Finance costs

	2016 £'000	2015 £'000
Interest on revolving credit facility and overdraft	**1,949**	1,852
Interest on loan notes	**60**	354
Gain from amendment of loan note interest rate	**(799)**	–
Unwinding of discount on professional indemnity (PI Costs) provision	**200**	159
Unwinding of discount on contingent consideration	**486**	452
	1,896	2,817

8. Exceptional items and contingent consideration

	2016 £'000	2015 £'000
Exceptional costs:		
Branch/centre closure and restructuring costs including redundancy costs	**2,341**	258
Contingent consideration on acquisitions	**(3,785)**	(1,477)
Exceptional gains:		
Gain on disposal of Zoopla Shares	**(32,931)**	–
Provision for professional indemnity claims/notifications (PI Costs)	**(1,600)**	–
	(34,531)	–

Branch closure and restructuring costs

As announced in the Group's trading update on 22nd July 2016 the EU referendum has impacted UK consumer confidence. Given the difficulty of accurately predicting market transactions and consumer confidence for the remainder of the calendar 2016, the Board did not expect market conditions to improve sufficiently to meet previous financial expectations for the full year and as such, the Group took appropriate cost measures where necessary to adapt the Group's cost base. These cost saving programs, along with the technological refresh in the Surveying business, took place across the Group in the second half and resulted in £2.3m of one off exceptional costs. This treatment is consistent with prior years where restructuring costs due to branch closures were treated as exceptional.

8. Exceptional items and contingent consideration (continued)

Contingent consideration

The credit for consideration on the acquisition in 2011 of Marsh & Parsons amounted to £1,964,000 (2015: credit £3,002,000). The exceptional contingent consideration credit recognised in the year relating to other acquisitions, primarily a credit for LMS of £268,000 and a credit of £1,142,000 in LSLi (2015: charge for LMS of £2,136,000 and a credit of £611,000 in LSLi). See Notes 22 and 28 for more details.

Gain on disposal of financial assets

Between 20th July 2016 and 31st October 2016, LSL sold its entire holding of 11,313,786 ordinary shares in Zoopla for total proceeds of £36.1m at an average price per share of £3.19. This resulted in an exceptional gain of £32,931,000.

Provision for professional indemnity (PI) claims/notifications (PI Costs)

In 2016 the Group continued to make positive progress in addressing the historic PI claims and there has been a net £1.6m exceptional release (see Note 23).

9. Profit before tax

Profit before tax is stated after charging:

	2016 £'000	2015 £'000
Auditor's remuneration (Note 10)	450	517
Operating lease rentals:		
Land and buildings	11,029	10,669
Plant and machinery	4,499	4,806
Loss on sale of property, plant and equipment and financial assets	9	253

10. Auditor's remuneration

The remuneration of the auditors is further analysed as follows:

	2016 £'000	2015 £'000
Audit of the Financial Statements	49	49
Audit of subsidiaries	257	234
Audit of the financial statements of the prior period	68	132
Total audit	374	415
Audit related assurance services (interim results review fee)	17	17
Other assurance services	26	–
Tax compliance services	–	80
Tax advisory services	33	5
	450	517

11. Earnings per Share (EPS)

Basic EPS amounts are calculated by dividing net profit for the year attributable to ordinary equity holders of the Parent Company 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 Company 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.

			2016			2015
	Profit after tax £'000	Weighted average number of Shares	Per Share amount Pence	Profit after tax £'000	Weighted average number of Shares	Per Share amount Pence
Basic EPS	50,493	102,575,484	49.2	30,414	102,406,770	29.7
Effect of dilutive Share options		519,565			791,256	
Diluted EPS	50,493	103,095,049	49.0	30,414	103,198,026	29.5

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:

	2016 £'000	2015 £'000
Group operating profit before contingent consideration, exceptional items, share-based payments and amortisation (excluding non-controlling interest):	34,625	42,819
Net finance costs (excluding exceptional and contingent consideration items)	(1,410)	(2,360)
Normalised taxation	(6,643)	(8,193)
Adjusted profit after tax[1] before exceptional items, share-based payments and amortisation	26,572	32,266

Adjusted basic and diluted EPS

			2016			2015
	Adjusted profit after tax[1] £'000	Weighted average number of Shares	Per Share amount Pence	Adjusted profit after tax[1] £'000	Weighted average number of Shares	Per Share amount Pence
Adjusted Basic EPS	26,572	102,575,484	25.9	32,266	102,406,770	31.5
Effect of dilutive Share options		519,565			791,256	
Adjusted diluted EPS	26,572	103,095,049	25.8	32,266	103,198,026	31.3

Note:

1 This represents adjusted profit after tax attributable to equity holders of the Parent. The normalised tax rate in 2016 is 20.00% (2015: 20.25%).

12. Dividends paid and proposed

	2016 £'000	2015 £'000
Declared and paid during the year:		
Equity dividends on Ordinary Shares:		
2014 Final: 8.3 pence per Share		8,458
2015 Interim: 4.0 pence per Share		4,096
2015 Final: 8.6 pence per Share	8,812	
2016 Interim: 4.0 pence per Share	4,104	
	12,916	12,554
Dividends on Ordinary Shares proposed (not recognised as a liability as at 31st December):		
Equity dividends on Ordinary Shares:		
Dividend: 6.3 pence per Share (2015: 8.6 pence per Share)	6,466	8,808

13. Directors and employees

Remuneration of Directors

	2016 £'000	2015 £'000
Directors' remuneration (short-term benefits)[1]	1,514	1,626
Contributions to money purchase pension schemes (post-employment benefits)	20	18
Share-based payments	311	226
	1,845	1,870

1 included within this amount is accrued bonuses of £105,000 (2015: £571,000).

The number of Directors who were members of Group money purchase pension schemes during the year totalled 1 (2015: 1). During the year the Directors exercised nil CSOP options (2015: nil), nil JSOP options (2015: nil), and nil SAYE options (2015: nil).

Employee numbers and costs

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

	2016 £'000	2015 £'000
Wages and salaries	161,692	150,368
Social security costs	16,534	15,891
Pension costs	2,435	2,274
Total employee costs	180,661	168,533
Subcontractor costs	2,026	2,683
Total employee and subcontractor costs[2]	182,687	171,216
Share-based payment expense (see below)	1,263	871

2 The total employee and subcontractor costs exclude employees redundancy costs of £504,000 (2015: £258,000), which have been shown under exceptional costs (see Note 8).

The monthly FTE staff numbers (including Directors) during the year averaged 4,630 (2015: 4,677).

	2016	2015
Estate Agency and Related Services	3,983	3,935
Surveying and Valuation Services	647	742
	4,630	4,677

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 2015 & 2016 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.

13. 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 equal to or over (≥) 17.5% p.a. – 100% vest;
- If growth is 7.5% p.a. – 25% vest;
- Straight line vesting between 7.5% p.a. and 17.5% p.a.; and
- If growth is below 7.5% p.a. no options vest.

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 35% will vest;
- Straight line vesting between median and top 25% percentile; and
- Below the median no options vest.

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

- If growth is ≥ 20% p.a. – 100% vest;
- If growth is 12.5% p.a. – 25% vest;
- Straight line vesting between 12.5% p.a. and 20% p.a.; and
- If growth is below 12.5% p.a. 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 35% will vest;
- Straight line vesting between median and top 25% percentile; and
- Below the median no options vest.

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

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

13. Directors and employees (continued)

LTIP 2012 vesting conditions
30% of the options vest based on the TSR of LSL as compared to the FTSE 250 index (excluding investment trusts) over the three year performance period:

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

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

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

	2016		2015	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**–**	**1,178,458**	–	1,135,571
Granted during the year	**–**	**697,279**	–	493,970
Exercised during the year	**–**	**(159,174)**	–	(115,039)
Lapsed during the year	**–**	**(147,819)**	–	(336,044)
Outstanding at 31st December	**–**	**1,568,744**	–	1,178,458

There were 147,021 options exercisable at the end of the year (2015: 64,677). The weighted average remaining contractual life is 1.46 years (2015: 1.36 years). The weighted average fair value of options granted during the year was £2.51 (2015: £3.13). The weighted average share price of options at the date of their exercise was £2.78 (2015: £3.49).

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.

There were 129,464 options (2015: 129,464) exercisable at the end of the year which relate to the 2010 scheme which vested in 2013. Given that the scheme has vested, the weighted average remaining contractual life is nil (2015: nil), participants can exercise their options up until 2020 and have therefore four years (2015: five years) remaining until their option lapses. No options were exercised or lapsed during the year (2015: nil). The average market value at the date of exercise was £nil (2015: £nil).

13. 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.

	2016 Weighted average exercise price £	2016 Number	2015 Weighted average exercise price £	2015 Number
Outstanding at 1st January	**3.85**	**1,208,717**	3.72	1,314,246
Granted during the year	**2.86**	**336,860**	3.62	243,407
Exercised during the year	**2.59**	**(9,808)**	2.69	(201,795)
Lapsed during the year	**4.07**	**(139,345)**	3.91	(147,141)
Outstanding at 31st December	**3.60**	**1,396,424**	3.85	1,208,717

There were 147,287 options exercisable at the end of the year (2015: 164,367). The average market value at the date of exercise was £2.71 (2015: £3.44).

The weighted average fair value of options granted during the year was £1.49 (2015: £1.97). The weighted average remaining contractual life is 0.85 years (2015: 1.28 years).

Save-As-You-Earn scheme (SAYE)

The Group has offered options under the SAYE scheme in each of 2011 to 2014 and 2016 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.

	2016 Weighted average exercise price £	2016 Number	2015 Weighted average exercise price £	2015 Number
Outstanding at 1st January	**3.83**	**562,341**	3.56	1,017,127
Granted during the year	**2.66**	**490,958**	–	–
Exercised	**3.03**	**(7,973)**	2.62	(234,612)
Lapsed during the year due to employees withdrawal	**3.49**	**(375,630)**	3.81	(220,174)
Outstanding at 31st December	**3.17**	**669,696**	3.83	562,341

The weighted average fair value of options granted during the year was £2.66 (2015: £nil) and the weighted average remaining contractual life was 1.04 years (2015: 0.8 years). The average market value at the date of exercise was £3.00 (2015: £3.61).

There were nil (2015: 1,374) 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 2016	SAYE 2016	CSOP 2016
Option pricing model used	**Black-Scholes**	**Black-Scholes**	**Black-Scholes**
Weighted average Share price at grant date (£)	**2.86**	**2.86**	**2.86**
Exercise price (£)	**–**	**2.66**	**2.86**
Expected life of options (years)	**3**	**3**	**3**
Expected volatility	**100%**	**100%**	**100%**
Expected dividend yield	**4.35%**	**4.35%**	**4.35%**
Risk free interest rate	**0.84%**	**0.84%**	**0.84%**

13. Directors and employees (continued)

	LTIP 2015	CSOP 2015
Option pricing model used	Black-Scholes	Black-Scholes
Weighted average share price at grant date (£)	3.48	3.62
Exercise price (£)	–	3.62
Expected life of options (years)	3	3
Expected volatility	100%	100%
Expected dividend yield	3.3%	3.3%
Risk free interest rate	1.20%	1.22%

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

	2016 £'000	2015 £'000
Share-based payment charged during the year	1,263	871

A charge of £501,000 (2015: credit £266,000) 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.

14. Taxation

(a) Tax on profit on ordinary activities
The major components of income tax charge in the Group Income Statements are:

		2016 £'000	2015 £'000
UK corporation tax	– current year	12,703	7,787
	– adjustment in respect of prior years	1,009	391
		13,712	8,178
Deferred tax:			
Origination and reversal of temporary differences		(500)	(470)
Adjustment in respect of prior year		(179)	430
Total deferred tax (credit)		(679)	(40)
Total tax charge in the Income Statement		13,033	8,138

The 2015 summer budget announced that the headline rate of corporation tax in the UK would be further reduced from the current rate of 20% to 19% effective from 1st April 2017, and further reduced to 18%, effective from 1st April 2020. The Budget of March 2016 announced that from 1st April 2020, the proposed corporation tax will be lowered further still to 17%.

Following the substantive enactment of Finance Bill 2016 in September 2016, the corporation tax rate of 17% has been confirmed. Accordingly this is the rate at which deferred tax has been provided (2015: 18%). Corporation tax is recognised at the headline UK effective rate of 20% (2015 : 20.25%).

The effective rate of tax for the year was 20.5% (2015: 21.1%). The effective tax rate for 2016 was decreased as a result of reducing the rate at which deferred tax is provided resulting from the reduction in the headline rate of corporation tax.

Deferred tax credited directly to other comprehensive income is £3.8m (2015: charge of £0.5m); this is comprised of a credit of £5.9m and a charge of £2.1m and relates to the disposal and revaluation of financial assets. There is also a credit arising as a result of the impact of rate change on deferred tax of £0.2m. Income tax credited directly to the share-based payment reserve is £0.1m (2015: £nil).

14. Taxation (continued)

(b) Factors affecting tax charge for the year

The tax assessed in the profit and loss account is higher (2015: higher) than the standard UK corporation tax rate, because of the following factors:

	2016 £'000	2015 £'000
Profit on ordinary activities before tax	63,525	38,600
Tax calculated at UK standard rate of corporation tax rate of 20.00% (2015: 20.25%)	12,705	7,816
Non-taxable income from joint ventures and dividends	(95)	(403)
Other income not taxable	(510)	–
Benefit of deferred tax asset and brought forward losses not previously recognised	–	(32)
Disallowable expenses	577	381
Impact of movement in contingent consideration credited to the Income Statement	(757)	(295)
Capital gains in excess of accounting profit	183	–
Share-based payment relief	251	57
Impact of rate change on deferred tax	(151)	(207)
Prior period adjustments – current tax	1,009	391
Prior period adjustment – deferred tax	(179)	430
Total taxation charge	13,033	8,138

The major component of the disallowable expenditure is a permanent disallowance of depreciation on assets which do not qualify for capital allowances. This is a recurring adjustment with the tax impact of approximately £350,000 being broadly consistent with the prior year. The remainder of the adjustment relates to non-recurring items of disallowable nature, primarily legal and professional fees incurred in relation to capital transactions.

The other income not taxable reflects income which has been brought into the charge to corporation tax within a subsidiary's tax computation and statutory accounts for the year ended 31st December 2015. The tax impact of this has already been reflected as part of the prior year adjustments, and so has been adjusted for to ensure that the tax charge is correct.

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

	2016 £'000	2015 £'000
Unrecognised deferred tax asset relating to:		
Losses	3,365	3,823
	3,365	3,823

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:

	2016 £'000	2015 £'000
Net deferred tax liability at 1st January	6,927	6,462
Deferred tax liability recognised directly in other comprehensive income	2,036	505
Deferred tax (credit) in Income Statement for the year (Note 14a)	(679)	(40)
Deferred tax on disposals	(5,914)	–
Deferred tax liability arising on acquisitions and business combinations	1,431	–
Net deferred tax liability at 31st December	3,801	6,927

14. Taxation (continued)

Analysed as:

	2016 £'000	2015 £'000
Accelerated capital allowances	**(628)**	(566)
Deferred tax liability on separately identifiable intangible assets on business combinations	**4,267**	3,265
Deferred tax on financial assets	**731**	4,546
Deferred tax on Share options	**(157)**	(166)
Other short-term temporary differences	**(318)**	(53)
Trading losses recognised	**(94)**	(99)
	3,801	6,927

Deferred tax credit/(expense) in Income Statement relates to the following:

	2016 £'000	2015 £'000
Intangible assets recognised on business combinations	**590**	295
Accelerated capital allowance	**100**	(135)
Deferred tax on Share options	**(74)**	(59)
Other temporary differences	**63**	(61)
	679	40

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.

15. Intangible assets

Goodwill

	2016 £'000	2015 £'000
Cost		
At 1st January	**136,395**	131,560
Arising on acquisitions during the year	**15,506**	4,835
At 31st December	**151,901**	136,395

	2016 £'000	2015 £'000
Carrying amount of goodwill by operating unit		
Estate Agency and Related Services companies		
Marsh & Parsons	**40,307**	40,307
Your Move	**41,636**	40,613
Group First	**13,913**	–
Reeds Rains	**16,678**	16,330
LSLi	**22,512**	22,290
Pink Home Loans	**2,604**	2,604
First Complete	**3,998**	3,998
Templeton LPA	**336**	336
Others	**348**	348
	142,332	126,826
Surveying and Valuation Services company		
e.surv	**9,569**	9,569
	9,569	9,569
	151,901	136,395

15. Intangible assets (continued)

Impairment of goodwill and other intangibles with indefinite useful lives

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

	2016 £'000	2015 £'000
Estate Agency and Related Services companies		
Marsh & Parsons	**11,724**	11,724
Your Move	**2,510**	2,510
Group First	**396**	–
Reeds Rains	**1,241**	1,241
LSLi	**1,675**	1,675
Pink Home Loans	**180**	180
	17,726	17,330
Surveying and Valuation Services company		
e.surv	**1,305**	1,305
	1,305	1,305
	19,031	18,635

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)
  - Group First, which includes Mortgages First and Insurance First Brokers
  - Reeds Rains
  - LSLi[1], which includes Intercounty, Frosts, JNP, Goodfellows, Davis Tate, Lauristons, Lawlors, Hawes & Co and Thomas Morris
  - Pink Home Loans which includes BDS
  - Templeton LPA
  - St Trinity
  - First Complete
- Surveying and Valuation Services company
  - e.surv Chartered Surveyors

Note

1 The Management Team has grouped the subsidiaries of LSLi together for the purposes of this disclosure

Estate Agency and Related Services companies

The recoverable amount of the Estate Agency and Related Services companies has been determined based on a value-in-use calculation using cash-flow projections based on financial budgets approved by the Board and in the three year plan. The discount rate applied to cash-flow projections is 9.7% (2015: 9.7%) and cash-flows beyond the three year plan are extrapolated using a 1.5% growth rate (2015: nil).

Surveying and Valuation Services company

The recoverable amount of the Surveying and Valuation Services company is also determined on a value-in-use basis using cash-flow projections based on financial budgets approved by the Board and in the three year plan. The discount rate applied to the cash-flow projections is 9.7% (2015: 9.7%). The growth rate used to extrapolate the cash-flows of the Surveying and Valuation Services company beyond the three year plan is 1.5% (2015: nil).

15. Intangible assets (continued)

Key assumptions used in value-in-use calculations

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

- Discount rates
- Performance in the market

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 20.0%) of 9.7%; external advice has been sought for certain elements of the source data. This is the benchmark used by Management to assess operating performance and to evaluate future acquisition proposals.

Performance in the market reflects how Management believe the business will perform over the three year period and is used to calculate the value-in-use of the CGUs.

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

Management has undertaken sensitivity analyses to determine the effect of changes in assumptions on the 2016 impairment reviews. The key assumptions driving the carrying values are the discount rate applied to the cash-flow forecasts and the underlying assumptions within the cash-flow forecast. Management have considered the various scenarios and concluded that the carrying values of the CGUs are most sensitive to changes in the discount rate applied. To test the sensitivity the discount rate was increased. For increases up to 220bps the CGUs carrying values would still exceed the asset value.

Other intangible assets

As at 31st December 2016

	Brand names £'000	Customer contracts £'000	Insurance renewals £'000	Lettings contracts £'000	Order book £'000	Other [1] £'000	Total £'000
Cost							
At 1st January 2016	18,826	17,598	5,612	11,351	5,451	6,169	65,007
Additions	–	–	–	–	–	1,647	1,647
Arising on acquisition during the year	396	–	–	4,603	–	–	4,999
Disposals	–	(17,598)	(5,612)	–	(5,451)	–	(28,661)
At 31st December 2016)	19,222	–	–	15,954	–	7,816	**42,992**
Aggregate amortisation and impairment							
At 1st January 2016	191	17,592	5,612	3,527	5,451	2,117	34,490
Charge for the year	–	6	–	2,715	–	1,193	3,914
Disposals	–	(17,598)	(5,612)	–	(5,451)	–	(28,661)
At 31st December 2016	191	–	–	6,242	–	3,310	**9,743**
Carrying amount							
At 31st December 2016	19,031	–	–	9,712	–	4,506	**33,249**

15. Intangible assets (continued)

As at 31st December 2015

	Brand names £'000	Customer contracts £'000	Insurance renewals £'000	Lettings contracts £'000	Order book £'000	Other [1] £'000	Total £'000
Cost							
At 1st January 2015	18,564	17,598	5,612	2,814	5,451	2,758	52,797
Additions	–	–	–	–	–	3,230	3,230
Arising on acquisition during the year	262	–	–	8,537	–	181	8,980
At 31st December 2015	18,826	17,598	5,612	11,351	5,451	6,169	**65,007**
Aggregate amortisation and impairment							
At 1st January 2015	191	17,586	5,612	2,404	5,451	1,443	32,687
Charge for the year	–	6	–	1,123	–	674	1,803
At 31st December 2015	191	17,592	5,612	3,527	5,451	2,117	**34,490**
Carrying amount							
At 31st December 2015	18,635	6	–	7,824	–	4,052	**30,517**

Note

1 Other relates to in-house software and Estate Agency 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 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, a network of residential sales and lettings agencies which was acquired in May 2010;
- Pink Home Loans and BDS intermediary networks which were acquired in December 2010;
- Marsh & Parsons, a network of residential sales and lettings agencies which was acquired in November 2011;
- Davis Tate, a network of residential sales and lettings agencies which was acquired in February 2012;
- Lauristons, a network of residential sales and lettings agencies which was acquired in July 2012;
- Walker Fraser Steele, a surveying business which was acquired in June 2013;
- 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;
- Thomas Morris, a network of residential sales and lettings agencies which was acquired in February 2015; and
- Group First, a mortgage, pure protection and general insurance brokerage business which was acquired in 2016.

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.

During the year Management reviewed fully amortised intangibles and judged that these should be derecognised in the period.

16. Property, plant and equipment

As at 31st December 2016

	Freehold land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost					
At 1st January 2016	1,892	11,971	182	39,641	**53,686**
Acquisitions during the year	600	–	–	249	**849**
Additions	5	788	40	3,772	**4,605**
Disposals	–	(3,563)	(126)	(15,888)	**(19,577)**
At 31st December 2016	**2,497**	**9,196**	**96**	**27,774**	**39,563**
Depreciation and impairment					
At 1st January 2016	300	5,755	107	28,131	**34,293**
Acquisitions during the year	–	–	–	–	**–**
Charge for the year	–	892	14	4,569	**5,475**
Disposals	–	(3,553)	(58)	(15,436)	**(19,047)**
At 31st December 2016	**300**	**3,094**	**63**	**17,264**	**20,721**
Carrying amount					
At 31st December 2016	**2,197**	**6,102**	**33**	**10,510**	**18,842**

Assets with a book value of £530,000 (2015: £372,000) were disposed of in the year. This includes assets with a book value totalling £78,000 (2015: £82,000) were sold for net proceeds of £69,000 (2015: £121,000), resulting in a loss on disposal of £9,000 (2015: profit of £39,000).

As at 31st December 2015

	Freehold land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost					
At 1st January 2015	2,138	10,906	359	36,063	49,466
Acquisitions during the year	–	–	–	28	28
Additions	–	1,065	33	3,663	4,761
Disposals	(246)	–	(210)	(113)	(569)
At 31st December 2015	**1,892**	**11,971**	**182**	**39,641**	**53,686**
Depreciation and impairment					
At 1st January 2015	300	4,853	197	23,844	29,194
Charge for the year	–	902	39	4,355	5,296
Disposals	–	–	(129)	(68)	(197)
At 31st December 2015	**300**	**5,755**	**107**	**28,131**	**34,293**
Carrying amount					
At 31st December 2015	**1,592**	**6,216**	**75**	**11,510**	**19,393**

In 2015 a freehold property with a book value totalling £246,000 was sold for net proceeds of £163,000 resulting in a loss on disposal £83,000.

17. Financial assets

Available-for-sale financial assets

	2016 £'000	2015 £'000
Unquoted shares at fair value	**4,603**	1,774
Quoted shares at fair value	**–**	27,097
	4,603	28,871
Opening balance	**28,871**	23,033
Additions	**–**	1,178
Disposals	**(36,083)**	(470)
Fair value adjustment recorded through reserves	**11,815**	5,130
Closing balance	**4,603**	28,871

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 level 3 valuation techniques (see Note 30). Financial assets in 2015 also included shares in Zoopla which are listed on the London Stock Exchange and were carried at fair value. These shares were valued using a level 1 valuation technique.

Zoopla

Between 20th July 2016 and 31st October 2016, LSL sold its entire holding of 11.3m ordinary shares in Zoopla for total proceeds of £36.1m at an average price per share of £3.19.

At 31st December 2015 the Zoopla share price was £2.40 per share, the Directors considered the best estimate of the fair value of LSL's investment in Zoopla to be the current share price which valued the Group's stake in Zoopla at £27,097,000. Subsequent to the 2015 interim date, Zoopla completed an anniversary offer allowing LSL to subscribe for a further 619,318 shares at the £2.20 IPO price with a 20% discount. These were taken up by LSL. At the same time, a further 169,350 shares were sold through the anniversary member offer at £1.76 with net proceeds of £297,000.

In January 2017 Zoopla (now known as ZPG) issued the Group with 226,711 warrants in accordance with the 2016 service agreement.

VEM

The carrying value of the Group's investment in VEM at 31st December 2016 has been assessed as £912,000 (2015: £912,000).

GPEA

The carrying value of the Group's investment in GPEA at 31st December 2016 has been assessed and revalued to £3,691,000 (2015: £862,000).

18. Investments in joint ventures

	2016 £'000	2015 £'000
Investment in joint ventures	**8,762**	8,778
Opening balance	**8,778**	9,121
Acquisitions	**2**	–
Equity accounted profit	**(18)**	1,156
Dividend received	**–**	(1,499)
Closing balance	**8,762**	8,778

The Group has a 33.33% (2015: 33.33%) interest in TM Group, a joint venture whose principal activity is to provide searches. The principle place of business of TM Group is the United Kingdom.

The Group also has a 50.00% (2015: 49.99%) interest in LMS, a joint venture whose principal activity is to provide conveyancing panel management services. The principle place of business of LMS is the United Kingdom.

18. Investments in joint ventures (continued)

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:

	2016 £'000	2015 £'000
Share of the joint ventures' balance sheets:		
Non-current assets	**6,474**	6,547
Current assets	**5,408**	5,478
Current liabilities	**(3,120)**	(3,247)
Share of net assets	**8,762**	8,778

	2016 £'000	2015 £'000
Share of the joint ventures' results:		
Revenue	**29,980**	29,319
Operating expenses	**(30,019)**	(27,631)
Operating profit	**(39)**	1,688
Finance income	**17**	24
Profit before tax	**(22)**	1,712
Taxation	**4**	(556)
Profit after tax	**(18)**	1,156
Shareholder rebate	**1,067**	–
Income from joint ventures	**1,049**	1,156

Non-current assets include £5,008,000 (2015: £5,008,000) in respect of goodwill arising on the acquisition of shares in LMS. The shareholder rebate received in 2016 was from TM Group.

19. Trade and other receivables

	2016 £'000	2015 £'000
Current		
Trade receivables	**20,209**	23,234
Prepayments and accrued income	**12,054**	12,132
	32,263	35,366

Trade receivables are non-interest bearing and are generally on 4-30 day terms depending on the services to which they relate.

As at 31st December 2016, trade receivables with a nominal value of £2,546,000 (2015: £2,518,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2016 £'000	2015 £'000
At 1st January	**2,518**	2,184
Charge for the year	**839**	583
Amounts written off	**(811)**	(249)
At 31st December	**2,546**	2,518

19. Trade and other receivables (continued)

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

	Total £'000	Neither past due nor impaired £'000	Past due but not impaired 0-90 days £'000	Past due but not impaired >90 days £'000
2016	**20,209**	**12,955**	**6,708**	**546**
2015	23,234	15,217	7,686	331

20. Cash and cash equivalents

	2016 £'000	2015 £'000
Short-term deposits	**–**	5,603

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 (2015: £5,603,000). At 31st December 2016, the Group had available £83.5m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2015: £54.5m).

21. Trade and other payables

	2016 £'000	2015 £'000
Current		
Trade payables	**7,150**	7,327
Other taxes and social security payable	**10,186**	11,787
Other payables	**633**	725
Accruals	**32,931**	30,263
	50,900	50,102

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.

22. Financial liabilities

	2016 £'000	2015 £'000
Current		
Overdraft	**3,756**	–
12% unsecured loan notes	**–**	10,033
Deferred consideration	**4,790**	2,422
Contingent consideration	**2,193**	3,322
	10,739	15,777
Non-current		
Bank loans – revolving credit facility (RCF)	**16,500**	45,500
2% unsecured loan notes	**2,000**	–
Deferred consideration	**66**	447
Contingent consideration	**7,903**	6,564
	26,469	52,511

Bank loans – revolving credit facility and overdraft

A £100.0m loan facility which was due to expire in August 2017 was amended and extended in May 2016 and now expires in May 2020. Loan refinance costs were incurred in June 2013 which have been capitalised and are being amortised over the life of the original loan facility, further costs were incurred in June 2016 and have been capitalised and are being amortised over the life of the amended loan.

22. Financial liabilities (continued)

The bank loan totalling £16.5m (2015: £45.5m) and overdraft totalling £3.8m (2015: £nil) are secured via cross guarantees issued from all of the Group's subsidiaries excluding the following subsidiaries, Barnwoods, Homefast, Linear (Linear Mortgage Network and Linear Financial Services), Templeton LPA, 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 (2015: £100.0m). The Group's overdraft is also secured on the same facility, and the combined overdraft and revolving credit facility cannot exceed £100.0m (2015: £100.0m). The banking facility is repayable when funds permit on or by May 2020.

Interest and fees payable on the revolving credit facility amounted to £1.8m (2015: £1.8m). The interest rate applicable to the facility is LIBOR plus a margin rate; the margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

12% and 2% unsecured loan notes

The 12% unsecured loan notes were issued as part satisfaction of the consideration for the acquisition of Marsh & Parsons in 2011. £1.7m of these loan notes was redeemed in February 2016. A variation of the 2011 loan notes was agreed on the retirement of Peter Rollings in March 2016. The total principle amount of the 2011 Loan Note will be paid but at a reduced rate of interest of 2%. The first instalment was paid in July 2016, and a final payment of £2m is due in March 2018, subject to certain conditions being satisfied.

Deferred consideration

Deferred consideration totalling £240,000 is payable during 2017 and £66,000 is payable in 2020. Additionally there is £4,550,000 payable in relation to the purchase of Group First in 2016 (Note 28).

	2016 £'000	2015 £'000
Deferred Consideration		
Marsh & Parsons	**–**	447
LMS	**–**	2,422
Group First	**4,550**	–
LSLi	**306**	–
	4,856	2,869

Contingent consideration

	2016 £'000	2015 £'000
Marsh & Parsons Growth Shares	**–**	1,518
LSLi contingent consideration	**3,419**	4,790
LMS	**1**	3,093
Group First	**6,339**	–
Other	**337**	485
	10,096	9,886
Opening balance	**9,886**	13,730
Cash paid	**(3,537)**	(4,015)
Acquisition	**6,598**	1,178
Amounts recorded through Income Statement	**(2,851)**	(1,007)
Closing balance	**10,096**	9,886

Nil (2015: £1,518,000) contingent consideration relates to the Growth Shares acquired by the management of Marsh & Parsons subsequent to acquisition as an incentive to grow the Marsh & Parsons business. Holders of Growth Shares have the option to require LSL to buy their Growth Shares at any time between 1st January 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.

22. Financial liabilities (continued)

£3,491,000 (2015: £4,790,000) of contingent consideration relates to payments to third parties in relation to the acquisition of LSLi and certain of its subsidiaries between 2007 and 2016. This is payable between three and five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years. In 2016, the contingent consideration has been recalculated using a discount rate of 6.5% (2015: 6.5%).

During 2016 £5,247,000 of deferred and contingent consideration was paid to third parties in relation to the acquisition of LMS shares in September 2014.

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

	2016 £'000	2015 £'000
Remuneration	**2,076**	3,362
Put options over non-controlling interests	**1**	3,093
Arrangement under IFRS 3	**8,019**	3,431
Closing balance	**10,096**	9,886
Contingent consideration profit and loss impact in the period relating to amounts accounted for as:		
Remuneration	**(1,412)**	(2,739)
Put options over non-controlling interests	**(268)**	1,799
Arrangement under IFRS 3	**(1,657)**	(519)
Unwinding of discount on contingent consideration	**486**	452
(credit)	**(2,851)**	(1,007)

23. Provisions for liabilities

	2016			2015		
	Professional indemnity claim provision £'000	**Onerous leases £'000**	**Total £'000**	Professional indemnity claim (PI Costs) provision £'000	Onerous leases £'000	Total £'000
Balance at 1st January	**29,672**	**53**	**29,725**	38,719	192	38,911
Amount utilised	**(8,126)**	**(137)**	**(8,263)**	(11,156)	(6)	(11,162)
Amount released	**(1,600)**	**(6)**	**(1,606)**	–	(133)	(133)
Unwinding of discount	**200**	**–**	**200**	159	–	159
Provided in financial year	**540**	**768**	**1,308**	1,950	–	1,950
Balance at 31st December	**20,686**	**678**	**21,364**	29,672	53	29,725
Current	**5,385**	**357**	**5,742**	12,056	44	12,100
Non-current	**15,301**	**321**	**15,622**	17,616	9	17,625
	20,686	**678**	**21,364**	29,672	53	29,725

Professional Indemnity claim (PI Costs) provision

The PI Costs provision is to cover the costs of claims relating to valuation services for clients which are not covered by PI insurance. The PI Costs 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 such 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 PI Costs 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 proportion of the provision has been classified as non-current.

As at 31st December 2016 the total provision for PI Costs was £20.7m. The Directors have considered the sensitivity analysis on the key risks and uncertainties discussed above.

23. Provisions for liabilities (continued)

Cost per claim
A substantial element of the PI Costs provision relates to specific claims where disputes are ongoing. These specific cases have been separately assessed and specific provisions have been made. The average cost per claim has been used to calculate the IBNR. Should the costs to settle and resolve these claims and future claims increase by 10%, an additional £1.7m 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. 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 £0.5m.

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 £0.3m 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 January 2021. The final outcome depends upon the ability of the Group to sublet or assign the lease over the related properties.

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

	2016			2015		
	Land and building £'000	Plant and machinery £'000	Total £'000	Land and building £'000	Plant and machinery £'000	Total £'000
No later than one year	8,128	3,215	11,343	7,025	3,530	10,555
After one year but not more than five years	16,947	2,849	19,796	16,211	3,358	19,569
After five years	7,569	–	7,569	9,509	–	9,509
	32,644	6,064	38,708	32,745	6,888	39,633

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

	2016 Land and buildings £'000	2015 Land and buildings £'000
Not later than one year	339	307
After one year but not more than five years	689	644
After five years	306	376
	1,334	1,327

25. Share capital

	2016		2015	
	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

26. 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 13 gives further details of these plans.

Treasury shares

Treasury shares represent the cost of 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 2016 the Trust held 1,530,716 (2015: 1,707,671) Shares at an average cost of £3.51 (2015: £3.51). The market value of the Shares at 31st December 2016 was £3,535,954 (2015: £4,867,000). 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 17 gives further details of the movement in the current year.

27. Pension costs and commitments

The Group operates defined contribution pension schemes for certain 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 £2,388,000 (2015: £2,274,000). There was an outstanding amount of £390,000 in respect of pensions as at 31st December 2016 (2015: £306,000).

28. Acquisitions during the year

Year ended 31st December 2016

The Group acquired the following businesses during the prior year:

a. Lettings books and other

During the period the Group acquired nine lettings books and bought back a two branch estate agency businesses from a total combined consideration of £4,241,000. The fair values of the identifiable assets and liabilities of these businesses as at the date of acquisition have been provisionally determined as below:

	Fair value recognised on acquisition £'000
Intangible assets	4,190
Cash and cash equivalents	51
Deferred tax liabilities	(1,593)
Total identifiable net liabilities acquired	**2,648**
Purchase consideration	4,241
Goodwill	1,593
Purchase consideration discharged by:	
Cash	3,901
Deferred consideration	323
Contingent consideration cash	17
	4,241

28. Acquisitions during the year (continued)

	£'000
Analysis of cash-flow on acquisition	
Transaction costs (included in cash-flows from operating activities)	55
Net cash acquired with the subsidiaries and other businesses	(51)
Purchase consideration discharged in cash (included in cash-flows from investing activities)	3,883
Net cash outflow on acquisition	**3,887**

b. Group First

In February 2016, the Group, through a wholly owned subsidiary, acquired 65% interest in Group First, who provide mortgage and protection brokerage services to the purchasers of new homes through its subsidiaries, Mortgages First and Insurance First Brokers. The consideration for the initial investment is £9.1m cash with 50% paid on completion, and a further 50% payable in 2017. The remaining 35% is subject to put and call options which are exercisable between 2018 and 2020. The contingent consideration is Management's best estimation of the probable discounted payout (using a rate of 6.5%), based upon current forecasts over the earn-out period. Due to the nature of the payment terms, the contingent consideration is considered to be a capital payment for accounting purposes. The fair value of the identifiable assets and liabilities as at the date of acquisition have been determined as below:

	Fair value recognised on acquisition £'000
Intangible assets	809
Property, plant and equipment	847
Trade and other receivables (no impairment identified)	127
Cash and cash equivalents	1,542
Trade and other payables	(1,501)
Current tax	(216)
Deferred tax liabilities	160
Total identifiable net assets acquired	**1,768**
Purchase consideration	15,681
Goodwill	**13,913**
Purchase consideration discharged by:	
Cash	4,550
Deferred consideration	4,550
Contingent consideration	6,581
	15,681

The goodwill of Group First comprises certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include relationships with a number of house builders, 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. None of the goodwill is expected to be deductible for tax purposes.

As defined in IFRS 3 the Group has recognised, separately from goodwill, the identifiable intangible assets acquired in the business combination. The assets identified include the Group First brand and the pipeline of work acquired. As disclosed to the market on acquisition, there are strong customer relationships between Group First and key house builders, however, these relationships do not qualify as an intangible asset given they do not fulfil either the separability criterion or the contractual-legal criterion. This has been fully explored by Management and Management are confident that given that no economic benefit passes between the two parties in this relationship (the housebuilder and Group First) there is no asset that can be "separated or divided" and "sold, transferred, licensed, rented or exchanged".

Group First has contributed £1,924,000 profit before tax and £6,913,000 revenue in the period since acquisition. If it had been acquired at the beginning of the year then the consolidated revenue would have been £920,000 higher and the consolidated profit before tax would have been £222,000 higher. An analysis of cash-flow on acquisition is given in the table opposite.

28. Acquisitions during the year (continued)

c. Total acquisitions

At 31st December 2016, the acquisitions in aggregate, including Group First, have contributed £7,979,000 of revenue and £2,609,000 profit before tax to 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 £1,749,000 and the consolidated profit before tax would have been higher by £593,000. Transaction costs have been expensed.

	£'000
Transaction costs	55
Net cash acquired with the subsidiaries and other businesses	(1,593)
Purchase consideration discharged	8,433
Net cash outflow on acquisition	**6,895**

Year ended 31st December 2015

The Group acquired the following businesses during the prior year:

a. Lettings books

During the period the Group acquired 30 lettings businesses for a total consideration of £9,079,000. The identifiable net assets acquired consist of intangible assets of £7,784,000, cash and cash equivalents of £426,000 and goodwill of £869,000.

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
Intangible assets	7,784
Cash and cash equivalents	426
Total identifiable net liabilities acquired	**8,210**
Purchase consideration	9,079
Goodwill	869
Purchase consideration discharged by:	
Cash	9,054
Contingent consideration	25
	9,079

	£'000
Analysis of cash-flow on acquisition	
Transaction costs (included in cash-flows from operating activities)	21
Net cash acquired with the subsidiary (included in cash-flows from investing activities)	(426)
Purchase consideration discharged in cash (included in cash-flows from investing activities)	9,054
Net cash outflow on acquisition	**8,649**

b. Thomas Morris

In February 2015, the Group acquired 80% of Thomas Morris, a seven branch estate agency chain in Cambridgeshire, Bedfordshire and Hertfordshire for an initial consideration of £4.1m. The remaining 20% is subject to put and call options which are exercisable between 2018 and 2020 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.

28. Acquisitions during the year (continued)

The fair value of the identifiable assets and liabilities of Thomas Morris as at the date of acquisition have been determined as below:

	Fair value recognised on acquisition £'000
Intangible assets	1,209
Property, plant and equipment	28
Trade and other receivables	177
Cash and cash equivalents	348
Trade and other payables	(202)
Current tax liabilities	(224)
Total identifiable net liabilities acquired	**1,336**
Purchase consideration	5,301
Goodwill	**3,965**
Purchase consideration discharged by:	
Cash	4,148
Contingent consideration	1,153
	5,301

The goodwill of Thomas Morris 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. Thomas Morris has contributed £762,000 profit before tax and £4,226,000 revenue in the period since acquisition. If it had been acquired at the beginning of the year then the consolidated revenue would have been £782,000 higher and the consolidated profit before tax would have been £114,000 higher. An analysis of cash-flow on acquisition is given in the table below:

	£'000
Analysis of cash-flow on acquisition	
Transaction costs (included in cash-flows from operating activities)	26
Net cash acquired with the subsidiary (included in cash-flows from investing activities)	(348)
Purchase consideration discharged in cash (included in cash-flows from investing activities)	4,148
Net cash outflow on acquisition	**3,826**

Transaction costs have been expensed and are included under operating expenses.

29. Client monies

As at 31st December 2016, monies held by subsidiaries in separate bank accounts on behalf of clients amounted to £100,627,000 (2015: £93,837,000). Neither this amount, nor the matching liabilities to the clients concerned are included in the Group Balance Sheet.

30. 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 is exposed through its operations to the following financial risks:

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

30. Financial instruments – risk management (continued)

Policy for managing these risks is set up by the Board following recommendations from the Group Chief Financial Officer. 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 Group Finance team.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings. 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
2016	**+100**	**(165)**
	-100	**165**
2015	+100	(455)
	-100	455

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 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 fundraising. 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.

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool and daily cash-flow reporting. This includes consideration of 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 2016 based on contractual undiscounted payments:

Year ended 31st December 2016

	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)	3,756	139	425	19,863	–	24,183
Trade payables	–	7,150	–	–	–	7,150
Contingent consideration	–	29	2,165	10,122	–	12,316
Deferred consideration	–	–	4,790	66	–	4,856
	3,756	7,318	7,380	30,051	–	48,505

30. Financial instruments – risk management (continued)

Year ended 31st December 2015

	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)	–	423	11,327	46,403	–	58,153
Trade payables	–	7,327	–	–	–	7,327
Contingent consideration	–	57	5,254	5,188	–	10,499
Deferred consideration	–	–	2,422	575	–	2,997
	–	7,807	19,003	52,166	–	78,976

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, including any regulatory requirements, and maximise Shareholder value. Capital includes Share capital and other equity attributable to the equity holders of the Parent Company.

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 used in the calculation of the Group's banking covenant.

The Group has a current ratio of Net Bank Debt (excluding loan notes) to EBITDA of 0.51 (2015: 0.83), based on Net Bank Debt (excluding loan notes) of £20.3m (2015: £39.9m) and operating profit before exceptional costs, amortisation and share-based payment charge of £34.6m (2015: £42.9m). The business is cash generative with a low capital expenditure requirement. The Group remains committed to its stated dividend policy of 30% to 40% of Group Underlying Operating Profit after interest and tax. The Board has reviewed the policy in line with the risks and capital management decisions facing the Group.

Net Bank Debt is defined as follows:

	2016 £'000	2015 £'000
Interest bearing loans and borrowings (including loan notes and overdraft)	**37,208**	68,288
Less: 2% and 12% unsecured loan notes	**(2,000)**	(10,033)
Less: cash and short-term deposits	**–**	(5,603)
Less: deferred and contingent consideration	**(14,952)**	(12,755)
Net Bank Debt (excluding loan notes)	**20,256**	39,897

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.

30. Financial instruments – risk management (continued)

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 2016 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					
Interest bearing loans		(2,000)			**(2,000)**
Floating rate					
Cash and cash equivalents	(3,756)	–	–	–	**(3,756)**
Revolving credit facility	(16,500)	–	–	–	**(16,500)**

The effective interest rate and the actual interest rate charged on the loans in 2016 are as follows:

	Effective rate	Actual rate
Revolving credit facility	3.7%	1.3%
2% unsecured loan notes	2.0%	2.0%

The effective interest rate on the revolving credit facility during the year is higher than the actual rate due to commitment fees payable on undrawn amounts.

The interest rate profile of the financial assets and liabilities of the Group as at 31st December 2015 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	–	–	–	–	–
Interest bearing loans	(10,033)	–	–	–	(10,033)
Floating rate					
Cash and cash equivalents	5,603	–	–	–	5,603
Revolving credit facility	(45,500)	–	–	–	(45,500)

The effective interest rate and the actual interest rate charged on the loans in 2015 are as follows:

	Effective rate	Actual rate
Revolving credit facility	3.2%	2%
2% unsecured loan notes	2%	2%
12% unsecured loan notes	3.65%	12%

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 note being recorded at fair value on initial issue in 2011.

30. Financial instruments – risk management (continued)

Fair values of financial assets and financial liabilities

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

	2016		2015	
	Book value £'000	Fair value £'000	Book value £'000	Fair value £'000
Financial assets				
Cash and cash equivalents	**(3,756)**	**(3,756)**	5,603	5,603
Available-for-sale financial assets	**4,603**	**4,603**	28,871	28,871
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	**(16,500)**	**(16,500)**	(45,500)	(45,500)
Contingent consideration	**(10,096)**	**(10,096)**	(9,886)	(9,886)
Deferred consideration	**(4,856)**	**(4,856)**	(2,869)	(2,869)
12% and 2% unsecured loan notes	**(2,000)**	**(2,000)**	(10,033)	(10,033)

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.

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.

2016	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	4,603			4,603
Liabilities measured at fair value				
Contingent consideration	10,096			10,096
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings:				
Floating rate borrowings	16,500		16,500	
2% unsecured loan notes	2,000		2,000	
Deferred consideration	4,856			4,856

30. Financial instruments – risk management (continued)

2015	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	28,871	27,097	–	1,774
Liabilities measured at fair value				
Contingent consideration	9,886	–	–	9,886
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings:				
Floating rate borrowings	45,500	–	45,500	–
12% unsecured loan notes	10,033	–	10,033	–
Deferred consideration	2,869	–	–	2,869

The investments totaling £4,603,000 are valued using Level 3 valuation techniques. The Directors reviewed the fair value of the financial assets at 31st December 2016 using an independently sourced multiple times average EBITDA methodology. The underlying value of the business is 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%, £0.5m.

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 22.

If the future profitability of the entities was to decline by 10%, the size of the contingent consideration would decrease by approximately £2.0m.

Fair values of the Group's interest-bearing borrowings and loans are determined by using discounted cash-flow (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 2016 was assessed to be insignificant.

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

	2016 £'000	2015 £'000
Interest bearing loans and borrowings		
– Current	**10,739**	15,777
– Non-current	**26,469**	52,511
	37,208	68,288
Less: unsecured loan notes	**(2,000)**	(10,033)
Less: cash and short-term deposits		(5,603)
Less: deferred and contingent consideration	**(14,952)**	(12,755)
Net Bank Debt at the end of the year	**20,256**	39,897

During the year, the Group has repaid £29.0m (2015: drawn down £11.5m) 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 (2015: £100.0m).

32. Related party transactions

As disclosed in Note 18 LSL has two joint ventures LMS and TM Group.

Transactions with LMS and its subsidiaries

	2016 £'000	2015 £'000
Sales	45	70

Transactions with TM Group and its subsidiaries

	2016 £'000	2015 £'000
Sales	1,273	1,336
Purchases	(41)	(40)
Year-end creditor balance	(8)	(2)

33. Capital commitments

	2016 £'000	2015 £'000
Capital expenditure contracted for but not provided	628	118

34. Subsidiary and joint venture companies

The Group owns directly or indirectly the following issued and fully paid ordinary and preference share capital of its subsidiary undertakings, all of which are incorporated in Great Britain and whose operations are conducted mainly in the United Kingdom. The results for all of the subsidiaries have been consolidated within these Financial Statements:

Name of subsidiary company	Registered office address	Holding	LSL Shareholder	Proportion of nominal value of Shares held	Nature of business
Lending Solutions Holdings Ltd	1	Direct	LSL Property Services plc	100%	Holding company
Lending Solutions Ltd	1	Indirect	Lending Solutions Holdings Ltd	100%	Non trading
LSL-ONE Ltd	2	Direct	LSL Property Services plc	100%	Non trading
Energy-Assessors.com Ltd	2	Direct	LSL Property Services plc	100%	Non Trading
Estate Agency and Related Services – Asset Management					
LSL Corporate Client Services Ltd	1	Direct	LSL Property Services plc	100%	Asset Management
St Trinity Ltd	1	Direct	LSL Property Services plc	100%	Asset Management
Templeton LPA Ltd	1	Indirect	First Complete Ltd	100%	Asset Management
Estate Agency and Related Services – Residential Sales and Lettings					
Appleton Estates & Property Management Ltd	2	Indirect	Davis Tate Ltd	100%	Non Trading
Bawtry Lettings and Sales Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
Beldhamland Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading
Charterhouse Management (UK) Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
David Frost Estate Agents Ltd	2	Indirect	Vitalhandy Enterprises Ltd	100%	Residential Sales and Lettings
Davis Tate Ltd	2	Indirect	LSLi Ltd	75.58%	Residential Sales, Lettings and Holding Company
EA Student Lettings Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
Eastside Property Developments Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
Elliott & Freeth Ltd	2	Indirect	Davis Tate Ltd	100%	Residential Sales
Fourlet (York) Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
Front Door Property Management Ltd	2	Indirect	ICIEA Ltd	100%	Non Trading
GFEA Ltd	2	Indirect	LSLi Ltd	100%	Residential Sales and Lettings and Holding Company
Guardian Property Lettings Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
Hawes & Co Ltd	2	Indirect	LSLi Ltd	79%	Residential Sales, Lettings and Holding Company
Hawes & Co (Thames Ditton) Ltd	2	Indirect	Hawes & Co Ltd	100%	Non Trading
Headway Property Management Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
Holloways Residential Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
Home and Student Link Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading

34. Subsidiary and joint venture companies

Name of subsidiary company	Registered office address	Holding	LSL Shareholder	Proportion of nominal value of Shares held	Nature of business
Homefast Property Services Ltd	2	Indirect	Lending Solutions Holdings Ltd	77.5%	Non Trading
ICIEA Ltd	2	Indirect	LSLi Ltd	100%	Residential Sales, Lettings and Holding Company
Inter County Lettings Ltd	2	Indirect	ICIEA Ltd	100%	Non Trading
IQ Property (Hull) Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
JNP Estate Agents Ltd	2	Indirect	LSLi Ltd	100%	Residential Sales, Lettings and Holding Company
JNP Estate Agents (Princes Riseborough) Ltd	2	Indirect	JNP Estate Agents Ltd	100%	Non Trading
JNP (Residential Lettings) Ltd	2	Indirect	JNP Estate Agents Ltd	100%	Non Trading
JNP (Surveyors) Ltd	2	Indirect	JNP Estate Agents Ltd	100%	Non Trading
Kent Property Solutions Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
Lauristons Ltd	2	Indirect	LSLi Ltd	100%	Residential Sales, Lettings and Holding Company
Lawlors Property Services Ltd	2	Indirect	LSLi Ltd	75%	Residential Sales and Lettings
Lets Move Property Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
LSLi Ltd	1	Direct	LSL Property Services plc	100%	Residential Sales, Lettings, Financial Services and Holding Company
Marsh & Parsons Ltd	3	Indirect	Marsh & Parsons (Holdings) Ltd	100%	Residential Sales, Lettings and Holding Company
Marsh & Parsons Holdings Ltd^^	1	Direct	LSL Property Services plc	93.4%	Holding Company
Marshcroft Properties Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading
New Daffodil Ltd	2	Direct	LSL Property Services plc	100%	Non Trading
New Let Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
NSK Management Ltd^	1	Indirect	your-move.co.uk Ltd	100%	Non Trading
Paul Graham Lettings & Management Ltd	2	Indirect	GFEA Ltd	100%	Non Trading
Philip Green Lettings Ltd	2	Indirect	JNP Estate Agents Ltd	100%	Non Trading
PHP Lettings Scotland Ltd	4	Indirect	your-move.co.uk Ltd	100%	Non Trading
Prestons Lettings Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
Reeds Rains Ltd	2	Direct	LSL Property Services plc	100%	Residential Sales, Lettings, Financial Services and Holding Company
Reeds Rains Cleckheaton Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
Thomas Morris Ltd	1	Indirect	LSLi Ltd	80%	Residential Sales and Lettings
To Letting Ltd^	4	Indirect	your-move.co.uk Ltd	100%	Non Trading

34. Subsidiary and joint venture companies

Name of subsidiary company	Registered office address	Holding	LSL Shareholder	Proportion of nominal value of Shares held	Nature of business
Vanstons (Barnes) Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading
Vanstons Commercial Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading
Vanstons Lettings Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading
Vanstons Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading
Vitalhandy Enterprises Ltd	2	Indirect	LSLi Ltd	100%	Holding Company
Warners Lettings Agency Ltd	2	Indirect	ICIEA Ltd	100%	Non Trading
Woollens of Wimbledon Ltd	2	Indirect	Lauristons Ltd	100%	Non Trading
Yates Lettings Ltd	2	Indirect	Davis Tate Ltd	100%	Non Trading
your-move.co.uk Ltd	1	Indirect	Lending Solutions Holdings Ltd	100%	Residential Sales, Lettings, Financial Services and Holding Company
Zenith Properties Ltd	2	Indirect	ICIEA Ltd	100%	Non Trading
Estate Agency and Related Services – Financial Services					
Advance Mortgage Funding Ltd	1	Direct	LSL Property Services plc	100%	Financial Services
BDS Mortgage Group Ltd	1	Indirect	Advance Mortgage Funding Ltd	100%	Financial Services
First Complete Ltd	1	Indirect	Lending Solutions Holdings Ltd	100%	Financial Services and Holding Company
First2Protect Ltd	2	Indirect	your-move.co.uk Ltd	100%	Financial Services
Group First Ltd	2	Indirect	your-move.co.uk Ltd	65%	Holding Company
Insurance First Brokers Ltd	2	Indirect	Group First Ltd	100%	Financial Services
Linear Financial Services Ltd	2	Indirect	Linear Financial Services Holdings Ltd	100%	Non Trading
Linear Financial Services Holdings Ltd	2	Indirect	First Complete Ltd	100%	Holding Company
Linear Mortgage Network Holdings Ltd	2	Indirect	First Complete Ltd	98%	Holding Company
Linear Mortgage Network Ltd	2	Indirect	Linear Mortgage Network Holdings Ltd	100%	Financial Services
Mortgages First Ltd	2	Indirect	Group First Ltd	100%	Financial Services
Reeds Rains Financial Services Ltd	2	Indirect	Reeds Rains Ltd	100%	Financial Services
Surveying and Valuation Services					
Albany Insurance Company (Guernsey) Ltd	9	Direct	LSL Property Services Ltd	100%	Captive insurer
Barnwoods Ltd	2	Direct	LSL Property Services plc	100%	Non Trading
Chancellors Associates Ltd	5	Indirect	e.surv Ltd	100%	Chartered Surveyors
e.surv Ltd	5	Direct	LSL Property Services Ltd	100%	Chartered Surveyors
Repartir Ltd	2	Direct	LSL Property Services plc	100%	Non Trading

34. Subsidiary and joint venture companies

Name of subsidiary company	Registered office address	Holding	LSL Shareholder	Proportion of nominal value of Shares held	Nature of business
Joint Ventures					
9 Kensington Church Street (Management) Ltd#	6	Indirect	Marsh & Parsons (Holdings) Ltd	50%	Joint Venture – Residents Property Company Management
Cybele Solutions Holdings Ltd#	7	Direct	LSL Property Services plc	50%	Joint Venture – Holding Company
Cybele Solutions Ltd#	7	Indirect	Cybele Solutions Holdings Ltd	50%	Joint Venture – Conveyancing panel manager
TM Group (UK) Ltd#	8	Direct	LSL Property Services plc	33.33%	Joint Venture – Property Searches

Registered office address:

1. Newcastle House, Albany Court, Newcastle upon Tyne, NE4 7YB
2. 2nd Floor, Gateway 2, Holgate Park Drive, York, YO26 4GB
3. 80 Hammersmith Road, London, W14 8UD
4. 25 North Bridge Street, Bathgate, West Lothian, EH48 4PJ
5. Lahnstein House, Gold Street, Kettering, Northamptonshire, NN16 8AP
6. Unit 2 Guards Avenue, The Village, Caterham on The Hill, Surrey, CR3 5XL
7. Bickerton House, Lloyd Drive, Ellesmere Port, Cheshire, CH65 9HQ
8. Midland Bridge House, Midland Bridge Road, Bath, BA2 3FP
9. The Albany, South Esplanade, St Peters Port, Guernsey, GY1 4NF

^^. LSL holds 100% of the voting and economic rights in Marsh & Parsons Holdings Limited

Joint Ventures

^ To Lettings Ltd was dissolved on 16th September 2016 and NSK Management Limited was dissolved on 31st January 2017 as part of a Group simplification exercise.

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

The Directors are responsible for preparing the Annual Report and the Parent Company Financial Statements (together with the Annual Report and Accounts) in accordance with applicable United Kingdom law and those International Financial Reporting Standards (IFRS) as adopted by the EU.

Under company law the Directors must not approve the Company Financial Statements unless they are satisfied that they present fairly the financial position of the Company and the financial performance and cash-flows of the Company for that period. In preparing the Company 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 Company's financial position and financial performance;
- state that the Company 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 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 and Article 4 of the IAS Regulation. 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 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Property, plant and equipment	2	**8**	9
Investment in subsidiaries	3	**181,908**	181,133
Financial assets	4	**–**	27,097
Investment in joint ventures	5	**7,235**	7,233
Deferred tax asset	9	**105**	8
		189,256	215,480
Current assets			
Trade and other receivables	6	**62,700**	59,510
Total assets		**251,956**	274,990
Current liabilities			
Trade and other payables	7	**(109,414)**	(142,807)
Financial liabilities	8	**(15,095)**	(25,043)
		(124,509)	(167,850)
Non-current liabilities			
Financial liabilities	8	**(16,501)**	(47,465)
Deferred tax liability	9	**–**	(4,350)
		(16,501)	(51,815)
Total liabilities		**(141,010)**	(219,665)
Net assets		**110,946**	55,325
Equity			
Share capital	10	**208**	208
Share premium account	11	**5,629**	5,629
Share-based payment reserve	11	**4,303**	3,564
Shares held by the EBT (treasury shares)	11	**(5,368)**	(5,988)
Fair value reserve	11	**–**	19,640
Retained earnings	12	**106,174**	32,272
Total equity		**110,946**	55,325

The profit after tax for the year, attributable to the Company, was £87.0m (2015: loss of £3.6m).

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

Ian Crabb
Group Chief Executive Officer
7th March 2017

Adam Castleton
Group Chief Financial Officer
7th March 2017

Parent Company Statement of Cash-Flows

for the year ended 31st December 2016

	Notes	£'000	2016 £'000	£'000	2015 £'000
Operating activities					
(Loss)/profit before tax			**92,458**		(5,010)
Non-cash adjustments to reconcile profit before tax to net cash-flows					
Exceptional gain on sale of financial assets		**(32,931)**			
Fair value adjustment of contingent consideration	8	**(2,270)**		(847)	
Finance income		**–**		(9)	
Finance costs		**1,998**		1,941	
Share-based payment transaction expense		**501**		(266)	
Depreciation and impairment of property, plant and equipment	1	**2**		23	
Dividend income		**(66,090)**		(2,776)	
Working capital adjustments:					
(Increase) in trade and other receivables	6	**(3,249)**		(9,563)	
(Decrease)/increase in trade and other payables	7	**(36,283)**		28,573	
			(45,864)		12,066
Interest paid		**(1,998)**		(1,941)	
Income tax paid		**(8,203)**		(4,648)	
			(10,201)		(6,589)
Net cash flows from operating activities			**(56,065)**		5,477
Investing activities					
Investment in joint venture		**(2)**		–	
Investment in financial instruments	4	**–**		(1,094)	
Proceeds from sale of financial instruments		**35,991**		297	
Dividends received from joint venture		**–**		1,499	
Dividends received from financial instruments		**778**		549	
Dividends received from subsidiaries		**65,598**		–	
Interest received		**–**		9	
Purchase of property, plant and equipment and intangible assets	1	**–**		1	
Net cash flows from investing activities			**102,365**		1,261
Financing activities					
Proceeds from borrowings		**(29,000)**		11,500	
Repayment of overdraft		**(4,432)**		(6,998)	
Proceeds from exercise of share options		**48**		1,314	
Dividends paid to equity holders of the parent		**(12,916)**		(12,554)	
Net cash flows used in financing activities			**(46,300)**		(6,738)
Net increase/(decrease) in cash and cash equivalents			**–**		–
Cash and cash equivalents at 1st January			**–**		–
Cash and cash equivalents at 31st December			**–**		–

Parent Company Statement of Changes in Equity

for the year ended 31st December 2016

For the year ended 31st December 2016

	Issued capital £'000	Share premium £'000	Share-based payment reserve £'000	Treasury shares £'000	Fair value reserve £'000	Retained earnings £'000	Total £'000
As at 1st January 2016	**208**	**5,629**	**3,564**	**(5,988)**	**19,640**	**32,272**	**55,325**
Disposal of financial asset (net of tax)	–	–	–	–	(27,078)	–	(27,078)
Revaluation of financial asset (net of tax)	–	–	–	–	7,437	–	7,437
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**(19,640)**	**–**	**(19,640)**
Profit for the year	–	–	–	–	–	87,038	87,038
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(19,640)**	**87,038**	**67,398**
Investment in treasury shares	–	–	–	–	–	–	–
Exercise of options	–	–	(524)	620	–	(218)	(122)
Share-based payment transactions	–	–	1,263	–	–	–	1,263
Dividends	–	–	–	–	–	(12,916)	(12,916)
As at 31st December 2016	**208**	**5,629**	**4,303**	**(5,368)**	**–**	**106,176**	**110,948**

During the year ended 31st December 2016, the Trust acquired nil Shares. During the period 176,955 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received £49,000 on exercise of these options.

For the year ended 31st December 2015

	Issued capital £'000	Share premium £'000	Share–based payment reserve £'000	Treasury shares £'000	Fair value reserve £'000	Retained earnings £'000	Total £'000
As at 1st January 2015	**208**	**5,629**	**3,498**	**(7,922)**	**15,477**	**48,213**	**65,103**
Disposal of financial asset (net of tax)	–	–	–	–	(387)	–	(387)
Revaluation of financial asset (net of tax)	–	–	–	–	4,550	–	4,550
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**4,163**	**–**	**4,163**
Profit for the year	–	–	–	–	–	(3,572)	(3,572)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**4,163**	**(3,572)**	**591**
Investment in treasury shares	–	–	–	–	–	–	–
Exercise of options	–	–	(805)	1,934	–	185	1,314
Share-based payment transactions	–	–	871	–	–	–	871
Dividends	–	–	–	–	–	(12,554)	(12,554)
As at 31st December 2015	**208**	**5,629**	**3,564**	**(5,988)**	**19,640**	**32,272**	**55,325**

During the year ended 31st December 2015, the Trust acquired no Shares. During the period 551,446 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received £1,314,000 on exercise of these options.

Notes to the Parent Company Financial Statements

for the year ended 31st December 2016

1. Accounting policies

Basis of preparation

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Company Financial Statements have been prepared on a going concern basis and on a historical cost basis, except for, 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 2016. The Company's Financial Statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Summary of significant accounting policies

Judgements and estimates

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Judgements

Areas of judgment that have the most significant effect on the amounts recognised in the consolidated financial statements are:

Valuation of financial assets

The Company 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 judgement and assumptions are required in assessing this.

Exceptional items

The Company recognises certain items as exceptional where, in the judgment of the Directors, they are required to be disclosed separately due to them being material in size and unusual in nature. This is reviewed in accordance with IAS 1.

Deferred tax

The Company recognises deferred tax assets on all applicable temporary differences where it is probable that future taxable profits will be available for utilisation. This requires management to make judgments and assumptions regarding the amount of deferred tax that can be recognised based on the magnitude and likelihood of future taxable profits. Deferred tax liabilities are provided for in full.

Estimates

The key assumptions affected by future uncertainty that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are:

Contingent consideration

The Company has acquired a number of businesses over the last few years. With regard to a number of these businesses, the Company 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.

Investments in subsidiaries

Investments are shown at cost less provision for impairment. The cost of an investment is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value. Any contingent consideration will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised through profit and loss.

1. Accounting policies (continued)

Investments are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

Investments in joint ventures
Investments in joint ventures are accounted for at cost less any provision for impairment. Investments are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired. The cost of an investment is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value. Any contingent consideration will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration are recognised in profit and loss. Rebates received from investments in joint ventures which are earned by virtue of being a shareholder, will be recognised in the period in which they are received, and are reported within the 'income from joint ventures' on the face of the Income Statement.

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.

Pensions
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. The pension cost charge represents contributions payable in the year.

Share-based payment transactions

Equity-settled transactions
The Group equity share option programmes allow Company employees to acquire 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.

1. Accounting policies (continued)

Treasury shares

The Company has an employee share trust (ESOT) for the granting of Shares to Executive Directors and senior employees. Shares held by the ESOT are treated as treasury shares and presented in the Balance Sheet as a deduction from equity. Dividends earned on Shares held in the ESOT have been waived.

Financial instruments

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. 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 Company no longer has the rights to cash-flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

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.

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
Leasehold improvements	–	over the shorter of the lease term or ten years

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 de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Income Statement when the asset is derecognised. These assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively, if appropriate.

2. Property, plant and equipment

As at 31st December 2016

	Leasehold improvements £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
At 1st January 2016	74	106	180
Additions	–	–	–
At 31st December 2016	**74**	**106**	**180**
Depreciation			
At 1st January 2016	65	106	171
Charge for the year	1	–	1
At 31st December 2016	**66**	**106**	**172**
Carrying amount			
At 31st December 2016	**8**	**–**	**8**
At 1st January 2016	9	-	9

As at 31st December 2015

	Leasehold improvements £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
At 1st January 2015	74	105	179
Additions	–	1	1
At 31st December 2015	**74**	**106**	**180**
Depreciation			
At 1st January 2015	48	100	148
Charge for the year	17	6	23
At 31st December 2015	**65**	**106**	**171**
Carrying amount			
At 31st December 2015	**9**	**–**	**9**
At 1st January 2015	26	5	31

3. Investment in subsidiaries

Details of the subsidiaries held directly and indirectly by the Company are shown in Note 34 to the Group Financial Statements.

	2016 £'000	2015 £'000
At 1st January	**181,133**	168,999
Additions	**13**	10,998
Adjustments for share-based payment	**762**	1,136
At 31st December	**181,908**	181,133

In 2016, an adjustment of £762,000 (2015: £1,136,000) 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 £7,129,000 (2015: £6,367,000).

4. Financial assets

At cost	2016 £'000	2015 £'000
At 1st January	**27,097**	21,343
Additions	**–**	1,094
Disposals	**(36,082)**	(470)
Revaluation uplift	**8,985**	5,130
At 31st December	**–**	27,097

Between 20th July 2016 and 31st October 2016, LSL sold its entire holding of 11.3m ordinary shares in Zoopla for total proceeds of £36.1m at an average price per share of £3.19.

5. Investment in joint ventures

At cost	2016 £'000	2015 £'000
At 1st January	**7,233**	7,233
Additions	**2**	–
At 31st December	**7,235**	7,233

The Company has a 50% interest in LMS, a joint venture whose principal activity is to provide conveyancing panel management services.

In September 2016, the Company increased its ownership interest in LMS to 50.00% (FY15: 49.99%). The initial consideration for the additional interest was £1,000, with a contingent consideration estimated at the date of acquisition of £1,000 (see Note 8).

6. Trade and other receivables

	2016 £'000	2015 £'000
Group relief receivable	**24,449**	19,573
Prepayments	**890**	856
Amounts owed by Group undertakings	**37,361**	39,081
	62,700	59,510

7. Trade and other payables

	2016 £'000	2015 £'000
Accruals	**1,087**	1,720
Amounts owed to Group undertakings	**108,327**	141,087
	109,414	142,807

8. Financial liabilities

	2016 £'000	2015 £'000
Current		
Deferred consideration	**–**	2,422
Contingent consideration	**–**	3,093
Bank overdraft	**15,095**	19,528
	15,095	25,043
Non-current		
Deferred consideration	**–**	447
Contingent consideration	**1**	1,518
Bank loans – revolving credit facility	**16,500**	45,500
	16,501	47,465

8. Financial liabilities (continued)

Deferred consideration

Deferred consideration of £nil (2015: £447,000) relates to the Growth Shares acquired by the management of Marsh & Parsons since November 2011. This is payable at any time between 31st March 2016 and 31st March 2020 at the option of management of Marsh & Parsons. Deferred consideration of £2,422,000 relating to LMS acquisition from September 2014 relating to the purchase of an additional stake in LMS was paid during the period.

Contingent consideration

£nil (2015: £1,518,000) of contingent consideration relates to the Growth Shares acquired by 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 1st January 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.

During 2016, £2,825,000 of contingent consideration was paid to third parties in relation to the acquisition of LMS in September 2014.

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

	2016 £'000	2015 £'000
Remuneration	**–**	1,518
Put options over non-controlling interests	**1**	3,093
Closing balance	**1**	4,611

	2016 £'000	2015 £'000
Marsh & Parsons Growth Shares	**–**	1,518
LMS	**1**	3,093
	1	4,611
Opening balance	**4,611**	5,458
Cash paid	**(3,093)**	–
Acquisition	**1**	–
Amounts recorded through Income Statement	**(1,518)**	(847)
Closing balance	**1**	4,611

Bank loans – revolving credit facility and overdraft

The Company's bank loan totals £16.5m (2015: £45.5m) and the Company's overdraft totals £15.1m (2015: £19.5m). 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, Financial Solutions (including Linear Mortgage Network), Templeton LPA, Pink Home Loans, Barnwoods, Chancellors Associates and LSLi and its subsidiaries.

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 £100.0m facility (2015: £100.0m). The Company's overdraft is also secured on the same facility and the combined overdraft and revolving credit facility cannot exceed £100.0m (2015: £100.0m). The banking facility is repayable when funds permit on or by May 2020.

The interest rate applicable to the facility is LIBOR plus a margin rate. The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

9. Deferred tax

Deferred tax asset	2016 £'000	2015 £'000
Deferred tax asset at 1st January	8	–
Deferred tax credit/(charge) in profit and loss account for the year	97	8
Deferred tax asset at 31st December	105	8

Deferred tax liability	2016 £'000	2015 £'000
Deferred tax liability at 1st January	(4,350)	(3,869)
Deferred tax credit/(charge) in profit and loss account for the year	23	(24)
Deferred tax (charge)/credit to other comprehensive income	4,327	(457)
Deferred tax asset/(liability) at 31st December	–	(4,350)

A deferred tax asset is recognised in relation to timing differences on fixed assets of £7,000 and share-based payments of £98,000. At 2015 a deferred tax asset of £8,000 was recognised in relation to timing differences, and deferred tax liabilities of £4,326,000 and £24,000 were recognised in respect of held for sale assets and share-based payments.

The 2015 Summer Budget announced that the headline rate of corporation tax in the UK would be further reduced from the current rate of 20% to 19% effective from 1st April 2017, and further reduced to 18%, effective from 1st April 2020. The Budget of March 2016 announced that from 1st April 2020, the proposed corporation tax will be lowered further still to 17%.

Following the substantive enactment of the Finance Bill 2016 in September 2016, the corporation tax rate of 17% has been confirmed. Accordingly this is the rate at which deferred tax has been provided (2015: 18%). Corporation tax is recognised at the headline UK effective rate of 20% (2015: 20.25%)

10. Called up share capital

	2016		2015	
	Shares	£'000	Shares	£'000
Authorised:				
Ordinary Shares of 0.2p each	500,000,000	1,000	500,000,000	1,000
Issued and fully paid:				
At 1st January and 31st December	104,158,950	208	104,158,950	208

11. Reserves

For a description of the reserves refer to Note 26 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 Group. See Note 13 to the Group Financial Statements for details of the LTIP, JSOP, CSOP, SIP/BAYE and the SAYE schemes. The effect of share-based payment transactions on the Company's profit for the period was a charge of £501,000 (2015: credit of £266,000).

Fair value reserve
The fair value reserve is used to record the changes in fair value of financial assets held for sale.

12. Company profit/loss for the financial year after tax

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The profit after tax for the year was £87.0m (2015: loss of £3.6m).

Remuneration paid to Directors of the Company is disclosed in Note 13 to the Group Financial Statements.

The Company paid £212,819 (2015: £243,733) 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 the Company because Group Financial Statements are prepared which are required to disclose such fees on a consolidated basis. These are disclosed in Note 10 to the Group Financial Statements.

13. Pensions costs and commitments

Total contributions to the defined contribution schemes in the year were £47,128 (2015: £40,787). There were £nil outstanding amounts in respect of pensions as at 31st December 2016 (2015: £nil).

The Parent Company headcount at 31st December 2016 was nil (2015: nil). This is due to employment contracts being drawn up within the subsidiaries and not within the Parent Company itself.

14. Capital commitments

The Company had no capital commitments as at 31st December 2016 (2015: none).

15. Related party transactions

During the year the transactions entered into by the Company 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
Wholly owned subsidiaries				
2016	**–**	**–**	**22,969**	**108,323**
2015	–	–	23,175	131,087

	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Wholly owned subsidiaries				
2016	**–**	**–**	**14,392**	**–**
2015	–	–	15,906	10,000

16. Financial instruments – risk management

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

It is the Company's policy that trading in derivatives shall not be undertaken. The Group may, from time to time and as necessary, enter into interest rate swaps for risk management purposes but did not hold any such swaps during either the current or prior year.

The Company is exposed through its operations to 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 Chief Financial Officer. The policy for each of the above risks is described in more detail opposite.

16. Financial instruments – risk management (continued)

Cash-flow interest rate risk

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

The majority of external Company borrowings are variable interest based and this policy is managed centrally.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings. 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
2016	**+100**	**(165)**
	-100	**165**
2015	+100	(455)
	-100	455

Liquidity risk

The Company 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.

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool and daily cash-flow reporting. This includes consideration of 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 Company'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 Company's financial liabilities at 31st December 2016 based on contractual undiscounted payments:

Year ended 31st December 2016

	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)	15,095	129	395	17,766	–	33,385
Trade payables	–	108,327	–	–	–	108,327
Contingent consideration	–	–	–	1	–	1
Deferred consideration	–	–	–	–	–	–
	15,095	**108,456**	**395**	**17,767**	**–**	**141,713**

Year ended 31st December 2015

	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)	19,528	333	1,018	46,403	–	67,282
Trade payables	–	141,088	–	–	–	141,088
Contingent consideration	–	–	3,093	1,536	–	4,629
Deferred consideration	–	–	2,422	575	–	2,997
	19,528	141,421	6,533	48,514	–	215,996

16. Financial instruments – risk management (continued)

The liquidity risk of the Company entity is managed centrally by the Group Treasury function. The Company's cash requirement is monitored closely. The Company 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 Company's capital management is to ensure that it maintains appropriate capital structure to support its business objectives, including any regulatory requirements, 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 Company will strive to maintain a reasonable leverage (i.e. balance between debt and equity) to help achieve the Company's business objectives of growth (through acquisitions and organic growth) and dividend policy. In the short-term, the Company does not have a set leverage ratio to be achieved but the Directors monitor the ratio of Net Bank Debt to operating profit to ensure that the debt funding is not excessively high.

Credit risk

There are no significant concentrations of credit risk within the Company.

Interest rate risk profile of financial assets and liabilities

Treasury policy is described in the Note 15. 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 2016 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	–	–	–	–	–
Floating rate					
Revolving credit facility	(31,595)	–	–	–	(31,595)

The effective interest rate and the actual interest rate charged on the loans in 2016 are as follows:

	Effective rate	Actual rate
Revolving credit facility	3.7%	1.3%

The effective interest rate on the revolving credit facility during the year is higher than the actual rate due to commitment fees payable on undrawn amounts.

The interest rate profile of the financial assets and liabilities of the Group as at 31st December 2015 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	–	–	–	–	–
Floating rate					
Revolving credit facility	(65,028)				(65,028)

The effective interest rate and the actual interest rate charged on the loans in 2015 are as follows:

	Effective rate	Actual rate
Revolving credit facility	3.2%	2%

The effective interest rate on the revolving credit facility during the year was high due to commitment fees payable on undrawn amounts earlier in the year.

16. Financial instruments – risk management (continued)

Fair values of financial assets and financial liabilities

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. There are no material differences between the book value and fair value for any of the Company's financial 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.

2016	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	–	–	–	–
Liabilities measured at fair value				
Contingent consideration	1	–	–	1
Deferred consideration	–	–	–	–
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings:				
Floating rate borrowings	31,595	–	31,595	–

2015	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	27,097	27,097	–	–
Liabilities measured at fair value				
Contingent consideration	4,611	–	–	4,611
Deferred consideration	2,869	–	–	2,869
Liabilities for which fair values are disclosed				
Interest-bearing loans and borrowings:				
Floating rate borrowings	65,028	–	65,028	–

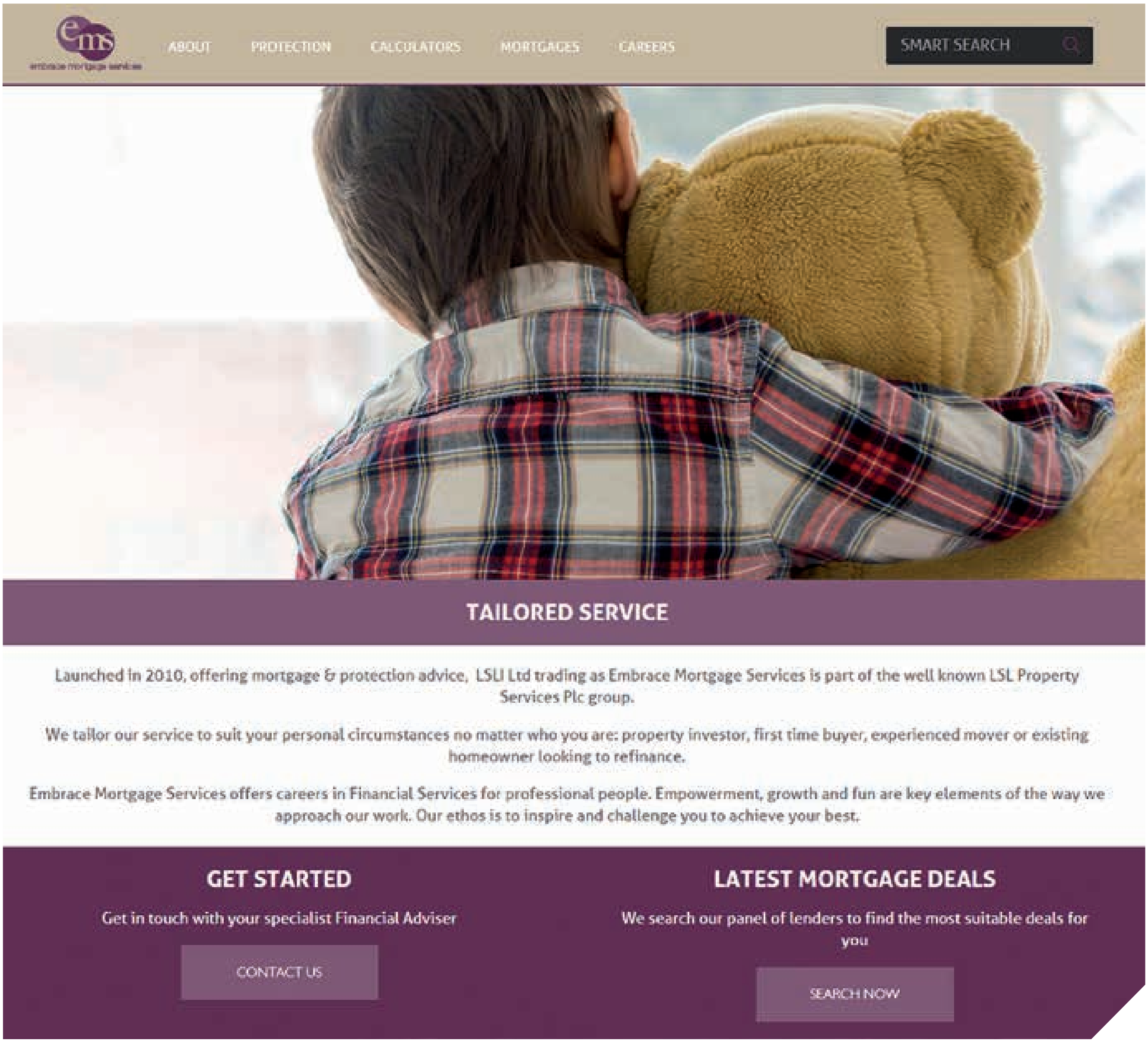
During the period, the Company sold its entire holding of 11.3m ordinary shares in Zoopla. Previously, the holding was valued on the stake held and the share price date at the end of the period, which qualifies as a Level 1 technique.

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 8.

Fair values of the Company's interest-bearing borrowings and loans are determined by using discounted cash-flow (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 2016 was assessed to be insignificant.

Other Information

In this section



Embrace Mortgage Services – website home page.

Definitions

"2011 EBT" employee benefit trust established in November 2011 as part of the acquisition of Marsh & Parsons.

"Adjusted Basic Earnings Per Share" or **"Adjusted Basic EPS"** is defined at Note 11 to the Group Financial Statements.

"AGM" Annual General Meeting.

"Advance Mortgage Funding" trading name of Advance Mortgage Funding Limited.

"Albany" refers to Albany Insurance Company (Guernsey) Ltd.

"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" or **"EPS"** is defined at Note 11 to the Group Financial Statements.

"Board" the board of Directors of LSL.

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

"BDS" BDS Mortgage Group Ltd.

"CMA" Competition and Markets Authority.

"Committees" refers to LSL's Nominations Committee, the Audit Committee and the Remuneration Committee.

"Company" and **"Parent Company"** refers to LSL Property Services plc.

"Companies Act" Companies Act 2006.

"Chancellors Associates" trading name of Chancellors Associates Limited.

"Chairman" Simon Embley.

"Chairman of the Audit Committee" since the 2016 AGM, David Stewart.

"Chairman of the Remuneration Committee" Bill Shannon.

"CML" Council of Mortgage Lenders.

"Code" UK Code of Corporate Governance published by the Financial Reporting Council (FRC) (September 2014 edition).

"Company Secretary" Sapna B FitzGerald.

"CCAS" Consumer Codes Approval Scheme.

"CSOP" company share ownership plan.

"CSR" corporate social responsibility.

"Davis Tate" trading name of Davis Tate Limited.

"Deputy Chairman" refers to Bill Shannon.

"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.

"Embrace Mortgage Services" trading name of LSLi.

"EPC" energy performance certificate.

"EPS" earnings per share.

"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 Committee" refers to the Executive Committee of the Group, which includes the Executive Directors.

"Executive Director(s)" refers to Ian Crabb, Adam Castleton and Helen Buck (with effect 2nd February 2017). Adrian Gill was also an Executive Director during 2016.

"EU" European Union.

"FCA" Financial Conduct Authority.

"Financial Services" refers to LSL's financial services (including mortgage, general insurance and pure protection brokerage services and the operation of LSL's 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 First" or **"GFL"** Group First Limited.

"Group" LSL Property Services plc and its subsidiaries.

"Group Chief Executive Officer" Ian Crabb.

"Group Chief Financial Officer" Adam Castleton.

"Growth Shares" the B and C classes of ordinary shares (each £0.001) in Marsh & Parsons (Holdings) Limited.

"Goodfellows" trading name of GFEA Limited.

"Guild of Professional Estate Agents" or **"GPEA"** trading name of Guild of Professional Estate Agents Limited.

"Hawes" or **"Hawes & Co"** trading name of Hawes and Co Limited.

"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.

"**Insurance First Brokers**" Insurance First Brokers Ltd.

“**IPO**” initial public offering.

“JNP” trading name of JNP Estate Agents Limited.

“JSOP” joint share ownership plan.

“KPI” key performance indicators.

“**Land & New Homes**” trading style used by members of the Estate Agency Division.

“Lauristons” trading name of Lauristons Limited.

“Lawlors” trading name of Lawlors Property Services Limited.

“Legal Marketing Services” and **“LMS”** and **“LMS Direct Conveyancing”** and **“Cybele”** all refer to 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.

“Lexis Nexis” part of the RELX Group plc.

“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 2016 these included JNP, Intercounty, Frosts, Goodfellows, Davis Tate, Lauristons, Lawlors, Hawes & Co and Thomas Morris).

“LSL”, **“Group”** and **“Parent Company”** refers to LSL Property Services plc and its subsidiaries.

“LSL Corporate Client Department” trading name of LSL Corporate Client Services Limited.

“LTIP” long-term incentive plan.

“Management Team” senior management teams within the Group including the Executive Directors.

“Marsh & Parsons” trading name of Marsh & Parsons Limited.

“Mortgages First” Mortgages First Ltd.

“NAEA” National Association of Estate Agents.

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

“Net Bank Debt” see Note 31 to the Group Financial Statements.

“NFoPP” National Federation of Property Professionals.

“Non Executive Director” refers to Kumsal Bayazit Besson, Bill Shannon, David Stewart and Simon Embley. During 2016, Helen Buck was also a Non Executive Director.

“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.

“Palmer and Harvey” trading name of Palmer and Harvey McLane Limited.

“PI” professional indemnity.

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

"PDMRs" Persons Discharging Managerial Responsibility as defined in Article 3(1)(25) of the Market Abuse Regulation (MAR).

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

"RCF" revolving credit facility.

"Reeds Exhibitions" part of the RELX Group plc.

"Reeds Rains" trading name of Reeds Rains Limited.

"Reeds Rains Financial Services" trading name of Reeds Rains Financial Services Limited.

"Registered Office" Newcastle House, Albany Court, Newcastle Business Park, NE4 7YB.

"Report" LSL's Annual Report and Accounts 2016.

"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" refers to Bill Shannon.

"Shareholders" shareholders of LSL.

"SIP" share incentive plan (also referred to as BAYE).

"St Trinity Asset Management" trading name of St Trinity Limited.

"Surveying Division" or **"Surveying"** includes LSL's Surveying and Valuation Services 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 Complete's mortgage club.

"TM Group" 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 shown 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)
LEI Number 213800T4VM5VR3C7S706

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 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00 am to 5.30 pm, Monday to Friday excluding public holidays in England and Wales.
Website: www.capitaassetservices.com
Email: shareholderenquiries@capita.co.uk

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

<u>Provisional calendar of events</u>

Preliminary results released	**7th March 2017**
AGM proxy form deadline	**4.00 pm 25th April 2017**
AGM	**4.00 pm 27th April 2017**

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).

www.lslps.co.uk
Registered in England (Company Number 5114014)

Registered office
Newcastle House, Albany Court
Newcastle Business Park, Newcastle upon Tyne, NE4 7YB
Telephone: 0203 215 1015
Facsimilie: 0207 920 9443
Email: enquiries@lslps.co.uk

Shareholder Notes

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Registered in England
(Company Number 5114014)
Registered Office:
Newcastle House
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Newcastle Business Park
Newcastle upon Tyne
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LSL Property Services plc