LSL Property Services plc

Annual Report and Accounts 2012

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VALUATIONS
CORPORATE CLIENTS
RESIDENTIAL SALES
ASSET MANAGEMENT
SURVEYING
ESTATE AGENTS
FINANCIAL SERVICES
LETTINGS
CONVEYANCING

www.lslps.co.uk

e.surv

Your Move

Reeds Rains

Marsh & Parsons

Pink

Linear

St Trinity

First Complete

LSLCCD

LSLi

Land and New Homes

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

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Directors' Report and Business Review

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 in the Financial Review on pages 22 and 23.

Highlights 2012

2012 was a year of excellent growth in the Estate Agency Division

Group

GROUP REVENUE

+12%

2012	£243.8m
2011	£218.4m

GROUP UNDERLYING OPERATING PROFIT

£35.1m

2012	£35.1m
2011	£31.1m

GROUP UNDERLYING OPERATING MARGIN

14.4%

2012	14.4%
2011	14.2%

ADJUSTED BASIC EARNINGS PER SHARE

23.8p

2012	23.8p
2011	21.0p

FULL YEAR DIVIDEND PER SHARE

+9%

2012	9.5p
2011	8.7p

Estate Agency and Related Services

UNDERLYING OPERATING PROFIT

£24.4m

2012	£24.4m
2011	£10.3m

Surveying and Valuation Services

UNDERLYING OPERATING PROFIT

£13.9m

2012	£13.9m
2011	£23.7m



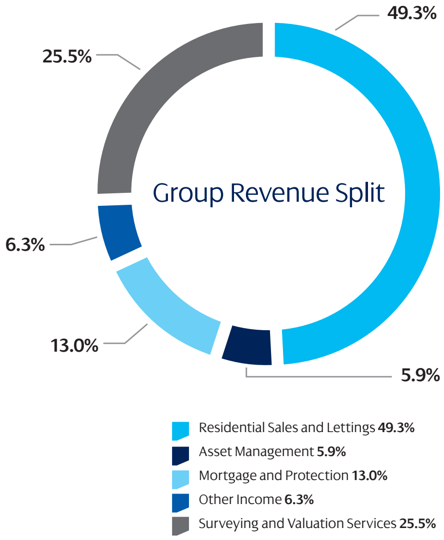

	2012	2011	% Change
Group revenue £m	**243.8**	218.4	+12
Group Underlying Operating Profit[1] £m	**35.1**	31.1	+13
Overall operating margin %	**14.4**	14.2	+0.2pp
Like-for-like Group revenue[2] £m	**216.6**	215.7	+0
Like-for-like Group Underlying Operating Profit[1,2] £m	**27.9**	30.5	-9
Like-for-like operating margin %	**12.9**	14.2	-1.3pp
Profit before tax £m	**6.7**	17.6	-62
Underlying profit before tax £m	**32.5**	29.3	+11
Basic Earnings Per Share – pence	**6.8**	12.9	-47
Adjusted Basic Earnings Per Share – pence	**23.8**	21.0	+14
Cash inflow from operations £m	**32.6**	24.3	+34
Net Bank Debt[3] £m	**26.6**	35.7	-25
Final proposed dividend per share – pence	**6.4**	5.9	+8
Full year dividend per share – pence	**9.5**	8.7	+9

- Impressive growth in the Estate Agency Division
- Investment in Lettings, Financial Services and counter cyclical income streams yielding strong returns
- Solid first full year performance from Marsh & Parsons – major platform for growth
- Surveying Division constrained by impact of contract renewals and declining lender market share
- Costs for professional indemnity (PI) claims have tracked as expected since June 2012
- Extremely cash generative. Cash inflow from operations up 34% to £32.6m and £6.3m generated from disposal of freehold properties
- Net Bank Debt[3] reduced by 25% to £26.6m at 31st December 2012 (31st December 2011: £35.7m)
- Full year dividend up 9% to 9.5 pence per share

[1] Underlying Operating Profit is before exceptional costs, contingent consideration. amortisation of intangible assets and share-based payments.
[2] Excluding Marsh & Parsons which was acquired in November 2011.
[3] Refer to note 30 for the calculation.

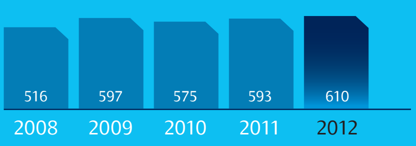
LSL's Markets

LSL operates across the residential property services value chain

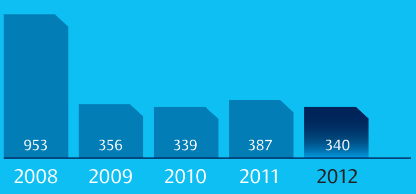


Market Transaction Data

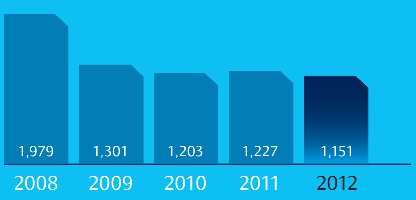
Total Mortgage Approvals for House Purchase[1] '000



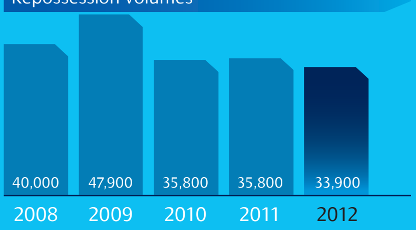
Remortgage Volumes[1] '000



Total Mortgage Approvals[1] '000



Repossession Volumes[2]



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

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

Our market can be categorised into two principal segments:

ESTATE AGENCY AND RELATED SERVICES

SURVEYING AND VALUATION SERVICES

Estate Agency and Related Services

74.5% of Group revenue in 2012 (2011: 64.9%)

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 and property management for multi property landlords) and Financial Services – predominantly mortgage and protection brokerage with revenue earned directly by the Estate Agency brands and through the operation of intermediary networks.

Residential Sales and Lettings

49.3% of Group revenue in 2012 (2011: 39.6%)

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

In 2012 market transaction volumes increased slightly but are still at an extremely low point in the cycle compared to historic normalised levels of 1.2m per annum. Mortgage approvals for house purchase rose by 3% during the year to 610,000 (2011: 593,000).

Asset Management

5.9% of Group revenue in 2012 (2011: 6.4%)

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

Repossession volumes fell by 5% to 33,900 in 2012 (2011: 35,800) which continues to be surprising given the general difficulties in the housing market and the steady stream of disappointing economic news.

Mortgage and Protection

13.0% of Group revenue in 2012 (2011: 12.6%)

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

2012 Total Mortgage Approvals 1,151,000 (2011: 1,227,000) including House Purchase Approvals of 610,000 (2011: 593,000). These volumes are less than half normalised levels.

Other Income

6.3% of Group revenue in 2012 (2011:6.4%)

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

Surveying and Valuation Services

25.5% of Group revenue in 2012 (2011: 35.1%)

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

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

Remortgage volumes of 340,000 were down by 12.1% compared to 2011 (387,000). Total mortgage approvals decreased by 6.3% to 1,151,000 (2011: 1,227,000) and have now been at this level for the last four years. The historic normalised level of total transactions for the period from 2002 to 2007 was circa 3.6m per annum.

LSL's Market Intelligence

Estate Agency and Related Services

LSL Property Services/Acadametrics House Price Index

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

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

LSL Buy to Let Index

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

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

LSL First Time Buyer Monitor

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

For further information or to view the latest copy of the monitor visit: **www.lslps.co.uk/news**

Templeton Tenant Arrears Tracker

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

For further information or to view the latest copy of the tracker visit: **www.lslps.co.uk/news**

LSL Landlord Sentiment Survey

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

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

Surveying and Valuation Services

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

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

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

e.surv Chartered Surveyors Repossessions Release

e.surv Chartered Surveyors produces a biannual analysis of court-ordered repossessions, broken down by postcode.

For further information or to view the latest copy of the release visit: **www.lslps.co.uk/news**

LSL Property Press Awards

These awards celebrate the outstanding achievements of property journalists from across the UK culminating in a prestigious awards event where winners of the seventeen categories are announced. The awards, now in its third year, will be announced on 18th March 2013 at 8 Northumberland Place, off Trafalgar Square, London.

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

LSL Today

LSL has established market leading positions in its market segments

LSL is one of the UK's leading residential property services groups operating throughout the residential property services value chain – Estate Agency, Lettings, Asset Management, Financial Services, Surveying and Valuation Services.

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

MILESTONES

2004 – MBO of Your Move and e.surv

2005 – Acquisition of Reeds Rains; Acquisition of Linear Mortgage Network

2006 – IPO on main market, valuing the business at £208m

ESTATE AGENCY DIVISION – ESTATE AGENCY AND RELATED SERVICES

RESIDENTIAL SALES AND LETTINGS

- Second largest estate agency network in the UK and the largest lettings network (made up of wholly owned, franchised and virtual branches[1]).
- Strong established high street brands with 533 branches (2011: 568) (made up of wholly owned, franchised and virtual branches).
- Exposure to prime Central London property market as a result of the acquisition of Marsh & Parsons in November 2011.
- Branch services include Residential Sales, Lettings and Financial Services.
- Technically advanced proprietary browser based IT systems common across most brands.
- Successful franchise model operating in 136 branches across Your Move, Reeds Rains, and Intercounty (2011: 142).
- Members of The Property Ombudsman (TPO), with a sales and lettings code of practice. The sales code of practice is approved by the Office of Fair Trading.

[1]Based on LSL's own calculations and assessment of branch numbers using publicly available data.

YOUR MOVE

The largest single brand UK estate agency with 293 branches operating throughout the UK (made up of wholly owned, virtual and franchised branches). Your Move is the most visited UK estate agency website* (2011: 314).

www.your-move.co.uk

* Source: Neilsen December 2012

LSLi

LSLi is the holding company for 6 estate agency brands with a combined network of 50 branches (made up of wholly owned and franchised branches) (2011: 41).

www.lsli.co.uk

REEDS RAINS

A predominantly northern based network of 175 branches (made up of wholly owned and franchised branches) (2011: 199).

www.reedsrains.co.uk

MARSH & PARSONS

Leading London premium brand estate agency operating in the Central, West and South West London property markets out of 15 branches (2011: 14).

www.marshandparsons.co.uk

ASSET MANAGEMENT

- Market leader.
- 10,800 repossessions in 2012 (2011: 11,200).
- Utilises a network of up to 4,200 (2011: 3,500) estate agency branches.

LSL CORPORATE CLIENT DEPARTMENT

LSL Corporate Client Department started trading in 2008 and operates a repossessions asset management business and a property management business for multi-property landlords.

www.lsl-ccd.co.uk

ST TRINITY ASSET MANAGEMENT

The Group's second asset management business was created in 2010 following the acquisition of HEAL Corporate Services (as part of the HEAL Business acquisition).

www.sttrinityassetmanagement.co.uk

TEMPLETON LPA

Law of Property Act fixed charge receiver.

www.templetonlpa.co.uk

2007
- Estate Agency acquisition of Intercounty, Frosts and JNP
- Cheltenham & Gloucester valuations panel management contract acquired
- Acquisition of Ekins from Barclays Bank plc and grant of associated surveying and valuation services agreement

2008
- Launch of separate Asset Management and Corporate Lettings business

2009
- Santander contract expansion

2010
- Acquisition of the HEAL Business – 206 estate agency branches rebranded Your Move, Reed Rains and Intercounty and asset management business now trading as St Trinity Asset Management
- Acquisition of Templeton LPA Receiver, Home of Choice (business and assets acquired by First Complete), Goodfellows and Pink Home Loans
- Launch of private survey initiatives with RICS HomeBuyers Report

2011
- Investment in Legal Marketing Services and LMS Direct Conveyancing
- Acquisition of Marsh & Parsons and entry into the prime Central London residential property market.
- Launch of PropertyCare+

2012
- Commencement of renewed Barclays Bank plc contract
- Acquisition of Davis Tate
- Acquisition of Lauristons
- LSL increased its shareholding in Zoopla which merged with DPG property portal businesses during 2012
- Launch of Lease Extension services

FINANCIAL SERVICES

- Specialising in brokerage of mortgage and protection products – LSL's combined appointed representative network is the sixth largest network in the UK.[1]
- Multi brand including Your Move, Reeds Rains, Linear Mortgage Network, First Complete and Pink Home Loans.
- Total value of mortgage applications arranged in 2012 was £7.1bn (2011: £6.8bn).

[1] Source: Which Network – Network Performance Figures for 2012 showing the combined numbers for First Complete (6th) and Pink (8th).

FIRST COMPLETE

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

www.firstcomplete.co.uk

PINK HOME LOANS

Mortgage network, providing products and services to financial intermediaries since 1990, joining the Group in 2010.

www.pinkhomeloans.co.uk

THE MORTGAGE ALLIANCE

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

www.themortgagealliance.com

LINEAR MORTGAGE NETWORK

Provides financial services including mortgages, re-mortgages and life assurance through a network of financial consultants based remotely and in the offices of estate agents.

www.linearfs.com

SURVEYING DIVISION

SURVEYING AND VALUATION SERVICES

- Market leading provider.
- 408,000 valuation jobs completed in 2012 (2011: 499,000).
- 378 employed surveyors 2012 (2011: 425).

E.SURV CHARTERED SURVEYORS

One of the leading firms of Chartered Surveyors in the UK, providing services to a broad range of lenders and private house purchasers.

www.esurv.co.uk

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

LSL's Strategy

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

Estate Agency Division

533 Branches

2011: 568

Combined Financial Services network (including introducer appointed representatives)

652 Appointed Representatives

2011: 721

1,113 Advisors

2011: 1,178

Surveying Division

378 Surveyors

2011: 425

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

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

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

ESTATE AGENCY DIVISION

Residential Sales and Lettings

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

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

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

Asset Management

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

Mortgage and Protection Services

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

Use the networks to strengthen relationships with key lender clients.

In addition the Group will continue to consider selective acquisitions across the residential property services value chain in order to enhance market positions and to grow scale.

SURVEYING DIVISION

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

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

Deliver organic growth by continuing to develop the market for the provision of private surveying services delivered direct to private house purchasers with the addition of new products such as the launch of the new building survey which is being developed in consultation with RICS and is planned for 2013.

Business Review

IN THIS SECTION

Directors' Report and Business Review of the year ended 31st December 2012.

The Directors have pleasure in presenting their annual report and the audited accounts for the year ended 31st December 2012.

The Directors' Report and Business Review is set out on pages 2 to 56.

Chairman's Statement

"The Estate Agency Division has demonstrated its significant organic growth potential, which we will exploit through further investment."

GROUP REVENUE

£243.8m

GROUP UNDERLYING OPERATING PROFIT

£35.1m

Introduction

I am pleased to report that the Group made strong progress during 2012 with revenue up by 12%, Group Underlying Operating Profit up by 13% and Adjusted Basic Earnings Per Share up 14%, despite there being no improvement in market transaction levels. The Estate Agency Division had an excellent year as strong like-for-like growth combined with a first full year contribution from Marsh & Parsons more than offset a difficult year in the Surveying Division due to the impact of major contract renewals. Since the exceptional provision for PI claims of £17.3m was reported in the 2012 half year accounts, the rate and average cost of claims have run in line with expectations.

The business is extremely cash generative and Net Bank Debt at 31st December 2012 has been reduced by 25% to £26.6m (2011: £35.7m). Investment to drive organic growth within the Estate Agency Division has continued during the year, particularly in Lettings, and two bolt-on acquisitions have been made in the South East.

I am delighted to report an increase in our proposed final dividend of 8% to 6.4 pence per share (2011: 5.9 pence). This increases the total dividend for the year by 9% to 9.5 pence per share (2011: 8.7 pence).

The quality of the Group's earnings has been transformed since the sharp decline in the housing market in 2007. This is evidenced by the extent to which profits are now driven by counter cyclical and non cyclical income from Lettings and Asset Management. Increasing income from these activities remains a key strategic priority as well as increasing the Group's exposure to the prime Central London market.

In addition, the business is in a stronger position than a year ago. The Estate Agency Division has demonstrated its significant organic growth potential, which we will exploit through further investment. We will continue to strengthen our position in the prime Central London market, where it is planned to open a number of new Marsh & Parsons branches during the year.

Financial Results

Group revenue increased by 12% to £243.8m (2011: £218.4m) and Group Underlying Operating Profit increased by 13% to £35.1m (2011: £31.1m). Group Underlying Operating Margin increased from 14.2% to 14.4%. On a like-for-like basis, excluding Marsh & Parsons, Group revenue increased slightly to £216.6m (2011: £215.7m). On the same basis, Group Underlying Operating Profit decreased by 9% to £27.9m (2011: £30.5m) due to contract renewals and the impact of a challenging market in the Surveying Division.

The Estate Agency Division delivered a 138.2% increase in Underlying Operating Profit to £24.4m (2011: £10.3m). On a like-for-like basis, excluding Marsh & Parsons, Underlying Operating Profit increased by 78% to £17.2m (2011: £9.7m). This performance was delivered despite no significant improvement in transaction levels. House purchase approvals increased by 7% in the first half of the year and then decreased by 1% in the second half, resulting in a full year increase of 3% to 610,000 (2011: 593,000). Repossession volumes fell by 5% to 33,900 in the year (2011: 35,800). The Estate Agency Division benefitted from a strong full year contribution from Marsh & Parsons, excellent growth in Lettings and Financial Services, exchange income fee growth and increased market share in Asset Management in a declining repossessions market.

The Surveying Division revenue was impacted, as expected, by key contract renewals and also by continued decline in market transaction levels, compounded by further reduction in market shares of certain key lender clients. Total mortgage approvals decreased by 6% to 1.16m (2011: 1.23m), including a 12% decrease in remortgages to 340,000 (2011: 387,000). Surveying Division revenue decreased by 19% and Underlying Operating Profit was £13.9m (2011: £23.7m) with Underlying Operating Margin of 22.4% (2011: 31.0%). However, the Surveying Division continues to provide industry leading service levels to clients which together with excellent growth in revenue from the provision of Surveying Services to private buyers, provides a sound platform for growth.

"The Surveying Division continues to provide industry leading service levels to clients which together with excellent growth in revenue from the provision of Surveying Services to private buyers, provides a sound platform for growth."

INCREASE IN REVENUE FROM PRIVATE SURVEYS

+46%

LETTINGS INCOME GROWTH
(excluding Marsh & Parsons)

+23%

FINANCIAL SERVICES INCOME GROWTH

+15%

Since making the additional PI provision of £17.3m at the 2012 half year, PI costs have tracked in line with expectations for the period since 1st July 2012. The run rates of new claims and costs per claim have been consistent with the assumptions made in setting the 'Incurred But Not Reported' (IBNR) element of the total provision which relates to costs estimated to be received in the future relating to valuations undertaken during the 2004 to 2008 high risk lending period. Setting the correct level of IBNR provision is highly subjective as it is extremely sensitive to small changes in assumptions relating to run rates of new claims and costs per claim.

Profit before tax, amortisation and exceptional costs increased by 13% to £35.1m (2011: £31.1m). Total exceptional costs of £17.7m (2011: £2.0m) included PI costs of £17.3m. In addition, a non cash charge of £4.2m (2011: £0.2m) was made relating to employment related contingent consideration in acquisitions. Amortisation of intangible assets during the year reduced to £3.5m (2011: £8.5m) following the ending of the C&G contract for valuations and associated panel management services. Profit before tax was £6.7m (2011: £17.6m) and profit after tax was £7.0m (2011: £13.2m). On an adjusted basis, earnings per share increased by 14% to 23.8p (2011: 21.0p).

Cash generated from operations increased by 28% to £26.9m (2011: £21.1m) after capital expenditure of £5.7m (2011: £3.2m). Operating cash flows included PI payments made in the year of £7.7m (2011: £2.9m). The increase in PI cash costs was partly driven by the overall increase in PI claims during 2012 and also by an acceleration in the rate of negotiated settlements with some lender claimants.

Net Bank Debt at 31st December 2012 reduced by 25% to £26.6m compared to £35.7m at 31st December 2011 having invested £3.9m in acquisitions and making a further investment in Zoopla. Offsetting these investments were proceeds of £6.3m from the successful freehold disposal programme which generated an exceptional profit of £1.4m. The current level of debt is almost identical to that in December 2009 (£25.8m) and despite market volumes being 12% lower in 2012 compared to 2009, LSL operating profit has increased by 24% over the same period.

Net assets increased to £76.1m at 31st December 2012 (2011: £72.4m) including a £10.7m valuation uplift following a review of the fair value of the investment in Zoopla.

Dividend

As a result of the improved operating performance of the Group, the reduction in Net Bank Debt and the Board's positive view of future prospects for the business, an increased final dividend of 6.4p per share (2011: 5.9p) will be proposed to Shareholders at the forthcoming AGM, increasing the total dividend for 2012 by 9% to 9.5p per share (2011: 8.7p per share). The ex-dividend date for the final dividend is 10th April 2013 with a record date of 12th April 2013 and a payment date of 10th May 2013. Shareholders have the opportunity to elect to reinvest their cash dividend and purchase existing shares in LSL through a dividend reinvestment plan.

Developments

The Estate Agency Division performed exceptionally well with all key income lines advancing strongly on a like-for-like basis against a broadly flat market backdrop. The business is making very good progress towards the medium term profit per owned branch target of £30,000 to £50,000 which we set in 2011. In 2012, profit per owned branch, excluding Marsh & Parsons, increased to £21,000 from £6,000 in 2011.

We have made significant investment in our Lettings business over the last two years, adding a total of 101 new colleagues, and this helped to deliver a revenue increase in the year of 23% to £35.8m (2011: £29.1m) excluding Marsh & Parsons. Residential Sales income, excluding Marsh & Parsons, increased by 6% to £58.1m (2011: £54.7m) mainly due to an increase in the average fee.

Total Financial Services income delivered through our Estate Agency Division branches and Financial Services intermediary networks increased by 15% during 2012 and has now increased by over 150% over the last three years as a result of the successful roll out of Financial Services to the ex HEAL branches and the acquisition of new intermediary networks in 2010. In total the Group arranged mortgage lending of £7.1bn during 2012 (2011: £6.8bn) out of a total intermediary lending market estimated at £72bn.

Marsh & Parsons delivered a good result with instructions increasing by 2% and revenue by 2% to £27.3m (2011: £26.6m). Operating profit increased by 6% to £7.2m (2011: £6.8m). The new Earls Court branch has performed well and a second opening in Kensington that had originally been planned for the fourth quarter opened in January 2013. The Group is targeting four new branch openings in 2013, including Kensington.

Our Asset Management business also suffered from a challenging market as repossession volumes fell by 5% to 33,900 (2011: 35,800). Despite this the business once again increased market share and revenue increased by 3% to £15.6m (2011: £15.2m). A new property management contract was won and came on stream during the year and investment is committed in 2013 to win further similar contracts.

As reported in July 2012, we have continued to make selective acquisitions and have added to our Estate Agency Division portfolio in the South East with the purchase of Davis Tate and Lauristons during 2012. Both businesses are performing well and have significant growth potential which is one of our key acquisition criteria. We will continue to search for similar acquisitions funded from our strong cash flows.

We increased our shareholding in Zoopla in advance of the merger with Digital Property Group and LSL now owns 4.8% of the new group. Operating performance has been extremely strong since the merger in the second half of 2012 and against this positive background the Board has reviewed the fair value of the shareholding in Zoopla and attributed a value equal to the price paid per share when LSL acquired an additional stake in Zoopla in April 2012. The exercise concluded that a fair value of the Zoopla group was £245m at 31st December 2012 and as a result we have increased the valuation of our holding by £10.7m to £11.8m. We are excited that LSL has a strategic stake in a group which has such strong future prospects.

The Surveying Division has been impacted by the effect of key contract renewals as had been expected. In addition, certain key lender clients have reduced their market share. However, we have continued to invest in the provision of industry leading service levels and have secured a number of contract renewals. We have now worked through the renewal of all legacy contracts and margins are expected to stabilise around current levels in the short term.

The main source of growth in the Surveying Division has been through the provision of Surveying Services for private buyers. This key strategic initiative which was started in December 2010 delivered an increase in revenue of 46% to £4.0m (2011: £2.8m) in the year. The fourth quarter revenue run rate was £5.0m per annum. The number of distribution channels has been expanded during 2012 and will be developed further in 2013.

Corporate Governance and Board

The Board is committed to high levels of corporate governance as defined by the UK Corporate Governance Code (Code).

In respect of 2012, the Board has conducted an annual review of its effectiveness and that of its Committees, taking into account the balance of skills, experience, independence and knowledge of our businesses and we concluded that the Board and its Committees are effective and are able to discharge their respective duties and responsibilities effectively.

In addition, whilst no significant issues arose from the annual evaluation, a number of recommendations were made to further improve the effectiveness of the Board and these are being implemented.

> "The delivery of our strong financial results in 2012 was based on the commitment of all of our colleagues to providing the best possible service to all of our customers."




During the year, the Nominations Committee considered at length the composition of the Board and I am delighted that Adrian Gill was appointed to the Board as an additional independent Non Executive Director with effect from 10th September 2012. Adrian brings very relevant experience to the Board having been on the board of Connells Limited, one of the largest and most successful estate agency businesses in the UK.

Amongst our Non Executive Directors, we now have experience in strategy, estate agency, surveying, financial services, the residential housing sector, retail and marketing, operations, business services, entrepreneurial private and public companies, finance, customer and employee matters and corporate governance.

Other Board changes during the year included the retirement of Paul Latham, Non Executive Director on 1st October 2012 and Alison Traversoni, Executive Director for Surveying who stepped down with effect from 31st December 2012, for family reasons.

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

LSL has also in 2012 continued to review gender diversity across the Group building on the gender diversity survey undertaken and reported on in 2011. Further detail of this study and its conclusions are set out in our Corporate Social Responsibility Report.

As Chairman, with the responsibility for leadership of the Board I personally review its effectiveness on all aspects of its role and encourage feedback. This is in addition to regular evaluations of each Director to ensure that all Board members receive regular and relevant updates to assist them in their roles ensuring the continual refreshment of skills and knowledge.

People

The number of Group employees decreased slightly by 2% to 4,754 (2011: 4,831) due principally to the expiry of the C&G contract. We did however welcome a large number of new colleagues to the Group as a direct result of the success of our strategy of pursuing both organic and acquisitive growth. I would like to welcome all new colleagues to the Group and to wish them every success in their careers with LSL.

The delivery of our strong financial results in 2012 was based on the commitment of all of our colleagues to providing the best possible service to all of our customers, invariably against challenging market conditions. I would like to thank all of our employees for their hard work and commitment during the year.

Current trading and outlook

Market conditions remained challenging during 2012 with transaction levels at less than half of historic norms. It is still too early to judge whether there will be a significant positive impact on the market from the Government's 'Funding for Lending' scheme. Overall the Group retains a cautious view of the market.

LSL is committed to its strategy of driving organic growth in all parts of the business, which will more than offset the remaining first half year impact of the C&G contract in the Surveying Division. We intend to invest further to maintain our excellent progress in Lettings but also to increase market share in Estate Agency, to maximise the new branch opening programme in Marsh & Parsons and to win new business in corporate Lettings and Asset Management. We will also continue to grow Financial Services revenue and to expand the provision of Surveying Services to private buyers. Trading to the end of February 2013 has been in line with expectations. Progress on all key initiatives has been running to plan.

The Group's balance sheet is strong with relatively low levels of gearing underpinned by strong cash generation. We will continue with a prudent approach to leverage but we still have considerable scope to pursue a strategy of further organic investment initiatives and selective acquisitions. The Board is confident that this strategy will deliver increased shareholder value into the medium term, even without a recovery in market conditions.

Roger Matthews
Chairman
28th February 2013

Estate Agency Division – Estate Agency and Related Services

The Estate Agency Division performed exceptionally well with all key income lines advancing strongly on a like-for-like basis against a broadly flat market backdrop

+23%

LETTINGS INCOME[1] 2011: + 18%

+15%

FINANCIAL SERVICES INCOME[1] 2011: + 49%

+6%

EXCHANGE FEES[1] 2011: + 5%

11.1%

UNDERLYING OPERATING MARGIN[1] 2011: 7%

[1] Like-for-like (excluding Marsh & Parsons)

	Actual – including Marsh & Parsons			Like-for-like – excluding Marsh & Parsons		
Financial	2012 £m	2011 £m	% change	2012 £m	2011 £m	% change
Exchange fees	**72.0**	56.7	27	**58.1**	54.8	6
Lettings income	**48.0**	29.5	63	**35.8**	29.1	23
Asset Management income	**14.3**	13.9	2	**14.3**	13.9	2
Financial Services income	**31.8**	27.6	15	**31.8**	27.6	15
Other income[1]	**15.5**	14.1	10	**14.4**	13.8	4
Total income	**181.6**	141.8	28	**154.4**	139.2	11
Operating expenditure	**(157.2)**	(131.5)	20	**(137.2)**	(129.5)	6
Underlying Operating Profit	**24.4**	10.3	138	**17.2**	9.7	78
KPIs						
Exchange units	**27,762**	27,398	1	**26,966**	27,297	(1)
Market Share (%)	**4.55**	4.62	(1)	**4.42**	4.60	(4)
Underlying Operating Margin (%)	**13.5**	7.2	86	**11.1**	7.0	60
Fee per unit	**2,596**	2,070	25	**2,154**	2,005	7

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

Estate Agency Performance

Estate Agency Division Performance

It has been a year of transformation for LSL with the profitability of the Estate Agency Division, excluding Marsh & Parsons, growing to a level 31% higher than that delivered at the peak of the market in 2006 when transaction volumes were more than twice the volume of 2012. Furthermore the quality of the Estate Agency Division's earnings has also significantly improved over the period since 2007, given the extent to which profits are now driven by counter cyclical and non cyclical income from Lettings, Asset Management and exposure to the prime Central London market through Marsh & Parsons.

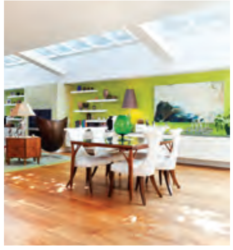
The Estate Agency Division delivered a strong performance in 2012 with excellent growth in Lettings and Financial Services income streams. The number of mortgage approvals for house purchases increased by 7% in the first half of the year and then decreased by 1% in the second half, resulting in a full year increase of 3% to 610,000 (2011: 593,000) which compares to historic normalised levels of 1.2m.

Against this background, total Estate Agency Division income increased by 28% to £181.6m (2011: £141.8m) and on a like-for-like basis by 11% to £154.4m (2011: £139.2m). Underlying Operating Profit increased by 138% to £24.4m (2011: £10.3m) and on a like-for-like basis by 78% to £17.2m (2011: 9.7m).

Estate Agency Division Branches

Your Move, Reeds Rains and the LSLi brands all continued to perform well during the year despite no significant improvement in transaction levels. Residential Sales income increased by 6% to £58.1m (2011: £54.8m) on a like-for-like basis due mainly to an increase in the average fee. Average fees increased by 7% on a like-for-like basis to £2,154 (2011: £2,005).

The Estate Agency Division has identified a number of key initiatives including investment in additional staff into the branches to continue to drive both market share growth as well as average fee during 2013. We will continue to increase our market share of higher



value properties, which is challenging in the prevailing market conditions. LSL has had some success in this area already and it remains a major opportunity for the future.

Counter Cyclical Income

The counter cyclical income streams of Lettings and Asset Management are particularly important to LSL in current market conditions. In 2012 LSL has continued to focus on growing Lettings income an additional 101 employees have been recruited over the last two years to help drive a 23% increase in like-for-like Lettings income to £35.8m (2011: £29.1m). Excluding Marsh & Parsons, Lettings income was 62% of the level of Residential Sales in 2012 and LSL's objective is to raise Lettings income to a similar level to Residential Sales income, as has been achieved in Marsh & Parsons where the ratio is 87%.

Additional Lettings consultants will continue to be recruited in 2013 to further drive Lettings income. In addition, LSL's call centre 'The Bridge' which was launched in January 2011 to drive Residential Sales instructions, will be expanded in 2013 to also drive Lettings instructions.

Despite the uncertain economic conditions impacting the housing market, repossession volumes fell by 5% to 33,900 in 2012 (2011: 35,800). We are pleased that LSL's market share in Asset Management has increased during the year with revenue up by 2% to £14.3m (2011: £13.9m) in a declining market. LSL's Asset Management business is well positioned to capitalise on an increase in repossession volumes when they eventually occur.

The Group now benefits from total counter cyclical income from Lettings and Asset Management of £62.3m compared to £43.5m in 2011 and only £12.8m in 2007 before the launch of LSL's Asset Management businesses.

Financial Services

Total Financial Services income delivered through to the Estate Agency Division's branches and intermediary networks increased by 15% during 2012 to £31.8m (2011: £27.6m). It has now increased by over 150% in the last three years as a result of the successful roll out of Financial Services to the ex HEAL branches and the acquisition of new intermediary networks in 2010. In total the Group arranged mortgage lending of £7.1bn during 2012 (2011: £6.8bn) out of a total intermediary lending market estimated at £72bn[1].

Marsh & Parsons

Marsh & Parsons delivered a good first full year contribution with revenue increasing by 2% to £27.3m (2011: £26.6m[2]) and Underlying Operating Profit increasing by 6% to £7.2m (2011: £6.8m[2]).

During 2012, a new branch was opened in Earls Court which is performing well. A second opening in Kensington, which was originally planned for the fourth quarter of 2012, actually opened in January 2013. The group is targeting a further three new branch openings in 2013.

Developments

The main Estate Agency developments during 2012 were continued investment in Lettings, consolidating the success of 'The Bridge' call centre in driving new instructions to branches and securing a strong first year performance from Marsh & Parsons while continuing the branch roll out programme.

We have also invested significantly in Asset Management to win new property management contracts and successfully brought the first of these on stream during 2012.

In addition we have grown Financial Services income across our intermediary networks, trading as Pink, First Complete and Linear. We are in the process of rolling out a new common platform across these businesses which will improve customer service and increase operational efficiency.

During 2012, the Group has continued to make selective acquisitions and have added to our Estate Agency Division in the South East through the acquisitions of Davis Tate and Lauristons.

Looking forward to 2013 we will continue with the same strategy focusing in particular on investment in Lettings and Residential Sales, rolling out new branches in Marsh & Parsons and investment in Asset Management. We will continue to identify selective acquisitions funded from our strong cash flows.

Regulation

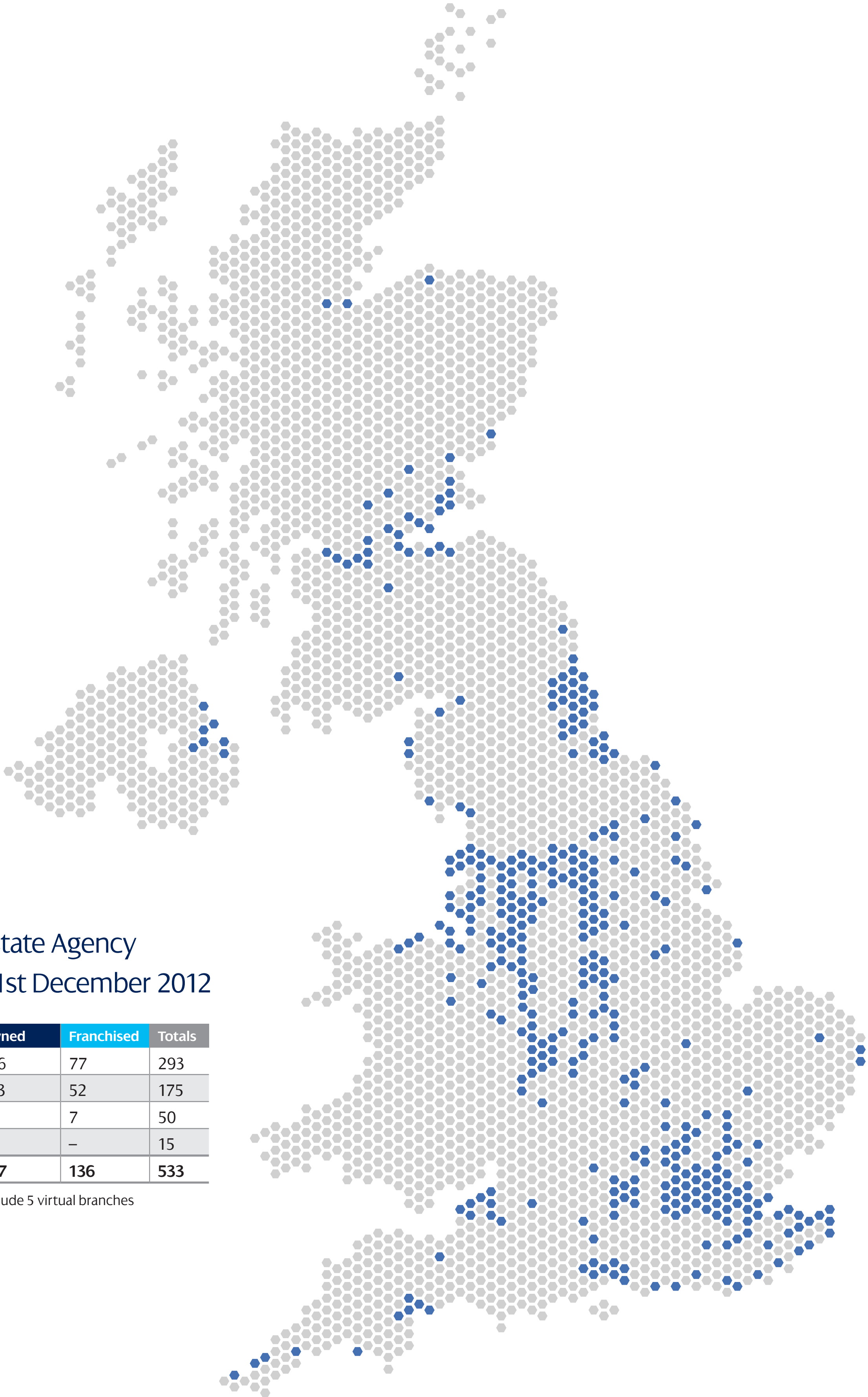
First Complete and Advance Mortgage Funding are both directly authorised by the FSA in relation to the sale of mortgage, pure protection and general insurance products. Your Move, Reeds Rains Financial Services and Reeds Rains along with the LSLi subsidiaries are all appointed representatives of First Complete, while Linear Mortgage Network is an appointed representative of Advance Mortgage Funding for mortgage and insurance business and also an appointed representative of Openwork Limited (Openwork) (for investment business). Reeds Rains is also an appointed representative of Letsure Limited for the sale of rent indemnity insurance.

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

[1] Source: Council of Mortgage Lenders January 2013 – gross lending £143bn – based on company calculation intermediary lending market is 50% of this.

[2] Includes the results prior to the acquisition in November 2011.

Estate Agency Division – Estate Agency and Related Services (continued)



Breakdown of Estate Agency branches as at 31st December 2012

	Owned	Franchised	Totals
Your Move	216	77	293
Reeds Rains	123	52	175
LSLi	43	7	50
Marsh & Parsons	15	–	15
Totals	**397**	**136**	**533**

The above branch numbers include 5 virtual branches

The Estate Agency Division businesses, achieved the following industry awards demonstrating LSL's continued commitment to customer service

Achievements/Awards 2012 and 2013

LSL LAND & NEW HOMES

Estate Agency of the Year Awards 2012, sponsored by the Sunday Times
- Best New Homes – **Silver Award**

THE BRIDGE

South West Contact Centre Awards
- Team Leader of the Year Award 2012
- Finalist in the Training Category

LSL CORPORATE CLIENT DEPARTMENT

Mortgage Finance Gazette Awards 2013
- Best Debt and Arrears Strategy (non lenders) – **Highly Commended**

The Negotiator Awards 2012
- Property Manager of the Year – **Highly Commended**

Mortgage Finance Gazette Awards 2012
- Excellence in Treating Customers Fairly (non lenders) –**Winner**

YOUR MOVE

Estate Agency of the Year Awards 2012, sponsored by the Sunday Times
- Best Financial Services – **Silver Award**
- Prestige Agency – **Bronze Award**

Negotiator Awards 2012
- Franchise of the Year – **Winner**
- National Estate Agency of the Year – **Highly Commended**
- Residential Mortgage Broker of the Year – **Highly Commended**

Lettings Agency of the Year Awards 2012, sponsored by the Sunday Times
- Best Lettings Agency Franchise – **Silver**
- Best Student Lettings Agency – **Silver**
- Best UK Large Lettings Agency – **Bronze**

REEDS RAINS

Estate Agency of the Year Awards 2012, sponsored by the Sunday Times
- Best Financial Services – **Silver Award**

Lettings Agency of the Year Awards 2012, sponsored by the Sunday Times
- Best Lettings Agency in Northern Ireland – **Gold Award**

MARSH & PARSONS

Estate Agency of the Year Awards 2012, sponsored by the Sunday Times
- Best Customer Service – **Gold Award**
- Best London Estate Agency (Medium) – **Gold Award**
- Best Website – **Silver Award**

The Negotiator Awards 2012
- National Estate Agency of the Year – **Winner**

Lettings Agency of the Year Awards 2012, sponsored by the Sunday Times:
- Best Medium Lettings Agency in London – **Gold Award**

LSLi – JON COOKE, MD

Estate Agency of the Year Awards 2012, sponsored by the Sunday Times
- Outstanding Contribution to Estate Agency

Jon Cooke, LSLi MD received the award in acknowledgement of his long term commitment to the estate agency industry. This includes his passion for ensuring a high standard of service to the public, his talent for providing diverse opportunities and advice to fellow estate agents and his philanthropic contribution to the community as demonstrated by his creation of the Zoopla British Property Cycle event.

INTERCOUNTY

Estate Agency of the Year Awards 2012, sponsored by the Sunday Times
- South East Lettings Agency of the Year – **Silver Award**

PINK HOME LOANS

Financial Advisor 5 Star Awards 2012
- Mortgage category – **Winner**

Mortgage Strategy Awards 2012
- Best Mortgage Network Category – **Runner up**

LINEAR MORTGAGE NETWORK

Mortgage Strategy Awards 2012
- Best Broker for Protection – **Winner**
- Best Broker for General Insurance – **Finalist**

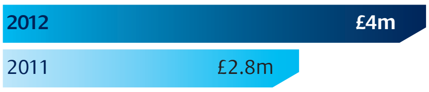
FIRST COMPLETE

Mortgage Strategy Awards 2012
- Best Mortgage Network – **Winner**
- Best Network – **Finalist**

Surveying Division – Surveying and Valuation Services

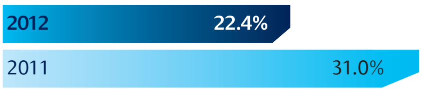
The Surveying Division revenue was impacted, as expected, by key contract renewals and also by continued decline in market transaction levels

+46%



increase in revenue delivered through the provision of surveying services for private buyers

+22.4%



operating profit margin

Financial	2012 £m	2011 £m	% change
Revenue	**62.2**	76.6	-19
Operating expenditure	**(48.3)**	(52.9)	-9
Underlying Operating Profit	**13.9**	23.7	-41
KPIs			
Profit margin (%)	**22.4**	31.0	
Jobs performed (000s)	**408**	500	-18
Revenue from private surveys (£m)	**4.0**	2.8	46
Income per job (£)	**152**	153	-1
PI insurance (balance sheet) provision at 31st December (£m)	**24.2**	9.6	150
Number of surveyors	**378**	425	-11

Surveying Division Performance

Turnover fell by 19% to £62.2m (2011: £76.6m) with the total numbers of jobs performed reducing by 18% to 408,000 (2011: 500,000). This was driven by a decline in total mortgage approvals during 2012 which decreased by 6% to 1.16m, further adverse changes in lender market share and the impact of key contract renewals including the ending of a key contract in June 2012, due to a decision by a lender client to transfer their valuations and associated panel management instructions back in-house. Turnover from this contract declined by £7.0m to £5.5m (2011: £12.5m).

Against this difficult backdrop the Surveying Division has traded well. It has continued to provide industry leading service levels to clients and has made excellent progress in developing surveying services for private buyers which has delivered exceptional revenue growth of 46% to £4.0m in the year (2011: £2.8m). This provides us with a strong platform for future growth in this area.

Underlying Operating Profit was £13.9m (2011: £23.7m) and the Underlying Operating Profit Margin was 22.4% (2011: 31.0%) which reflected both the overall revenue decline and further investment in provision of high service levels for all lender clients. LSL has now successfully managed a difficult year of legacy contract renewals. As part of the investment in the business there was a switch towards the use of employed surveyors rather than contractors though the total number of employed surveyors decreased to 378 (2011: 425) as result of the expiry of the C&G contract.

Since making the additional PI provision of £17.3m at the 2012 half year, PI costs have tracked in line with expectations. The run rates of new claims and costs per claim have been consistent with the assumptions made in setting the 'Incurred But Not Reported' (IBNR) element of the total provision which relates to costs estimated to be received in the future relating to valuations done during the 2004 to 2008 high risk lending period. Setting the correct level of IBNR provision is highly subjective as it is extremely sensitive to small changes in assumptions relating to run rates of new claims and costs per claim.

Surveying Division Developments

The major growth initiative in the Surveying Division has been the expansion of provision of surveying services for private buyers. This key strategic programme was only started in December 2010 and delivered an increase in revenue of 46% to £4.0m (2011: £2.8m) in the year. The fourth quarter revenue run rate was £5.0m. The number of distribution channels has been expanded during 2012 and will be developed further in 2013.

e.surv Chartered Surveyors Achievements/Awards 2012

e.surv Chartered Surveyors successfully renewed the Barclays Bank plc surveying and valuation services contract for a 30 month term commencing from 1st January 2012. Following Lloyds Banking Group's decision to take the C&G contract back in house, LSL has now worked through the renewal of all legacy contracts and the Board expects margins to stabilise around current levels in the short term.

The Surveying Division serves key lender clients through both exclusive contracts and through panel management arrangements. LSL is continuing to invest in the Surveying Division business in order to maintain high service levels for all clients. During 2012 we have successfully trialled new tablet computers for surveyors to use when performing valuations on site and this is now being rolled out across all of our surveyors. Feedback from both key lender clients and private customers has been consistently positive during 2012 and we are focused on meeting demanding key service measures. These include turnaround time for valuations reflecting LSL's use of innovative technology, including the new tablets, the flexibility of the panel management arrangements and assisting lenders in the management of the risk of mortgage fraud.

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

Equity Release Awards 2012

- **Best Surveyor**

Mortgage Strategy Awards 2012

- **Best Surveyor/Valuer**

Sunday Times – Best Companies 2012 – one to watch

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

IIP Accreditation

The Investors in People accreditation was once again achieved at the Head Office location in Kettering.

MPF European Leadership Awards 2012

- Best Innovation in Client Service or Relationship Management Nominee:

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

BSi ISO 9001 Accreditation:

- e.surv Chartered Surveyors once again secured an extension to its ISO 9001:2008, which was originally achieved in 1996. e.surv Chartered Surveyors again conformed 100% to the requirements of the internationally recognised standard, when independently reviewed by the leading global provider of standards and certification body, British Standards Institution (BSi). This also covers quality management systems, maintained by the International Organisation for Standardisation.

e.surv
Chartered Surveyors

Financial Review

The key drivers of the financial performance of LSL in 2012 are summarised below

GROUP REVENUE

+12%

2012 £243.8m

2011 £218.4m

GROUP UNDERLYING OPERATING PROFIT

£35.1m

2012 £35.1m

2011 £31.1m

OPERATING CASH FLOW AFTER CAPITAL EXPENDITURE

£26.9m

2012 £26.9m

2011 £21.1m

NET BANK DEBT

£26.6m

2012 £26.6m

2011 £35.7m

Income Statement

Revenue

Revenue increased by 12% to £243.8m in the year ended 31st December 2012 (2011: £218.4m). On a like-for-like basis, excluding Marsh & Parsons, revenue increased slightly to £216.6m (2011: £215.7m).

Operating Expenses Excluding Exceptional Costs, Amortisation and Share Based Payment

Operating expenses increased by 12% to £211.1m (2011: £189.0m). This was mainly in the Estate Agency Division and was due to higher revenue. The average number of full time equivalent employees during the year was 4,113 (2011: 3,930).

Underlying Operating Profit

Group Underlying Operating Profit increased by 13% to £35.1m (2011: £31.1m) with the Underlying Operating Profit Margin of 14.4% (2011: 14.2%).

Exceptional Items

Total net exceptional costs in 2012 were £21.4m (2011: £2.4m). The main exceptional costs in 2012 were PI costs of £17.3m; movements in the provision for contingent consideration on acquisitions which were expensed through the income statement of £4.2m; and redundancy and other associated branch closure costs including onerous lease provisions of £1.9m. These costs were offset by a gain on the sale of the freehold properties totaling £1.4m. In 2011, the main exceptional costs were acquisition costs of £1.6m associated with the purchase of Marsh & Parsons.

Provision for PI Claims/Notifications

During 2012 the Group has seen a deterioration in claims experienced relating to the 2004 to 2008 period, which was a period of relatively high risk lending characterised by higher house prices, high loan-to-value ratios and considerable levels of buy-to-let and sub-prime lending. As a result the provision for PI costs has been increased.

The PI provision was made up of a 'Specific Provision' and 'Incurred But Not Reported' (IBNR). The Specific Provision was based on the Group's review of any notifications or claims which had been made against the Group as at 31st December 2012. The main factors considered in quantifying the Specific Provision were the likelihood that a claim would be successful, an assessment of the likely cost for each claim, including any associated legal costs, and whether any reduction in the claim is considered likely due to contributory negligence of the lender.

The IBNR provision, was based on the Directors' estimates on the number of claims which would be received in the future with regard to work completed before 31st December 2012. The Directors have then applied an average cost per case, based on historical averages, to estimate the IBNR provision.

The increase in the PI provision was partly driven by lenders, most of whom are no longer active in the market, pursuing notifications and claims previously considered dormant. It has also been necessary to make additional provisions for existing claims which are being aggressively pursued by lenders who often use solicitors engaged on a no win, no fee basis. This trend has increased recently in advance of April 2013 when it is expected that the legislation governing civil litigation will change.

Both these factors have had a significant impact on the IBNR provision required for notifications and claims estimated to be received in the future for the 2004 to 2008 period. The primary statutory limitation for this period ends during 2014. It should be noted this was the Directors' best estimate of future claims and the conclusions on the appropriate level of IBNR provision are sensitive to small changes in assumptions and are therefore highly subjective. The additional charge relating to the 2004 to 2008 risk years has been included as an exceptional item.

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

Contingent Consideration

The revised version of IFRS 3 Business Combinations which is in place for acquisitions which occurred post 1st January 2010, has tightened the criteria linking contingent consideration to service. In acquisitions in 2011 and 2012, contingent consideration arrangements have been accounted for as remuneration as the arrangements involved the vendors forfeiting amounts otherwise due if services were not provided.

The acquisition of Marsh & Parsons in November 2011 has resulted in an exceptional expense of £1.8m (2011: £0.1m) in 2012. Assuming the level of profits and new branch openings remain on forecast, this charge is expected to continue at this level until 31st December 2015. The acquisitions of Davis Tate and Lauristons in 2012 resulted in an exceptional expense of £2.3m (2011: £nil), but the impact of these acquisitions on future years will be far smaller unless there are significant changes in the forecast profitability of these acquisitions.

Net Financial Costs

Net financial costs (excluding exceptional finance costs) amounted to £2.9m (2011: £1.8m). The finance costs related principally to interest and fees on the revolving credit facility, however, £0.8m (2011: £0.4m) of the costs relates to the unwinding of discounts on provisions.

Taxation

The effective rate of corporation tax for the year was 19.0% (2011: 26.3%) excluding prior year adjustments. The effective tax rate for 2012 and 2011 was impacted by non-taxable income for joint ventures and the impact of a rate change on the deferred tax liability, contingent consideration recognised as an expense and the impact of temporary differences on certain non-qualifying properties no longer being recognised. Excluding these impacts the effective tax rate is 28.6% (2011: 31.7%).

Adjusted Basic Earnings Per Share

The Adjusted Basic Earnings Per Share (as calculated in note 10) is 23.8p (2011: 21.0p). The Directors consider this provides a better and more consistent indicator of the Group's underlying performance.

Balance Sheet

Capital Expenditure

Total capital expenditure in the year amounted to £5.7m (2011: £3.2m). Most of the increase in capital expenditure was due to expenditure by Marsh & Parsons which was acquired in November 2011. The majority of this expenditure was associated with new branch openings.

Financial Structure

As at 31st December 2012 Net Bank Debt was £26.6m (2011: £35.7m). LSL has a £75.0m revolving credit facility in place until March 2014 (2011: £75.0m). Net Bank Debt decrease followed the payment of £3.7m for various new acquisitions by the Estate Agency Division, £0.9m to increase the Group's stake in Zoopla, £2.2m repayment of other loans and an increase in dividend paid in the year of £0.3m.

The revolving credit facility expires in March 2014 and the Directors have initiated discussions with a number of lenders to refinance the facility. The refinance request has been received positively by all lenders and the Directors do not believe that there will be any issues in extending the facility on similar terms to those currently received by the Group and will look to finalise negotiations in the first half of 2013.

Cash Flow

The Group produced £26.9m (2011: £21.1m) of operating cash flow after capital expenditure of £5.7m (2011: £3.2m). Cash flow was higher compared to the previous year due to the increase in Group Underlying Operating Profit. During the year the Group sold a number of freehold properties which were acquired as part of the HEAL acquisition. Net proceeds of £6.2m (2011: £nil) were received generating an exceptional profit of £1.4m.

Zoopla

In April 2012, the Group acquired a further 1.38% of Zoopla for £0.9m. In August 2012, Zoopla merged with Digital Property Group (DPG), owner of Findaproperty.com and Primelocation.com. As part of the merger, any warrants held in Zoopla were exercised so that the Group owned 4.81% of the post-merger entity. At 31st December 2012, the Board reviewed the fair value of Zoopla and assessed the fair value to be £6.03 per share, in line with the price paid in April 2012. This valued the Zoopla group at £245m, with the Group's share being £11.8m. This resulted in a £10.7m valuation uplift being recorded through the fair value reserve.

Net Assets

The Net assets as at 31st December 2012 were £76.1m (2011: £72.4m).

Treasury and Risk Management

LSL has an active debt management policy and due to the cash generative nature of the business, the Group's Net Bank Debt position at 31st December 2012 is £26.6m (2011: £35.7m). The Group has an interest rate swap in place which fixes the interest on borrowings up to £25.0m at an average LIBOR rate of 2.93%, which provides a degree of predictability on finance costs. LSL does not hold or issue derivatives or other financial instruments for trading purposes.

International Financial Reporting Standards (IFRS)

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

Relationships

The Corporate Social Responsibility (CSR) Statement at pages 50 to 56 details the arrangements for all LSL companies in relation to:

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

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

For example:

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

Environmental Matters

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

For further information on other environmental issues including LSL's activities in preparation of Mandatory Emissions Reporting in 2014, please see LSL's CSR Statement which is set out at pages 50 to 56 of this Report.

Principal Risks and Uncertainties

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

This risk management and internal controls framework includes:

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

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

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

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

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

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

Further information relating to the management of these risks and uncertainties is set out in the Corporate Governance Report (Internal Controls) of this Report on page 38.

Principal Risk and Uncertainty	Mitigation
• The continued volatility and economic uncertainty within the UK. In particular, within the UK housing market, transaction volumes (both house purchase and remortgage) and house prices may adversely affect the profitability and cash flow of all our key brands and businesses.	The Board regularly focuses on counter cyclical income streams to ensure that the growth in income in Lettings and Asset Management set off the impact of reduced transaction numbers.
• The current economic uncertainty especially in the financial sector (both within the Eurozone and the UK) could also impact on lender behaviour and the availability of mortgage credit which will have a consequential impact on the housing market by impacting mortgage availability.	The Board regularly reviews trends in market volumes and decides whether any actions such as cost base reduction measures are required.
• LSL has an exposure to the Central London property market via Marsh & Parsons. While historically the London market has been more robust compared to the rest of the UK, there is a risk that the London market fails to grow or that LSL fails to maximise the potential growth.	Marsh & Parsons is a well managed business with a diversified strategy. It operates in all key segments of the London market. The Board closely monitors the company's performance. Further, regular reviews of trends in market volumes are undertaken and decisions made on any cost base reduction measures.
• Loss of key surveying or corporate services clients or contracts at their renewal date or significant reduction in volumes combined with pressure on fees, either as a result of adverse market conditions, market consolidation, competition or inadequate service delivery.	There has been an increased investment in customer services to retain existing clients and attract new ones. In addition, we are continuing to develop our private survey proposition to provide an alternative income stream.
• Liability for inaccurate professional services advice to clients (e.g. inaccurate valuations) together with the risk that LSL fails to maintain appropriate risk management arrangements.	Monitoring arrangements include oversight by the Board (including regular review of the PI provision) and appropriate quality controls and Internal Audit reviews of services provided on a sample basis. There are also specific operational controls implemented within the Surveying Division which include a risk based criteria for the identification of transactions to be reviewed by on-site specialists.
• Failure to effectively deliver and manage the market share and fee growth initiatives for Estate Agency.	Regular monitoring by the Board is undertaken on the Division's progress.
• Failure to comply with existing legislation/regulation or changes to legislation/regulation and/or Government policy which may impact on business results or the UK housing market in general.	LSL business units are supported by the Compliance and Legal Services teams who closely monitor existing business practices and any reform proposals. Where appropriate Government departments and/or trade bodies are engaged in a dialogue.
• In response to the financial crisis, significant changes to financial services regulations, including the mortgage market review and retail distribution review are underway.	The Board is monitoring the impacts of these changes and assessing what changes to business practices may be required to ensure compliance with new legislation.
• Failure or interruptions of information technology services on which the Group is reliant for operational performance and financial information.	Dedicated in house IT departments with specialist staffing. Maintenance of a formalised business continuity infrastructure and contingency plans in the event of a system failure. Regular monitoring by subsidiary company management, external specialists and Internal Audit, with any system issues highlighted to the Board.
• Loss of senior management who are key to delivering the future growth strategy of the Group.	The Remuneration Committee reviews the remuneration policies of the Group on an annual basis to ensure staff are appropriately incentivised. In addition, the Nomination Committee considers succession planning for key staff on a regular basis.

Approved by and signed on behalf of the Board of Directors on 28th February 2013.

Steve Cooke
Group Finance Director

Simon Embley
Group Chief Executive Officer

LSL Board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1. HELEN BUCK

Independent Non Executive Director

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

2. STEVE COOKE

Group Finance Director

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

3. SIMON EMBLEY

Group Chief Executive Officer

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

4. ADRIAN GILL

Independent Non Executive Director

Adrian was appointed as an Independent Non Executive Director in September 2012. He was previously an executive director at Connells Limited (Connells), the national estate agency business of the Skipton Building Society Group, for over 10 years. Prior to his role at Connells, Adrian was managing director of Lush Retail Limited (UK & Ireland). Adrian is a chartered accountant.

5. ROGER MATTHEWS

Non Executive Chairman and Chairman of the Nominations Committee

Roger was appointed Chairman of LSL and Chairman of the Nominations Committee in October 2006 and is currently also non executive chairman of MITIE Group plc and non executive chairman of Pertemps Network Group Limited. He was formerly chairman of Sainsbury's Bank plc and Land of Leather Holdings plc, group finance director of J. Sainsbury plc, managing director and finance director of Compass Group plc and worked for Grand Metropolitan plc, Cadbury Schweppes plc and PriceWaterhouseCoopers. Roger is a chartered accountant and is also a trustee of Cancer Research UK.

6. MARK MORRIS

Senior Independent Non Executive Director and Chairman of the Audit Committee

Mark was appointed as an Independent Non Exeuctive Director, the Senior Independent Non Executive Director and Chairman of the Audit Committee in October 2006. Mark has many years' experience of business management with particular focus on growing businesses and mergers and acquisitions. Mark is a chartered accountant and worked for 12 years at PriceWaterhouseCoopers. Mark is currently non executive director and audit committee chairman at HomeServe plc and works with a number of entrepreneurial private companies. Mark previously worked at Sytner Group as finance director and managing director from 1995 to 2005 including the period during which it was listed on the London Stock Exchange.

7. DAVID NEWNES

Executive Director, Estate Agency

David has been with LSL since 1980 and was part of the management buy out team. David was appointed as an Executive Director in May 2010 with overall responsibility for the performance, strategy and development of the Estate Agency Division across LSL. David has extensive experience within the estate agency industry, is a Fellow of the Royal Institute of Chartered Surveyors and holds memberships of both the Association of Residential Lettings Agents (ARLA) and the National Estate Agency Association (NAEA). David is also a trustee of the Estate Agency Foundation and a director of The Property Ombudsman scheme (TPO).

8. MARK PAIN

Independent Non Executive Director and Chairman of the Remuneration Committee

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

9. SAPNA FITZGERALD

Head of Legal and Company Secretary

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

Directors' Report and Corporate Governance

IN THIS SECTION

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

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

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

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

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

The Directors are also responsible for preparing the Directors' Report, the Directors' Remuneration 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

Principal Activities

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

- Estate Agency and Related Services, which includes Residential Sales, Lettings, Asset Management and Financial Services; and
- Surveying and Valuation Services.

Business Review and Development

The Chairman's Statement and the Business Review 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 2nd May 2013 starting at 2.30pm.

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

Financial Results

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

Dividend

As a result of the improved operating performance of the Group, the reduction in Net Bank Debt and the Board's positive view of future prospects for the business, an increased final dividend of 6.4p per share (2011: 5.9p) will be proposed to Shareholders at the forthcoming AGM, increasing the total dividend for 2012 by 9% to 9.5p per share (2011: 8.7p per share). The ex-dividend date for the final dividend is 10th April 2013 with a record date of 12th April 2013 and a payment date of 10th May 2013. Shareholders have the opportunity to elect to reinvest their cash dividend and purchase existing shares in LSL through a dividend reinvestment plan.

Employees

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

The Group has an equal opportunities policy so that all job applicants are treated fairly and without favour or prejudice throughout selection, recruitment, training, development and promotion. Further details of how LSL engages with its employees is detailed in the CSR Statement at pages 50 to 56 of this Report. The CSR Statement also summaries the Group's policy on disabled employees.

Financial Instruments

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

Directors

The current Directors are listed with their biographies in LSL Board at pages 24 and 25 of this Report.

During 2012 Adrian Gill was appointed to the Board as an Independent Non Executive Director (10th September 2012). In addition Paul Latham (Non Executive Director) retired from the Board with effect from 10th October 2012 and Alison Traversoni (Executive Director) retired with effect from 31st December 2012. Full details of the current Directors are also detailed within the Directors' Remuneration Report.

Re-election and Election

All of the Directors will each retire at the AGM and, being eligible, intend to stand for election. LSL's articles provide that the Board may appoint an individual to act as a Director, but anyone so appointed will retire from office at the next AGM and seek election, accordingly Adrian Gill, having been appointed since the last AGM is standing for election. LSL may by ordinary resolution elect or re-elect any individual as a Director. 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 Directors are set out on pages 24 and 25 of this Report.

During the 2012 Board effectiveness review, the performance of the Directors, who are all standing for election, was specifically evaluated and the Board confirmed that it values the experience and commitment to the business demonstrated by each of these individuals.

Directors' Interests

The interests of the current Directors in LSL are contained within the Directors' Remuneration Report at page 48. During the period between 31st December 2012 and the date of this Report, there were no changes in the Directors' interests.

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

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

Directors' Service Contracts

Details of the Executive Directors' service agreements and the Non Executive Directors' letters of appointment are set out in the Directors' Remuneration Report at page 44 of this Report.

Auditors

Ernst & Young LLP, the external auditor of the Group has advised of its willingness to continue in office and a resolution to re-appoint them to this role and the authority for their remuneration to be determined by the Directors will be proposed at the AGM. See also the Corporate Governance Report at page 37.

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

Share Capital

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

Rights and Obligations Attached to Shares

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

Details of share capital are set out in note 24 of the Financial Statements. There have been no changes to the share capital during 2012. A renewal of the authority for the Directors to allot unissued Ordinary Shares and a renewal of their power to dis-apply statutory pre-emption rights will be proposed at the AGM. Full details of the deadline for exercising voting rights in respect of the resolutions to be considered at the AGM are set out in the Notice of Meeting.

Employee Share Schemes

LSL has two employee benefit trusts. The first was established in 2006 prior to LSL's flotation on the London Stock Exchange and LSL appointed Capita Trustees Limited (Trustees) to operate the LSL Property Services plc Employee Share Scheme (Trust). The Trustees of this Trust operate both the LSL Property Services plc Employee Share Incentive Plan (Buy As You Earn) and the Save As You Earn (SAYE) Plans. The Trust is able to acquire and to hold shares to satisfy options or awards granted under any discretionary share option scheme or long term incentive arrangement operated by LSL. Details of the shares acquired by the Trust are set out in note 25 of the Financial Statements. The Trustees have waived the right to any dividend payment in respect of each share held by them.

The second employee benefit trust was established in November 2011 (the 2011 EBT), as part of the acquisition of Marsh & Parsons. While the beneficiaries of the 2011 EBT are the LSL employees, the 2011 EBT acquired the Growth Shares as part of the transaction and some of these shares were acquired by members of the current management team of Marsh & Parsons in 2012. This was in accordance with the previously stated objective that current and future managers at Marsh & Parsons apply for Growth Shares, as part of a package of measures designed to incentivise the management of Marsh & Parsons. The 2011 EBT does not currently hold any LSL shares.

Report of the Directors (continued)

Charitable Donations

LSL Group companies in total made a number of charitable donations throughout the year totalling £65,000 (2011: £21,000). Further information about the Group's charitable initiatives is contained within the CSR Statement at page 55 of this Report. Through various charitable initiatives across the Group, employees have also raised funds directly, including £24,990 via the Work Place Giving initiative which was set up in 2010. Group companies do not make any political donations.

Creditors and Supplier Payment Policy

LSL's normal terms are to make payment in accordance with suppliers' terms of trade or within 45 days (2011: 45 days) from the receipt of services or invoices subject to satisfactory performance by the supplier. At 31st December 2012, the parent company had no trade creditors outstanding. The payment terms of individual operating subsidiaries are disclosed in their accounts. For further details on LSL's policy statement regarding the management of suppliers, please see the CSR Statement on pages 50 to 56 of this Report.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review on pages 10 to 25. The financial position of the Group, its cash flows, liquidity position and the Group's policy for treasury and risk management are described in the Financial Review on pages 20 to 23. Details of the Group's borrowing facilities are set out in note 21 to the Financial Statements. Note 29 to the Financial Statements describes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. A description of the Group's principal risks and uncertainties and arrangements to manage these risks are detailed at pages 22 and 23 of this Report.

As explained in note 29 to the Financial Statements, the Group meets its day to day working capital requirements through a revolving credit facility, which was renewed in June 2010 and the Group currently have a £75m facility which is committed for a period up to March 2014. As stated in note 19 as at 31st December 2012 the Group had available £49.0m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the terms of its current facility.

LSL's revolving credit facility expires in March 2014 and the Directors have initiated discussions with a number of lenders to refinance the facility. The refinance request has been received by all lenders positively and the Directors do not believe that there will be any issues in extending the facility and will look to finalise negotiations in the first half of 2013.

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

After making enquiries, the Directors consider that LSL and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing this Report.

Disclosure of Information to Auditors

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

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

Directors' Qualifying Third Party Indemnity Provisions

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

Additional Information for Shareholders

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

Share Capital

At 31st December 2012, LSL's issued share capital comprised 104,158,950 0.2p Ordinary Shares. The authorised share capital is 500,000,000 Ordinary Shares of 0.2p each.

Ordinary Shares

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

There are no restrictions on the transfer of Ordinary Shares 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 FSA whereby certain employees of LSL require the approval of LSL to deal in LSL's securities.

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

LSL has the authority under section 701 of the Companies Act to make market purchases of the Ordinary Shares 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 LSL being 10,415,895 Ordinary Shares.

Company Share Schemes

The Trust holds 1.20% (2011: 1.21%) of the issued share capital of LSL in trust for the benefit of employees of the Group and their dependents. The voting rights in relation to these shares are exercised by the Trustees.

Substantial Shareholdings

These details are set out at page 32 of this Report.

Significant Agreements – Change of Control

Subsidiaries of LSL are party to agreements which take effect, alter or terminate upon a change of control of the subsidiary company following a takeover bid. The majority of the income derived through the provision of Surveying and Valuation Services and the Asset Management income streams are driven by specific contracts. Any termination of such contracts on the change of control of the relevant subsidiary company will have a significant impact on the revenue of those income streams.

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

Compensation for Loss of Office – Change of Control

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

Post Balance Sheet Event

There are no post balance sheet events to report.

Directors' Responsibility Statement

Each of the Directors listed on page 24 and 25 confirms that to the best of their knowledge:

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

Substantial Shareholdings

As at 31st December 2012 and as at 26th February 2013, the Shareholders set out below have notified LSL of their interest under DTR 5:

		31st December 2012		26th February 2013	
Institution	Nature of holding	Number of 0.2p Ordinary Shares	% of issued shares	Number of 0.2p Ordinary Shares	% of issued shares
Harris L.P	Beneficial	**13,190,400**	**12.66%**	13,190,400	12.66%
Quantum Partners L.P	Beneficial	**6,433,743**	**6.18%**	6,433,743	6.18%
Aviva Investors	Beneficial	**3,426,441**	**3.29%**	3,426,441	3.29%
Kinney Asset Management	Beneficial	**3,157,162**	**3.03%**	3,157,162	3.03%

Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary
28th February 2013

Corporate Governance Report

UK Corporate Governance Code (June 2010) (2010 Code)

The Board is committed to the highest standards of corporate governance and the Directors recognise the value and importance of meeting the principles of good corporate governance as set out in the Code. This part of the Report describes the corporate governance arrangements that are in place. During 2012, LSL complied with the provisions of the 2010 Code in all respects.

The Board

At the date of this Report, the Board has eight members which is comprised of the Chairman, three Executive Directors and four Independent Non Executive Directors. Roger Matthews is the Chairman and Mark Morris is the Senior Independent Non Executive Director. The Directors are listed with their biographies in LSL Board at pages 24 and 25 of this Report.

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

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

All of the Non Executive Directors are independent of management and have a range of experience covering strategy, estate agency, surveying, financial services, the residential housing sector, retail and marketing, operations, business services, entrepreneurial private and public companies, finance, customer and employee matters and corporate governance.

When Roger Matthews was appointed Chairman he was deemed to be independent under the provisions of the Code. Since then he has also become a non executive chairman of MITIE Group plc and Pertemps Network Group Limited and he is also a trustee of Cancer Research UK.

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

The evaluation process in 2012 involved discussions between each Director and the Chairman and meetings of the Board and the Non Executive Directors (including discussions without the Chairman present and chaired by the Senior Independent Non Executive Director, to appraise his performance). The Non Executive Directors evaluate the Chairman's performance, after taking into account the views of the Executive Directors.

Whilst no significant issues requiring action arose from these evaluations, the outcomes of the exercise were reported to the Board and showed that the Board and its Committees were discharging their responsibilities effectively. The appraisal produced a number of recommendations to further improve effectiveness of the Board. As a result, the Board is continuing to spend more time on key strategic opportunities as well as monitoring performance and governance matters.

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

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

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

Each newly appointed Director receives an induction on the responsibilities of a listed public company director and on LSL's business. Thereafter, LSL provides the necessary resources for developing this understanding and knowledge. Further, the Chairman regularly reviews and agrees any training and development needs with each of the Directors.

During 2012 the Board held ten scheduled meetings (including an annual strategy meeting). Each of the Directors was able to allocate sufficient time to LSL to discharge their responsibilities effectively and the attendance of each of the Directors at the Board meetings (as a Director or a committee member) is set out below.

During 2013 the Board is scheduled to meet ten times, including the annual strategy meeting and additional meetings will be held as required.

During 2012 the Non Executive Directors collectively met three times without the Executive Directors being present (including once without the Chairman being present) and it is the intention that this will be repeated in 2013.

Board and Committee Attendance 2012

Director	Board (including annual strategy meeting)	Audit Committee	Remuneration Committee	Nominations Committee
Helen Buck	10	-	-	-
Steve Cooke	10	-	-	-
Adrian Gill[1]	3	1	2	2
Simon Embley	10	-	-	-
Paul Latham[2]	7	-	-	-
Roger Matthews[3]	10	2	3	2
Mark Morris	10	3	3	2
David Newnes[4]	9	-	-	-
Mark Pain	10	3	3	2
Alison Traversoni[5]	10	-	-	-

1 Adrian Gill was appointed as an Independent Non Executive Director on 10th September 2012.
2 Paul Latham retired as a Non Independent Non Executive Director on 1st October 2012.
3 Roger Matthews stepped down from the Audit Committee in September 2012.
4 David Newnes was not present at one of the scheduled Board meetings during 2012 due to other Group business commitments. He received the papers and provided his comments and queries to the other Directors for raising at the meeting.
5 Alison Traversoni retired as an Executive Director on 31st December 2012.

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

The Board is primarily responsible for decisions on Group strategy, including approval of the Group's strategy, annual business plans and budgets, interim and full year financial statements and reports, dividend proposals, accounting policies, material capital projects, investments and disposals, succession plans and the monitoring of financial performance against budget and forecast. There is also a schedule of Matters Reserved for the Board which is annually reviewed by the Board and any items not included within this policy (such as responsibility for implementing the Board's strategy and managing the business) are delegated to the management teams.

There is a programme of regular reviews of performance and developing best practice in matters such as employment, health and safety, environmental and social and community interest. LSL believes that CSR is necessary to support responsibly grounded business decision making that considers the broad impact of corporate actions on people, communities, and the environment accordingly, the Board takes account of the significance of environmental, social and governance matters when making decisions. Further details of LSL's CSR objectives can be found in the CSR Statement at pages 50 to 56 of this Report.

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

Under the Companies Act 2006, a director must avoid a situation where he/she has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the company's interest. The Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts where appropriate and where the articles of association contain a provision to this effect, as LSL's Articles do. Accordingly, the Board has adopted procedures for the Directors to report any potential or actual conflict to the Board for their authorisation where appropriate. Each Director is aware of the requirement to seek approval of the Board for any new conflict situations, as they may arise. The process of reviewing conflicts disclosed, and authorisations given, is repeated annually. Any conflicts or potential conflicts considered by the Board and any authorisations given are recorded in the Board minutes and in a register of Directors' 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 2012, the Board reviewed the Terms of Reference for each of the Committees to ensure continued compliance with the 2010 Code. In addition, the Terms of Reference of all LSL's Committees were amended with effect from 1st January 2013 to take into account the requirements of the UK Corporate Governance Code published by the Financial Reporting Council in September 2012 (2012 Code). It is the intention that the Chairman of each of the Committees will attend the AGM to answer any questions.

Nominations Committee

Roger Matthews is the Chairman of the Nominations Committee and, as at the date of this Report the other members of the Committee are Adrian Gill, Mark Morris and Mark Pain. The Committee met twice in 2012 and the Group Chief Executive Officer, Group HR Director and Company Secretary also attended meetings and assisted the Nominations Committee in its deliberations during this period.

The duties of the Nominations Committee are governed by its Terms of Reference, which was updated on 1st January 2013 and its role includes:

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

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

As part of its discussions, the Nominations Committee consider the composition of the Board and the balance of skills and experience required to optimise shareholder value. These discussions include diversity, and in particular gender issues. During 2012, the Committee nominated Adrian Gill for appointment as a Non Executive Director. The recommendation for the appointment of Adrian Gill took into account his experience in the estate agency sector. The Committee did not utilise the services of any external search consultancy or open advertising in recommending the appointment of Adrian Gill, as he was already known to the Group and he fully met the skills and experience specification agreed by the Board.

Following the appointment of Adrian, amongst the Non Executive Directors, LSL now has expertise in strategy, estate agency, surveying, financial services, the residential housing sector, retail and marketing, operations, business services, entrepreneurial private and public companies, finance, customer and employee matters, and corporate governance. The current Board composition includes one female Director, making up 13% of the Board and in line with the Code, the Board is made up of more than 50% Independent Non Executive Directors.

During 2011, LSL undertook a survey of female members of the management team to seek their views regarding gender diversity within LSL, which concluded that the Group is sufficiently diverse and positive to its female employees. In 2012, a further study was undertaken to review gender progression which highlighted differences in career progression. Details of this study are set out in LSL's CSR Statement at page 51.

Remuneration Committee

During 2012 the Remuneration Committee was chaired by Mark Pain and at the date of this Report, its other members were Adrian Gill, Roger Matthews and Mark Morris. The Committee met three times in the year and the Group Chief Executive Officer, Group HR Director and Company Secretary also attended meetings and assisted the Remuneration Committee in its deliberations during this period.

The duties of the Remuneration Committee are governed by its Terms of Reference, which was updated on 1st January 2013. The Remuneration Committee has responsibility for determining LSL's policy on the remuneration of senior executives and specific remuneration packages for Executive Directors, including pension rights and compensation payments. It is also responsible for making recommendations for grants of shares under the employee share schemes.

The Directors' Remuneration Report provides details of how the Committee has discharged these duties which can be found on pages 40 to 49 of this Report and the Terms of Reference of the Remuneration Committee are available from the Company Secretary or LSL's website at www.lslps.co.uk.

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

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

None of the Remuneration Committee members has any personal financial interest (other than as Shareholders), conflicts of interest arising from cross directorships or day to day involvement in running the business. The Remuneration Committee makes recommendations to the Board.

During 2012 the Remuneration Committee appointed New Bridge Street (NBS) and Deloitte LLP (Deloitte) to provide independent advice on matters relating to senior executive remuneration. Neither NBS nor Deloitte provided any other advice to LSL during the year.

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

Audit Committee

The Audit Committee is chaired by Mark Morris and at the date of this Report, its other members are Adrian Gill and Mark Pain. The Board is satisfied that Mark Morris has recent and relevant financial experience as is required by the Code.

The Committee met on three occasions in 2012. LSL's internal and external auditors, Executive Directors (including the Group Chief Executive Officer and the Group Finance Director) are invited, but are not entitled, to attend and speak at meetings. The Audit Committee met with the auditors without the Executive Directors being present twice during 2012.

The duties of the Audit Committee are governed by its Terms of Reference, which was updated on 1st January 2013 and its role includes:

- to make recommendations to the Board (for it to put to the Shareholders at a general meeting) on the appointment, re-appointment, or removal of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
- to ensure that the Group's accounting and financial policies and controls are proper, effective and adequate;
- to ensure that internal and external auditing processes are properly co-ordinated and work effectively and to oversee the relationship with the external auditor, including reviewing the scope and results of audits;
- to monitor the integrity of LSL's Financial Statements and any formal announcements relating to its performance, reviewing significant financial reporting issues and judgements contained in them;
- to review the effectiveness of the internal control and risk management systems;
- to review procedures for handling any internal allegations;
- to oversee and assess the effectiveness of the internal audit function;

- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to keep under review the nature and extent of non audit services provided by the external auditors, taking into account LSL's Auditor Independence Policy; and
- to report to the Board on how it has discharged its responsibilities.

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

The Committee has an established programme of work to ensure that each of its responsibilities are covered adequately during the year. Areas of particular focus during the year have been: the review of goodwill and other intangibles for potential impairment; the appropriateness of provision for PI claims; accounting for the contingent consideration on acquisitions; and an assessment of the carrying value of LSL's investment in Zoopla. It has also overseen a strengthening in the Group's whistleblowing processes.

Significant Issues Considered in Relation to the Financial Statements

During 2012, the Audit Committee considered the following significant issues in relation to LSL's Financial Statements:

a. In accordance with IFRS (as adopted by the EU) financial reporting requirements, the Audit Committee considered the following judgements and estimates: impairment of tangible assets; going concern; and fair values of assets acquired in business combinations; and

b. New issues which arose during the year included: appropriateness of the provision for PI claims; contingent consideration on acquisitions; and the valuation of financial assets.

Appointment of External Auditor

During 2012, the Audit Committee reviewed the effectiveness, independence and objectivity of the external auditor, Ernst & Young LLP (Ernst & Young), on behalf of the Directors and having concluded that Ernst & Young is effective, independent and objective, LSL will recommend to Shareholders the reappointment of Ernst & Young as its auditor at the forthcoming AGM and seek authority for the Directors to agree the external auditor's' remuneration. Ernst & Young have acted as LSL's external auditors since 2004 with a tendering exercise undertaken in 2007. Going forward, in relation to the appointment of the external auditors, LSL has decided to adopt the FRC's recommendations on audit firm tendering taking place at least once every ten years and has amended the Audit Committee's Terms of Reference to reflect the same.

Accordingly, LSL's plans to conduct an audit firm tendering exercise prior to 2018. This is in line with FRC guidance which permits a deferral of the tendering exercise where firms have undertaken such an exercise since 2000. The current audit partner is due to retire having completed his five year term in February 2013 and a new audit partner has been assigned to take over the role. The tender will therefore take place at or prior to the expiry of the incoming partner's five year term. The purpose of the audit tendering exercise will be to benchmark the quality and effectiveness of the services provided by the incumbent auditor against those offered by other firms, with the aim of obtaining the best quality and most effective audit.

Auditor Independence Policy

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

Under the terms of the Auditor Independence Policy, which takes into account the relevant ethical guidance regarding the provision of non audit services by external audit firms, the following categories of fee need pre-approval of the Audit Committee:

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

This policy does not currently include a list of pre-approved categories and in developing its Auditor Independence Policy, the Audit Committee took into account the ethical standards and FRC Guidance on Audit Committees (including the FRC's Guidance on Audit Committees which was updated in 2012). A copy of the Auditor Independence Policy is available at LSL's website: www.lslps.co.uk.

Corporate Governance Report (continued)

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 cannot be allocated to the auditor, and categories of work which may be undertaken by the auditor, subject to certain provisions as to materiality, nature of and competency to perform work.

The split between audit and non audit fees for 2012 appears at note 9 to the Financial Statements. The non audit fees amount to £79,000 (2011: £349,000) compared with audit fees (including those covering the review of the half yearly report) of £262,000 (2011: £240,000). This is line with the provisions of this policy. The non audit fees for the current year relate to taxation services while those in the prior year also include fees in relation to the acquisition of Marsh & Parsons (tax due diligence, structure advice, and acting as the sponsor in relation to the circular to Shareholders). The Committee considered that Ernst & Young were best placed to carry out these services, and the potential impact of these services on the independence or objectivity of the external auditor; and approved this work in advance of it being carried out.

Internal Controls

The Board has overall responsibility for LSL's system of internal controls and for reviewing its effectiveness. The system of internal controls is subject to an ongoing process of change and improvement and has been designed in accordance with the guidance of the Turnbull Committee on Internal Controls to identify, evaluate and manage significant risks faced by LSL. The system aims to manage, rather than eliminate, the risk of failure to achieve business objectives and can provide only reasonable, and not absolute, assurance against material misstatement or loss. Internal control facilitates the effectiveness and efficiency of operations, helps ensure the reliability of internal and external reporting and assists compliance with laws and regulations. The internal controls are also in place to safeguard shareholder investment and LSL's assets.

In the current difficult economic environment the Board is even more conscious of the necessity to focus on risk management and to ensure that the internal controls are relevant and fit for purpose. In order to discharge this responsibility, the Board has established the procedures necessary to apply the Code, including clear operating procedures, lines of responsibility and delegated authority. LSL's risk management and internal control procedures and framework 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 continue to be in place up to the date of this Report.

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

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

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

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

During 2012 the Executive Directors have continually identified, evaluated and managed the principal risks and uncertainties faced by LSL which could adversely affect LSL's business, operating results and financial condition. The effectiveness of the internal control system and risk management process is also kept under review by the Audit Committee and has been reviewed by the Board during 2012 as part of an annual review which considered the effectiveness of the risk management arrangements and internal control systems. This review covered all material controls, including financial, operational and compliance controls. In addition, LSL's Risk and Audit team regularly submits reports to the Audit Committee and this, together with the internal controls system and risk management process in place within LSL, allows the Board to monitor financial and operational performance and compliance with controls on a continuing basis and to identify and respond to business risks as they arise.

The principal risks and uncertainties facing LSL together with details of key mitigation initiatives is set out in the Financial Review at pages 22 and 23.

Shareholder Relations

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

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

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

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

With regard to individual Shareholders, the Board considers that the main forum for communication is at the AGM and all of the Directors will be available at the AGM to meet with investors.

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

Model Code

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

Takeover Directive

The Group has addressed the matters required to be addressed by the Takeover Directive which was implemented in the UK in accordance with statutory provisions in Part 28 of the Companies Act 2006 in the Directors' Report. Please refer to page 31 of the Report of the Directors.

Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary
28th February 2013

Directors' Remuneration Report

Letter to Shareholders from the Chairman of the Remuneration Committee

Dear Shareholder

This report sets out the remuneration policy for the Directors and discloses amounts due to them in respect of 2012. In response to the UK Government's proposed new legislation regarding the reporting of directors' remuneration, the Remuneration Committee has adopted a number of the proposals early. LSL is not expected to or required to report formally under the new legislation until October 2013 (such reporting to commence with the Annual Report and Accounts 2013). This report has therefore been divided into the following two sections:

- **Remuneration Policy Report**: which includes a forward-looking report detailing LSL's current remuneration policy and that proposed for 2013 together with details of the Non Executive Directors' remuneration; and
- **Implementation Report**: which sets out what is payable and awarded/vested during 2012, the year under review.

LSL will be seeking Shareholder support for each part of this Remuneration Report by way of a single advisory vote at the forthcoming AGM on 2nd May 2013. Please see the Notice of Meeting and accompanying notes for further information.

Summary of key decisions in the year

The Remuneration Committee continually reviews LSL's Senior Executive Remuneration Policy to ensure that it promotes the attraction, motivation and retention of high quality executives who are key to delivering LSL's strategy.

The Committee's most recent conclusions are that the existing Senior Executive Remuneration Policy remains appropriate and should continue to operate for 2013. Specifically:

- During 2012, Executive Director basic salary positioning remained well below midmarket levels for similarly sized listed companies. The base salary levels which were set in 2010 were reviewed at the end of 2012, and base salaries were increased by 3% with effect from 1st January 2013 in line with an increase granted to the management population;
- The increase in David Newnes base salary from £140,000 to £175,000 is to reflect his previous salary being significantly below benchmark and also reflects the strong performance of the Estate Agency Division in 2012 as well as the Board's expectations for this Division in 2013;
- The structure and quantum of the annual bonus works well and should continue to be operated for 2013; and
- The long term incentive grant policy, whereby nil-cost awards are granted annually with vesting based on Adjusted Basic Earnings Per Share (70%) and relative Total Shareholder Return (TSR) (30%) performance conditions and continued service provide a strong alignment between the senior executive team and Shareholders. Grant levels and performance targets will continue to be reviewed in advance of each award.

In conclusion, the Remuneration Committee believes that LSL's Senior Executive Remuneration Policy continues to incentivise the delivery of strong yet sustainable financial results and the creation of shareholder value.

Mark Pain
Chairman of the Remuneration Committee

Directors' Remuneration Report

Introduction

The Directors' Remuneration Report has been prepared in accordance with the Companies Act 2006 and Schedule 8 of the Large and Medium Sized Companies and Groups (Accounts and Reports) Regulations 2008. The part of the Report also meets the relevant requirements of the Listing Rules of the FSA and describes how the Board has applied the principles relating to Directors' remuneration in the Code. Furthermore, in response to the UK Government's proposed legislation regarding the reporting of Directors' remuneration and changes to the voting rights, a number of the revised reporting requirements have been incorporated into this year's report. A single resolution to approve the Remuneration Report will be proposed at the AGM at which the Financial Statements will also be approved.

This part of the Report has been divided into separate sections for audited and unaudited information.

Details of the Remuneration Committee's composition and responsibilities are set out in the Corporate Governance Report at page 36 of this Report.

Unaudited Information

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

None of the Committee members has any personal financial interest (other than as Shareholders), conflicts of interests arising from cross-directorships or day to day involvement in running the business. The Committee makes recommendations to the Board. The terms of reference of the Committee are available from the Company Secretary or LSL's website at: www.lslps.co.uk.

During 2012 the Remuneration Committee appointed NBS and Deloitte to provide independent advice on matters relating to senior executive remuneration. Neither NBS nor Deloitte provided any other advice to LSL during the year.

EXECUTIVE DIRECTORS AND SENIOR MANAGEMENT REMUNERATION POLICY REPORT

General policy

LSL's strategy has been designed to create shareholder value and the aim of LSL's remuneration policy is to attract, motivate and retain Executive Directors with the experience and skills necessary to deliver that strategy and optimise shareholder value. The Committee reviews the Executive Directors and senior management remuneration policy annually in light of market conditions, performance, and developments in corporate governance best practice. The Committee also considers the level of risk (e.g. environmental, social and governance) associated with this remuneration policy to ensure that there are sufficient safeguards in this regard and to ensure that the Remuneration Policy does not inadvertently motivate irresponsible behaviour.

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

- Base salary;
- Benefits;
- Pension arrangements;
- Annual bonus; and
- Long term incentives.

LSL's policy is that a substantial proportion of the remuneration of the Executive Directors and senior management should be performance related and clear objectives and targets are set which are linked to the Group's strategy.

Remuneration Policy Table

This policy will apply to current Executive Directors from 1st January 2013 and to any new Executive Directors appointed during 2013.

Element	Purpose and link to strategy	Operation	Maximum	Performance targets	Changes from prior policy
Base 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, effective 1st January Takes periodic account against companies with similar characteristics and sector comparators	Annual increases generally linked to those of the wider workforce Where salaries are significantly below market levels, higher increases may be awarded to close the gap where this is deemed appropriate	N/A	None. 3% increase awarded from 1st January 2013
Bonus	Incentivises annual delivery of financial and strategic goals Maximum bonus only payable for achieving demanding targets	Paid in cash Not pensionable Deferred Bonus Plan was introduced upon flotation in 2006 although it has not as yet been operated	100% of base salary	Group Underlying Operating Profit (80%) Strategic targets (20%)	None proposed
Long Term Incentive Plan, SIP and SAYE, and CSOP	Aligned to main strategic objectives of delivering sustainable profit growth and shareholder return	Annual grant of nil cost options or performance shares which normally vest after three years subject to continued service and performance targets	100% of salary (although grants in excess of 100% of salary may be made in exceptional circumstances) Executives also eligible to participate in the Group SIP, SAYE and CSOP on the same terms as other employees	LTIP performance measured over three years 70% Adjusted Basic EPS growth targets 30% relative TSR targets	None proposed
Pension	Provides modest retirement benefits Opportunity for Executive Director to contribute to their own retirement plan	Defined contribution HMRC approved arrangement	LSL Group Company matches employee contribution up to 5% of base salary	N/A	N/A
Other Benefits	Provides insured benefits to support the individual and their family during periods of ill health or death Access to company car/car allowance to facilitate effective travel	Benefits provided through third party providers	N/A	N/A	N/A
Share Ownership Guidelines	To provide alignment between Executive Directors and Shareholders	Executive Directors are required to build and maintain a shareholding equivalent to one year's base salary through the retention of vested share awards or through open market purchases	100% of base salary holding for Executive Directors	N/A	N/A

DETAILED REMUNERATION POLICY

Base Salary and Benefits

Executive Directors' base salaries are reviewed annually by the Committee taking into account the responsibilities, skills and experience of each individual, pay and employment conditions within LSL and salary levels within listed companies of a similar size. Base salary levels as at 1st January 2013 and 2012 for the Executive Directors are as follows:

Director	Role	Salary as at 1st January 2013 £	Salary as at 1st January 2012 £
Steve Cooke	Group Finance Director	226,600	220,000
Simon Embley	Group Chief Executive Officer	257,500	250,000
David Newnes	Executive Director, Estate Agency Division	175,000	140,000

Following a review of base salary levels at the end of 2012, base salaries were increased by 3% from 1st January 2013 in line with an increase granted to the management population. Following this increase, base salary levels for each of the Executive Directors continues to be below midmarket levels for similarly sized listed companies. The increase in David Newnes' base salary is to reflect his previous salary being significantly below benchmark and also reflects the strong performance of the Estate Agency Division in 2012 as well as the Board's expectations for this Division in 2013.

Benefits are comprised of a car allowance/company car and private healthcare and in respect of Simon Embley, a taxable travel allowance of £15,000 (2011: £11,250).

Pension

The Executive Directors are members of a money purchase pension scheme. LSL matches Executive Directors' contributions of up to 5% of base salary. Details of actual LSL contributions for 2011 are presented in the table of Directors' Remuneration on page 46.

Annual Bonus

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

For 2012, the structure of the annual bonus remained broadly similar to 2011 with sliding scale performance targets based on LSL's budgeted Group Underlying Operating Profit (after the payment of any bonuses) for 80% of the potential with the remaining 20% of the potential based on challenging strategic targets. Details of actual performance against the targets and therefore bonuses payable for the year ended 31st December 2012 are set out in the emoluments table on page 45.

The bonus arrangements which will be operated for 2013 will be based on the same structure to that operated in 2012 with the same split between performance and challenging strategic targets.

Long Term Incentive Plan (excluding CSOP) (LTIP)

The LTIP continues to be LSL's primary long term incentive arrangement. Awards under the LTIP are typically structured as nil or nominal cost options which will normally vest three years from grant, subject to performance conditions and continued service. LTIP awards are granted to Executive Directors and selected other senior managers on the following basis:

- Awards granted to the Chief Executive Officer are currently made over shares worth 100% of salary, with awards granted to other Executive Directors made over shares worth 50% of salary.
- Under the LTIP, awards are limited to 100% of salary (although the rules state that grants in excess of 100% of salary may be made in exceptional circumstances).
- Awards will be subject to a range of normalised earnings per share growth targets (for 70% of an award) and a total shareholder return (TSR) condition (for 30% of an award), each applying to separate parts of an award and measured over a period of three years.
- For the 2012 awards:
  – 25% of the EPS part of the award will vest for Adjusted Basic EPS growth of 8% p.a. increasing pro-rata to full vesting of this part of the award for Adjusted Basic EPS growth of 12% p.a..
  – 35% 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 top quartile performance as measured against the constituents of the FTSE 250 (excluding investment trusts). In addition to the TSR performance condition, the Remuneration Committee must also be satisfied that there has been an improvement in LSL's underlying financial performance.

Similar performance targets are expected to be operated for 2013. The Remuneration Committee is comfortable that the blend of EPS and TSR targets and 70:30 weighting provides a good balance between incentivising and rewarding good financial performance on the one hand whilst, on the other hand, providing a strong and direct alignment with the interests of institutional shareholders by rewarding stock market outperformance.

Company Share Ownership Plan (CSOP)

The Group operates a CSOP (an equity-settled share-based remuneration scheme) for certain employees, which is operated by way of an addendum to the rules of the LTIP. Under the CSOP, the options vest if the individual remains an employee of the Group after a three year period, unless the individual has left under certain 'good leaver' terms in which case the options may vest earlier and providing the performance condition of 10%

growth in LSL's Adjusted Basic EPS over a period of three financial years starting with the financial year in which the CSOP award is granted is met. No CSOP options were granted to any Executive Directors during 2011 or 2012 and none have been recommended for 2013.

Joint Share Ownership Plan (JSOP)

LSL received Shareholder approval for the JSOP in 2010 and awards were granted in 2010 and 2011. There is currently no intention to grant further JSOP awards. Full details of all outstanding JSOP awards granted in 2010 and 2011 are set out in the Implementation Report below.

Deferred Bonus Plan (DBP)

The DBP was introduced upon flotation in 2006 although it has not, as yet, been operated. Under the DBP, the Remuneration Committee may invite any employee (including Executive Directors) to re-invest part of their most recently paid annual bonus (limited to 100% of base salary) into Ordinary Shares of LSL (Bonus Shares). Provided the Bonus Shares are held by the participant for three years and performance targets have been achieved, LSL may grant matching shares up to a maximum ratio of 1:1. There is no intention to operate the DBP for 2013 and to the extent that it is operated for Executive Directors in the future, LSL will consult with its major institutional Shareholders and the major Shareholder representative bodies with respect to performance metrics and targets.

Shareholding Guidelines

The Remuneration Committee operates share ownership guidelines whereby Executive Directors are required to build and maintain a shareholding equivalent to one year's base salary over a period of three years from the date the guidelines were adopted (or the date of appointment to the Board if later) through the retention of vested share awards or through open market purchase(s).

All Employee Share Plans

LSL operates a SAYE, a SIP (BAYE) and a CSOP (with the latter operated by way of an addendum to the rules of the LTIP), all of which are approved by HMRC. Details of awards granted to Executive Directors are presented in the table of Directors' Remuneration at page 46.

Executive Directors' Service Contracts

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

Director	Date of contract	Notice period from Company (months)
Steve Cooke	4th June 2010	9
Simon Embley	15th July 2004	9
David Newnes	1st June 2010	9

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

Non Executive Directors' Contracts

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

Director	Date of Original Term Commenced	Date of Current Term Commenced	Expected Expiry Date of Current Term
Helen Buck	1st December 2011		31st November 2014
Adrian Gill	10th September 2012		9th September 2015
Roger Matthews	11th October 2006	21st November 2012	20th November 2015
Mark Morris	11th October 2006	21st November 2012	20th November 2015
Mark Pain	1st May 2009	30th April 2012	30th April 2015

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

Current annual fee levels for the Non Executive Directors are as follows:

Non Executive Director	2013 £	2012 £
Helen Buck	40,000	40,000
Adrian Gill[1]	40,000	40,000
Paul Latham[2]	–	37,000
Roger Matthews	100,000	100,000
Mark Morris[3]	47,000	45,000
Mark Pain[4]	45,000	43,000

[1] Adrian Gill joined the Board on 10th September 2012. Adrian Gill has also received £5,889 consultancy fee in respect of services provided to LSL Estate Agency Division.
[2] Paul Latham retired from the Board on 1st October 2012. During 2012, Paul Latham was also paid an additional £5,000 per annum consultancy fee in respect of services provided to e.surv Chartered Surveyors.
[3] Mark Morris' fee includes additional sums for his role as Senior Independent Non Executive Director (£2,000) and Chair of the Audit Committee (£5,000).
[4] Mark Pain's fee includes an additional sum for his role as Chair of the Remuneration Committee (£5,000).

IMPLEMENTATION REPORT

AUDITED INFORMATION

Directors' Remuneration

The Remuneration of the Directors for 2012 was as follows:

Director	Directors' salaries/fees £	Car allowance £	Benefits in kind[1] £	Annual bonus £	**Total 2012 £**	Total 2011 £
Chairman						
Roger Matthews	100,000	–	–	–	**100,000**	100,000
Executive Directors						
Steve Cooke	220,000	10,000	1,635	132,000	**363,635**	253,683
Simon Embley	250,000	10,000	15,969	150,000	**425,969**	296,247
David Newnes	140,000	8,500	606	104,000	**253,106**	163,123
Alison Traversoni[2]	140,000	–	11,042	56,000	**207,042**	176,044
Non Executive Directors						
Helen Buck	40,000	–	–	–	**40,000**	3,333
Adrian Gill[3]	18,196	–	–	–	**18,196**	–
Paul Latham[4]	27,750	–	–	–	**27,750**	42,000
Mark Morris	45,000	–	–	–	**45,000**	45,000
Mark Pain	43,000	–	–	–	**43,000**	43,000
TOTAL	1,023,946	28,500	29,252	442,000	**1,523,698**	1,122,430

[1] Benefits in kind, which excludes pension provision, are comprised of private medical cover and company car and in respect of Simon Embley, a taxable relocation allowance of £15,000.
[2] Retired from the Board on 31st December 2012.
[3] Appointed to the Board on 10th September 2012. Fee includes £5,889 paid in respect of consultancy services to the Estate Agency Division.
[4] Retired from the Board on 1st October 2012. Fee includes £5,000 paid in respect of consultancy services to e.surv Chartered Surveyors.

The bonus payments for 2012 are based on achievement of profit targets that were set by the Remuneration Committee at the beginning of 2012. In addition, strategic key performance indicator targets were set for each business unit within LSL's Divisions and an element of the bonus is related to achievement of these targets. No discretionary awards have been proposed for 2013 and save for a discretionary award of £20,000 payable to David Newnes which reflects the strong performance of the Estate Agency Division in 2012, no discretionary awards have been granted in 2012.

No termination payments or payments in lieu of notice were paid to those Directors who retired from the Board during 2012.

Pension Contributions

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

Name	2012 £	2011 £
Steve Cooke	**11,000**	11,000
Simon Embley	**12,500**	12,500
David Newnes	**7,000**	7,000
Alison Traversoni	**7,000**	7,000
Total	**37,500**	37,500

Share Options and Awards

As at 31st December 2012, Executive Directors' interests under the JSOP awards were as follows:

Director	Date of grant	Share price on grant (pence)	**As at 1st January 2012**	Awards granted (lapsed)	Awards vested	**As at 31st December 2012**	Exercise/ Release Period
Steve Cooke	24th August 2010	248.75	**70,764**	–	–	**70,764**	24th August 2013 to 24th August 2020
	31st March 2011	245	**89,613**	–	–	**89,613**	31st March 2014 to 31st March 2021
Simon Embley	1st June 2010	271	**167,857**	–	–	**167,857**	1st June 2013 to 1st June 2020
	31st March 2011	245	**203,665**	–	–	**203,665**	31st March 2014 to 31st March 2021
David Newnes	1st June 2010	271	**39,286**	–	–	**39,286**	1st June 2013 to 1st June 2020
	31st March 2011	245	**57,026**	–	–	**57,026**	31st March 2014 to 31st March 2021
Alison Traversoni[1]	1st June 2010	271	**39,286**	(39,286)	–	**–**	N/A
	31st March 2011	245	**57,026**	(57,026)	–	**–**	N/A

[1] Alison Traversoni retired from the Board on 31st December 2012. As a result her JSOP options have lapsed.

In respect of the above JSOP awards, Executive Directors have entered into a co-ownership agreement with the Trustees of the Trust. Under the terms of the 2010 and 2011 agreements, the participant has the right to receive a proportion of the sale proceeds so far as the value exceeds £3.20 per share (an Interest) and a share appreciation right (SAR) entitles individuals to any growth in the value of LSL's share price from £2.80 (June 2010 awards), £2.68 (August 2010 awards), £2.45 (March 2011 awards) to £3.20, to the extent that performance targets and a continued service requirement are both met.

The vesting of JSOP awards granted in 2010 and 2011 are conditional upon LSL's Adjusted Basic earnings per share (EPS) performance meeting the following absolute performance targets over a period of three financial years starting with the financial year in which the JSOP award is granted:

Adjusted Basic EPS growth p.a.[1]	Value of shares under the JSOP award at date of grant (as a percentage of base salary)	
	Chief Executive Officer	Other Executive Directors and Senior Managers
10%	100%	100%
13%	150%	–
17%	200%	–

[1] With straight line vesting between points for the Chief Executive Officer's award.

In addition to the above Adjusted Basic EPS targets, LSL's TSR must exceed that of the FTSE 250 index (excluding investment trusts) over the three year performance period for any of the 2011 JSOP awards to vest.

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

Director	Award Type	Date of grant	Share price on grant (pence)	Exercise price (pence)	**As at 1st January 2012**	Awards granted	Awards lapsed	Awards exercised	Awards vested	**As at 31st December 2012**	Exercise Period
Steve Cooke	CSOP	24th August 2010	248.75	252	**11,870**	–	–	–	–	**11,870**	24th August 2013 to 24th August 2020
	SAYE	5th April 2011	245	257	**3,511**	–	–	–	–	**3,511**	5th April 2014 to 5th October 2014
	LTIP	2nd April 2012	271	275	**–**	80,000	–	–	–	**80,000**	2nd April 2015 to 2nd April 2022
Simon Embley	CSOP	11th June 2010	237.5	240	**12,500**	–	–	–	–	**12,500**	11th June 2013 to 11th June 2020
	SAYE	5th April 2011	245	257	**3,511**	–	–	–	–	**3,511**	5th April 2014 to 5th October 2014
	LTIP	2nd April 2012	271	275	**–**	90,909	–	–	–	**90,909**	2nd April 2015 to 2nd April 2022
David Newnes	CSOP	11th June 2010	237.5	240	**12,500**	–	–	–	–	**12,500**	11th June 2013 to 11th June 2020
	SAYE	5th April 2011	245	257	**3,511**	–	–	–	–	**3,511**	5th April 2014 to 5th October 2014
	LTIP	2nd April 2012	271	275	**–**	50,909	–	–	–	**50,909**	2nd April 2015 to 2nd April 2022
Alison Traversoni[1]	CSOP	11th June 2010	237.5	240	**12,500**	–	(12,500)	–	–	**–**	11th June 2013 to 11th June 2020
	SAYE	5th April 2011	245	257	**3,511**	–	(3,511)	–	–	**–**	5th April 2014 to 5th October 2014
	LTIP	2nd April 2012	271	275	**–**	50,909	(50,909)	–	–	**–**	2nd April 2015 to 2nd April 2022

[1] Alison Traversoni retired from the Board on 31st December 2012. As a result her share awards have lapsed.

The aggregate of gains made by Directors on the exercise of any options in the year was £nil (2011: £27,000).

The Ordinary Share mid-market price ranged from 200.00p to 275.00p and averaged 233.94p during 2012. The price on 31st December 2012 was 259.50p compared to 238.75p on 1st January 2012.

UNAUDITED INFORMATION

Directors' Interests in Shares

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

Director	Shares at 1st January 2013	% of Issued share capital	Shares at 1st January 2012	% of Issued share capital
Helen Buck	**0**	0	**0**	0
Steve Cooke	**40,000**	0.04	**40,000**	0.04
Simon Embley	**10,230,500**	9.82	**10,050,500**	9.65
Adrian Gill[1]	**0**	0	**–**	–
Paul Latham[2]	**3,902,061**	3.75	**3,902,061**	3.75
Roger Matthews[3]	**86,882**	0.08	**86,882**	0.08
Mark Morris	**53,972**	0.05	**53,972**	0.05
David Newnes	**5,619,250**	5.35	**5,569,250**	5.35
Mark Pain	**0**	0	**0**	0
Alison Traversoni[4]	**616,676**	0.59	**616,849**	0.58

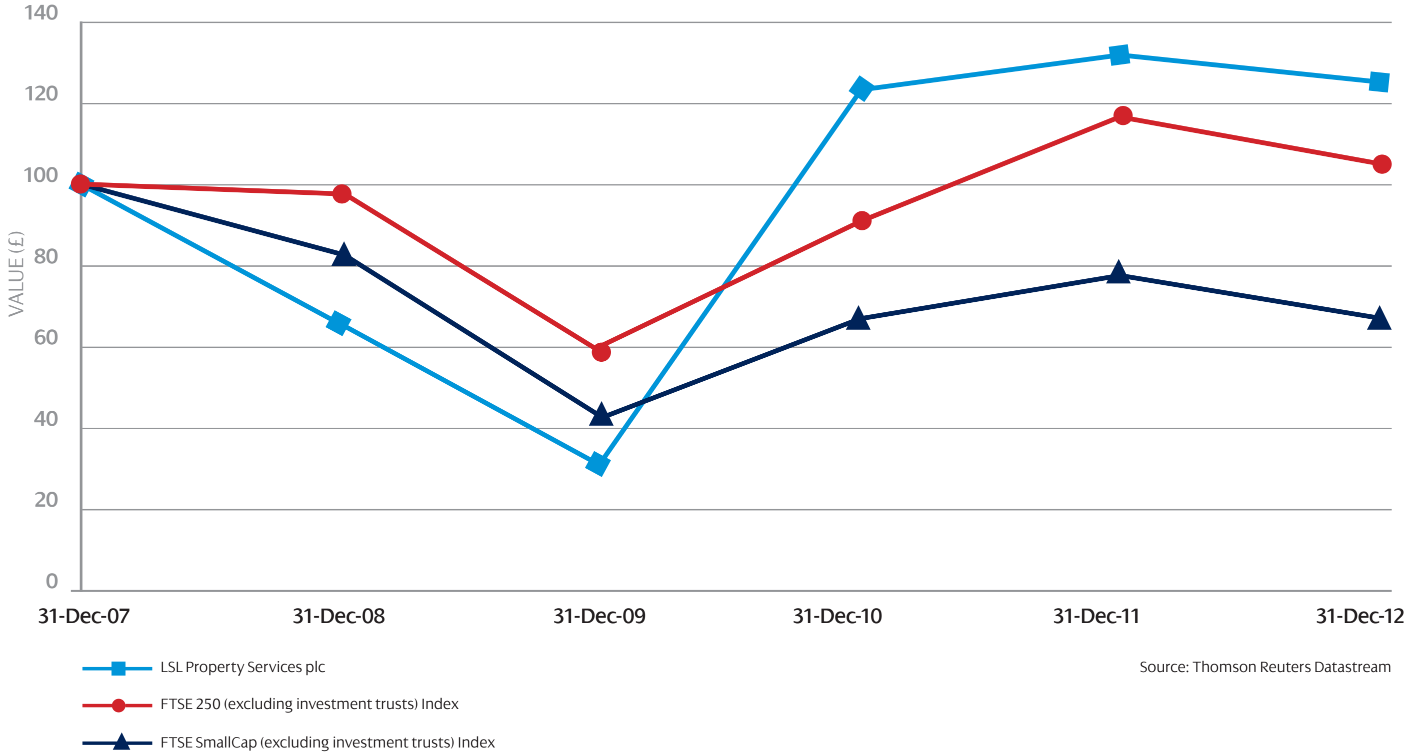
[1] Adrian Gill joined the Board on 10th September 2012.
[2] Paul Latham retired from the Board on 1st October 2012 and his holding includes shares acquired by his children.
[3] Roger Matthews' holding includes shares held by his wife.
[4] Alison Traversoni retired from the Board on 31st December 2012 and her holding at that date includes shares held in LSL's BAYE/SIP (at 31st December 2012, this amounted to 5,218 (2011: 4,391)). The shares were purchased by the Trust at the prevailing market value and are held for up to five years.

All the interests detailed above are beneficial. Apart from the interests disclosed above no Directors were interested at any time in the year in the share capital of any other Group company. There have been no other changes in the interests set out above between 31st December 2012 and the date of this Report.

Performance Graph

The following graph shows the value, at 31st December 2012, of £100 invested in LSL compared with the value of £100 invested in both the FTSE Small Cap (excluding investment trusts) Index and the FTSE 250 (excluding investment trusts) Index. The FTSE 250 Index has been chosen for consistency with prior years; and the FTSE Small Cap Index because LSL is a constituent of the FTSE Small Cap Index.

Total Shareholder return



The mid market price of LSL shares in the year ranged from 200.00p to 275.00p and averaged 233.94p during 2012. The price on 31st December 2012 was 259.50p compared to 238.75p on 1st January 2012.

Approved by and signed on behalf of the Board of Directors

Sapna B FitzGerald
Company Secretary
28th February 2013

Corporate Social Responsibility Statement

The Board has overall responsibility for establishing the Group's Corporate Social Responsibility (CSR) Statement and associated policies with Steve Cooke, Group Finance Director, taking individual responsibility for the creation, operation and implementation of the Group's CSR Statement and strategy.

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

LSL's focus is on actions that the Group can take over and above its legal requirements to address its competitive interests in 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 the interests of its employees, customers, suppliers and other stakeholders.

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

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

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

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

1. Our People

LSL recognises that its people are a valuable asset and are 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 it 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.

During 2012 LSL's Talent Team won a Chartered Institute of Personnel Development HR Award in recognition of its success in talent acquisition. The team won the Talent Attraction and Management Award, following the creation of dedicated talent acquisition teams whose prime objective is to attract the 'best in the business' to join the LSL Group.

Based in Southampton, Newcastle, Derby and London the teams, led by dedicated recruitment specialists, aim to promote the significant benefits of working in LSL with each drawing on their expertise in recruitment, training, financial services and HR. The judges praised LSL's creation of the teams and also its investment in systems to streamline the recruitment process including the creation of an online talent management platform that enables candidates to track the status of their application.

2. Our Approach

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

Despite the continuing economic challenges in 2012, the Group has maintained its commitment to recruit, develop and invest in its people. LSL's approach is to prioritise learning and development to strengthen the business further and to ensure its continued success. For example, during 2012 e.surv Chartered Surveyors continued its successful partnership with the Mitre Group, one of the UK's leading skills development organisations. As a result, 204 (2011: 128) members of staff were trained to NVQ1, 2 and 3 levels across a range of programmes including customer service, sales, leadership and management. The programme continues into 2013 with e.surv Chartered Surveyors' employees completing 146 (2011: 31) apprenticeships and 167 (2011: 21) stand alone NVQs. There are now 48 (2011: 60) members of staff on apprenticeship programmes many of whom are nearing completion. Since 2011 e.surv Chartered Surveyors has employed a dedicated trainer to head up the Training Academy which supports the apprenticeship and NVQ programmes. Further in 2012, the relationship with Mitre was extended to LSL Corporate Client Department where it was rolled out to 11 people resulting in both Intermediate Apprenticeships in Team Leadership and Advanced Apprenticeship in Management achievements.

3. Communication

a. Employees:

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

The Board values employee feedback and employee opinion surveys are now operating across all parts of Group businesses on an annual basis. The survey process itself has been continually evaluated and is being developed to maximise the validity and reliability of the data that is captured, which is then presented to the Board as part of a regular review of employee matters which focuses on understanding the issues facing our employees. KPIs such as labour turnover and responses to key questions (for example whether staff feel they will still be working for LSL in three years) are also monitored to measure staff morale.

In addition in 2012, following the 2011 gender diversity survey undertaken by LSL, a further study was initiated which built on the findings of the 2011 review.

On strategic matters, LSL recognises and consults Unite.

e.surv Chartered Surveyors once again successfully achieved the Best Companies "One to Watch" status for 2012.

b. Customers:

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

4. Equal Opportunities

a. Gender Diversity:

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

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

In 2012 a further study was undertaken to review gender career progression within LSL which highlighted differences in career progression. Following completion of the study, recommendations are being adopted to address the issues highlighted by the study, which includes the development of targeted training to support female employees to allow them to maximise their career progression within LSL.

LSL promotes equal opportunities in employment, recognising that equality and diversity are vital parts of its success and growth. LSL's 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.

b. Disability:

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

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

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.

	2012	2011	2010	2009	2008
Total Employees at 31st December	**4,754**	4,831	4,490	3,287	2,806
Total Employee turnover percentage (%) (Data excludes forced leavers)	**26.7**	24.8	28.5	19.3	24.2
Breakdown by Gender					
Male	**2,052**	2,065	1,838	1,389	1,145
Female	**2,702**	2,748	2,652	1,898	1,661

Employee Training

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

a. Estate Agency and Related Services:

Within the Estate Agency Division's branches, employees adhere to the Code of Practice for Residential Estate Agents published by The Property Ombudsman (TPO), which is a code approved by the Office of Fair Trading (OFT) and which exceeds the legal requirements of the Consumers, Estate Agents and Redress Act 2007 (CEARA). In addition, following the Government announcement of its intention to repeal the Property Misdescriptions Act and to amend the Estate Agents Act and the publication by the OFT of its guidance on the application of the Consumer Protection Regulations to Estate Agents, LSL has recently reviewed the training program which is delivered to its employees. Employees of the Estate Agency Division receive a specially designed training course and the quality of service is monitored on a regular basis.

The Financial Services businesses also place strong emphasis on the quality of service provided to customers and all advisers complete a specially designed comprehensive training programme which is supplemented by effective supervision, regular monitoring and regular refresher training sessions.

b. Surveying and Valuation Services :

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

During 2012, the Group training expenditure was:

Division	**Expenditure 2012 £**	Expenditure 2011 £
Estate Agency and Related Services	**1,232,368**	1,129,230
Surveying and Valuation Services	**152,688**	133,567
Total Expenditure	**1,385,056**	1,262,797

This includes in house training costs of £700,623 (2011: £611,127).

5. Health, Safety and Welfare

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

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

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

6. Environmental Issues

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

As part of this understanding, LSL has assessed the main areas in which it is able to effect the largest reductions in the Group's overall environmental impact. Since 2010, LSL's 'green' priorities have therefore been to:

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

Since the adoption of these 'green' priorities, LSL has sought to keep stakeholders informed on how LSL manages its environmental impacts and how it is performing. Stakeholders may also provide LSL with views and opinions which can strengthen LSL's approach to environmental management. Within this framework, LSL companies assess and manage the environmental impact of their operations to ensure that LSL is an active participant in the sustainable society and the LSL Board receives regular reports to enable it to monitor progress.

Environmental initiatives focused on in 2011 and continued in 2012 included:

- Recycling
- Power saving
- Avoid printing
- Remote meetings

The Greenhouse Gas Emissions (Directors' Reports) Regulations 2013:

During 2012, in anticipation of the introduction of mandatory emissions reporting legislation that will apply to LSL from 2013, LSL commissioned independent organisation, Carbon Credentials, to evaluate the Group's preparedness via an objective assessment of emissions reporting capabilities, including thorough investigation of the Group's previous Carbon Disclosure Project responses.

With effect from the 2013 Annual Report and Accounts, LSL will report on appropriate targets and KPIs to be identified in consultation with Carbon Credentials and agreed in accordance with LSL's obligations under the new regulations.

A number of recommendations have been put forward that are currently being considered for implementation as part of LSL's preparation for the incoming emissions reporting legislation. This includes plans to adopt DEFRA's 'Guidance on how to measure and report greenhouse emissions', which is a widely approved standard requiring organisations to categorise emissions according to three separate scopes as defined by the WRI/WBCSD Greenhouse Gas Protocol. This allows for the identification of significant activities within the organisation that are responsible for the release of emissions so that appropriate action can be taken.

Recycling Initiatives:

During 2012 and going forward into 2013, LSL continues to promote environmental awareness within the Group and continues to encourage the use of environmentally sensitive confidential disposal arrangements for the destruction of office waste, including paper and toners. e.surv Chartered Surveyors participated in the 'Shred-Pro' shredding and recycling programme and saved 63.9 trees in doing so.

Across the Group, recycling schemes are in place with Iron Mountain, which delivered the following benefits in 2012:

- 96 (2011: 110) cubic metre landfill reduction
- 798 (2011: 912) trees saved
- 42,476 (2011: 48,673) kilos of recycled paper produced

In 2011 LSL launched a waste management programme within parts of the Residential Sales and Lettings branches through the service provided by Green Star (part of the Biffa Group). During 2012, e.surv Chartered Surveyors also joined the scheme and there are plans to roll out this environmentally friendly waste management programme to other parts of LSL.

The programme aims to:

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

By the end of 2012 and in accordance with the target set by Your Move's board to achieve a split of waste disposal of 50/50 between general waste and dry mix recycling (DMR), Your Move has built on the progress it had made in 2011 and on average processed 44% of its waste via the DMR route. Whilst this is below the aforementioned 50% target steps are being taken to address the shortfall, which include a review of branch activity during the first quarter of 2013 with particular focus being given to those branches that consistently fail to achieve the DMR target.

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

2012 Initiatives (Introduced and Maintained)	Status	Progress
Monitoring of Group energy consumption and the appointment of energy champions across the Group.	✓	Benchmark data reported against which targets can be set. Smart Meters to monitor electricity consumption have been installed at 90% of Your Move branches (excluding those sites where impractical). The installation of Smart Meters to monitor gas consumption by Your Move sites is planned for 2013.
Lighting initiatives, which include the replacement of lighting with low energy efficient alternatives and the implementation of a "switch it off" campaign.	✓	As part of the Estate Agency branch refurbishment and refresh works low energy light installations are incorporated (where possible). Within the Surveying Division energy consumption measured in CO_2 tonnes reduced by 10% in 2012. This reduction was achieved by continuing initiatives commenced in 2010, which includes switching printers and PCs off overnight; installing timers on drinks machines; air conditioning turned off in favour of natural ventilation and turned off overnight and at weekends. PIR lighting sensors installed.
Promotion of the installation of timer plugs on all appliances where appropriate.	✓	In place at the Surveying Division Head Office and processing sites. Plans in place to introduce to other Head Office sites.
Continued promotion of LSL environmental logo.	✓	The "Be Green" logo, which was designed and communicated to all Group companies is now in use on most marketing material.
Continued reduction in the use of paper by reducing the printing of emails and promoting double sided photocopying.	✓	"Think before you print" appended to most Group email footers with plans to roll out to all. Continued investment in electronic record keeping avoiding the need to maintain paper files. Where facilities exist, double sided copying is promoted and used.
Emailing customers in preference to posting letters.	✓	Estate Agency branches email property particulars and other communications to customers instead of posting. Survey reports to private customers are delivered by email wherever customer consent is obtained.
Work flow management system developed.	✓	The Surveying Division has invested in new automated technology which is expected to deliver savings both in terms of use of paper and in terms of environmental impact by increasing the number of documents emailed instead of posted.
Improved choice of low emission cars on company car fleet.	✓	LSL encourages company car users to select energy efficient cars, and offer a range of hybrid and efficient dynamic diesel models on the company car list. Average CO_2 emissions for the fleet fell from 140.3 CO_2 g/km in 2011 to 125.0 CO_2g/km in 2012. The carbon footprint of LSL continues to fall as a result.
Encourage recycling of paper.	✓	Across the Group, desk based bins are being discouraged with the bins placed centrally for the disposal of waste. Further, employees are encouraged to use non-sensitive scrap paper as note paper.

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

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

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

LSL's business has a direct impact on the local communities in which it operates and the community investment objective recognises that good relations with local communities 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 real results and lasting change.

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

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

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

Charitable donations:

a. Workplace Giving:

LSL has implemented the 'Workplace Giving' initiative and all Group employees have been invited to participate. The initiative was launched in October 2010 and in 2012 LSL employees raised £24,990. Over 180 employees participate in the scheme, which donates to a range of charities.

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

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

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

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

- Centre Point (**www.centrepoint.org.uk**)
- Thames Reach (**www.thamesreach.org.uk**)
- Trinity Winchester (**www.trinitywinchester.org.uk**)
- Hope 4 (**www.hope4.org.uk**)
- Doncaster Housing for Young People (**www.dhyp.net**)

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

In addition, during the summer of 2012 LSLi MD Jon Cooke, undertook the Zoopla British Property Cycle, a 32 stage round the UK cycle event which was completed in a month. The aim of the event, the brainchild of Jon Cooke, was to bring together the whole of the property industry in raising much needed funds for the EAF and to demonstrate the industry's support of the 'festival' of sport and community that surrounded the Olympics. The team of cyclists, included Jon and other LSL employees, and over the course of the event the team cycled approximately 2,500 miles around the UK coast visiting over 125 estate agency offices, many of them LSL's, along the way. The main team was also supported by over 100 cyclists who joined in the event at varying stages. In total, more than £70,000 has been raised for the charity as a result of the event.

c. Surveying

Within the Surveying Division, during 2012 a number of different charities (national and local) were supported by initiatives undertaken by e.surv Chartered Surveyors employees, which included the following:

- Cransley Hospice, a hospice for terminally ill patients in Kettering (nominated staff charity since 2010) (www.cransleyhospice.co.uk).
- Anthony Nolan Trust (**www.anthonynolan.org**)
- Sport Relief (**www.sportrelief.com**)
- Help Oliver Walk (**www.helpoliverwalk.co.uk**)
- Teenage Cancer Trust (**www.teenagecancertrust.co.uk**)
- Macmillan Cancer Support (**www.macmillan.org.uk**)
- Diabetes UK (**www.diabetes.org.uk**)
- Wear it Pink (**www.wearitpink.co.uk**)
- MovemberUK (**uk.movember.com**)
- Jamie's Match Ball (**uk.virginmoneygiving.com/fundraiser-web/fundraiser/showFundraiserProfilePage.action?userUrl=Jamiesmatchball**)
- Stand Up to cancer (**www.standup2cancer.org**)
- The Laura Centre (**www.thelauracentre.org.uk**)
- Jeans for Genes (**www.jeansforgenesday.org**)
- Children in Need (**www.bbc.co.uk/programmes/b008dk4b**)
- Rainbow Trust Children's Charity (**www.rainbowtrust.org.uk**)
- CRY (**www.c-r-y.org.uk**)
- North East Air Ambulance (**www.greatnorthairambulance.co.uk**)

Financial Statements

IN THIS SECTION

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

We have audited the group financial statements of LSL Property Services plc for the year ended 31st December 2012 which comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Cash Flows, the Group Statement of Changes in Equity and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 27, the directors are responsible for the preparation of the group financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the group financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the group financial statements:

- give a true and fair view of the state of the group's affairs as at 31st December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion:

- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Report set out on pages 33 to 39 with respect to internal control and risk management systems in relation to financial reporting processes and about share capital structures is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

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

Other matter

We have reported separately on the parent company financial statements of LSL Property Services plc for the year ended 31st December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Stuart Watson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
28th February 2013

Group Income Statement
for the year ended 31st December 2012

	Note	2012 £'000	2011 £'000
Revenue	3	**243,845**	218,381
Operating expenses:			
Employee and subcontractor costs	12	**(142,224)**	(124,786)
Establishment costs		**(18,459)**	(15,886)
Depreciation on property, plant and equipment	15	**(3,499)**	(2,581)
Other		**(46,926)**	(45,734)
		(211,108)	(188,987)
Rental income	3	**1,120**	1,044
Group's share of profit after tax in joint ventures	17	**1,283**	679
Group operating profit before contingent consideration, exceptional costs, amortisation and share-based payments		**35,140**	31,117
Share-based payments	12	**(647)**	(787)
Amortisation of intangible assets	14	**(3,472)**	(8,472)
Exceptional (cost)/profit	7	**(17,684)**	(2,048)
Contingent consideration	7	**(4,152)**	(166)
Group operating profit	4	**9,185**	19,644
Finance income	5	**10**	4
Finance costs	6	**(2,891)**	(1,874)
Exceptional finance costs	7	**429**	(182)
Net financial costs		**(2,452)**	(2,052)
Profit before tax	8	**6,733**	17,592
Taxation			
– related to exceptional costs and contingent consideration		**5,288**	570
– others		**(5,004)**	(4,927)
	13	**284**	(4,357)
Profit for the year		**7,017**	13,235
Attributable to			
– Owners of the parent		**7,001**	13,217
– Non-controlling interest		**16**	18
Earnings per share expressed in pence per share:			
Basic	10	**6.8**	12.9
Diluted	10	**6.8**	12.9
Adjusted – basic	10	**23.8**	21.0
Adjusted – diluted	10	**23.8**	21.0

Group Statement of Comprehensive Income

for the year ended 31st December 2012

	Note	2012 £'000	2011 £'000
Profit for the year		**7,017**	13,235
Revaluation of financial assets	16	**10,677**	–
Income tax effect	13	**(2,456)**	–
Other comprehensive income for the year, net of tax		**8,221**	–
Total comprehensive income for the year, net of tax		**15,238**	13,235
Attributable to			
– Owners of the parent		**15,222**	13,217
– Non-controlling interest		**16**	18

Group Balance Sheet
as at 31st December 2012

	Note	2012 £'000	2011 £'000
Non-current assets			
Goodwill	14	**119,749**	116,452
Other intangible assets	14	**18,509**	21,042
Property, plant and equipment	15	**13,501**	17,491
Financial assets	16	**11,921**	347
Investments in joint ventures	17	**2,313**	1,768
Total non-current assets		**165,993**	157,100
Current assets			
Trade and other receivables	18	**29,552**	28,681
Current tax receivables		**2,242**	–
Cash and cash equivalents	19	**225**	435
Total current assets		**32,019**	29,116
Non-current assets held for sale	15	**1,097**	–
Total assets		**199,109**	186,216
Current liabilities			
Financial liabilities	21	**(2,396)**	(2,246)
Trade and other payables	20	**(47,805)**	(46,603)
Current tax liabilities		**–**	(3,372)
Provisions for liabilities	22	**(2,305)**	(706)
Total current liabilities		**(52,506)**	(52,927)
Non-current liabilities			
Financial liabilities	21	**(42,165)**	(46,782)
Deferred tax liability	13	**(5,464)**	(4,772)
Provisions for liabilities	22	**(22,895)**	(9,352)
Total non-current liabilities		**(70,524)**	(60,906)
Total Liabilities		**(123,030)**	(113,833)
Net assets		**76,079**	72,383
Equity			
Share capital	24	**208**	208
Share premium account	25	**5,629**	5,629
Share-based payment reserve	25	**1,526**	912
Treasury shares	25	**(2,691)**	(2,747)
Fair value reserve	25	**8,221**	–
Retained earnings		**63,117**	68,328
Equity attributable to owners of parent		**76,010**	72,330
Non-controlling interests	25	**69**	53
Total equity		**76,079**	72,383

The Financial Statements were approved by the Board on 28th February 2013 and were signed on its behalf by:

Steve Cooke
Group Finance Director

Simon Embley
Group Chief Executive Officer

Group Statement of Cash Flows

for the year ended 31st December 2012

	Note	31st December 2012 £'000	31st December 2012 £'000	31st December 2011 £'000	31st December 2011 £'000
Cash generated from operating activities					
Profit before tax			**6,733**		17,592
Adjustments to reconcile profit before tax to net cash from operating activities					
Exceptional operating costs and contingent consideration (excluding gain on sale of assets)	7	**23,262**		2,214	
Amortisation of intangible assets	14	**3,472**		8,472	
Finance income	5	**(10)**		(4)	
Finance costs	6	**2,891**		1,874	
Exceptional finance costs	7	**(429)**		182	
Share-based payments	12	**647**		787	
			29,833		13,525
Group operating profit before amortisation and share-based payments			**36,566**		31,117
Depreciation	15	**3,499**		2,581	
Share of results of joint ventures		**(1,283)**		(679)	
(Gain)/loss on sale of property, plant and equipment	8	**(1,426)**		8	
			790		1,910
(Increase)/decrease in trade and other receivables		**12**		(2,054)	
Decrease in trade and other payables		**(2,078)**		(4,491)	
Decrease in provisions		**(2,699)**		(2,183)	
			(4,765)		(8,728)
Cash generated from operations			**32,591**		24,299
Interest paid		**(2,084)**		(1,422)	
Tax paid		**(7,252)**		(3,235)	
			(9,336)		(4,657)
Net cash generated from operating activities			**23,255**		19,642
Cash flows from investing activities					
Cash acquired on purchase of subsidiary undertaking	27	**223**		5,707	
Acquisitions of subsidiaries and other businesses	27	**(3,926)**		(46,826)	
Investment in joint venture	17	**(10)**		(671)	
Investment in financial assets	16	**(897)**		-	
Dividends received from joint venture		**748**		332	
Interest received	5	**10**		4	
Purchase of property, plant and Equipment and intangible assets	15	**(5,680)**		(3,243)	
Proceeds from sale of property, plant and equipment	15	**6,290**		–	
Proceeds from sale of available-for-sale financial asset		**–**		1,962	
Net cash expended on investing activities			**(3,242)**		(42,735)
Cash flows from financing activities					
Repayment of loans		**(10,962)**		–	
Proceeds from loans		**–**		32,939	
Purchase of treasury shares (net of consideration received on reissue of treasury shares)		**–**		(804)	
Dividends paid	11	**(9,261)**		(8,945)	
Net cash generated from/(used in) financing activities			**(20,223)**		23,190
Net increase/(decrease) in cash and cash equivalents			**(210)**		97
Cash and cash equivalents at the beginning of the year			**435**		338
Cash and cash equivalents at the end of the year	19		**225**		435

Group Statement of Changes in Equity

for the year ended 31st December 2012

Year ended 31st December 2012

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

Year ended 31st December 2011

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

Notes to the Group Financial Statements
for the year ended 31st December 2012

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 2012 were authorised for issue by the Board of the Directors on 28th February 2013 and the balance sheet was signed on the Board's behalf by Simon Embley and Steve Cooke. LSL is a listed company incorporated and domiciled in England and Wales and the Group operates a network of estate agencies, surveying and valuation businesses and other related businesses.

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

2. Accounting policies
Basis of preparation of financial information
The Group Financial Statements have been prepared on a going concern basis and on a historical cost basis, except for, derivative financial instruments and available-for-sale investments that have been measured at fair value.

The accounting policies which follow set out those significant policies which apply in preparing the financial statements for the year ended 31st December 2012. The Group's Financial Statements are presented in sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

New standards and interpretations
The amendments to the following standards below did not have any impact on the accounting policies, financial position or performance of the Group:
- Amendments to IFRS 7 - Disclosures - Transfers of financial assets
- Amendments to IAS 12 - Deferred Tax: Recovery of Underlying Assets

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

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

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

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

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

Professional indemnity claims
Significant judgement is required when provisioning for PI claims. Details of key assumptions in these areas are disclosed in notes 7 and 22 to these Financial Statements.

Contingent consideration

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

Valuation of financial assets

The Group owns minority interests in a number of unlisted entities. In accordance with the accounting standards, these investments are held at fair value and significant judgment is required in assessing the fair value of these investments. Further details of the methodology used are disclosed in note 16 to these Financial Statements.

Basis of consolidation

From 1st January 2010

Subsidiaries:

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

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

Non-controlling interests:

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

Basis of consolidation prior to 1st January 2010

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

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

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

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

Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1st January 2010 has not been restated. The purchase method of accounting was used for all acquisitions of subsidiaries. All intra-group transactions, balances, income and expenses were eliminated on consolidation.

Interest in jointly controlled entities

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

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

2. Accounting policies (continued)

Interest in jointly controlled entities (continued)

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

Intangible assets

Business combinations and goodwill
Business combinations from 1st January 2010

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

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

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

The revised version of IFRS 3 Business Combinations which is in place for acquisitions which occurred post 1st January 2010, has tightened the criteria linking contingent consideration to service. In acquisitions in 2011 and 2012, contingent consideration arrangements have been accounted for as remuneration as the arrangements involved the vendors forfeiting amounts otherwise due if services were not provided.

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

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

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

Business combinations prior to 1st January 2010

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

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

Goodwill

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying amount being reviewed for impairment at least annually and whenever events of changes in circumstances indicate that the carrying value maybe impaired. A previously recognised impairment loss with respect to goodwill is not reversed in later years. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units (or groups of cash generating units) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Each unit or group of units to which goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes and is not larger than an operating segment before aggregation.

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

Other intangible assets

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

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

Amortisation

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

Customer contracts:	
Estate agency customer contracts	– three to ten years
Surveying customer contracts	– between three and five years
Lettings contracts	– fifteen months
Order book:	
Estate agency pipeline	– six months
Surveying pipeline	– one week
Estate agency register	– twelve months
Others:	
Franchise agreements	– ten years
In-house software	– three years

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

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

2. Accounting policies (continued)

Impairment (continued)

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 50 years or the lease term whichever is shorter

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised. These assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

Dividends

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

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. The Directors periodically evaluate 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 Ordinary Shares. The fair value of the options granted is recognised as an employee expense with a corresponding increase in equity in the case of equity-settled schemes. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes model, taking into account the terms and conditions (including market and non vesting conditions) upon which the options were granted. Non market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non vesting condition, which are treated as vesting irrespective of whether or not the market or non market vested condition is satisfied, provided that all other performance and/or service conditions are satisfied.

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

Cash-settled transactions

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

Treasury shares

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

Leases

Group as a lessee

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

Group as a lessor

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

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfilment is dependent on a specified asset; or

(d) There is a substantial change to the asset.

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

Pensions

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

2. Accounting policies (continued)

Provisions

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

Financial instruments

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

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

Available-for-sale financial assets

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

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

Cash and short term deposits

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

For the purposes of the group cash flow statement, cash and short term deposits consist of cash and short term deposits.

Trade receivables

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

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

Trade payables

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

Interest bearing loans and borrowings

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

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

Borrowing costs are recognised as an expense when incurred.

Derivative financial instruments

The Group uses derivative financial instruments such as interest rate caps and interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are taken directly to the income statement. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

Assets carried at cost

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

Assets carried at amortised cost

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

Revenue recognition

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

Rendering of services

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

Financial services income

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

Interest income

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

Rental income

Rental income including the effect of lease incentives from 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 have been issued but are not effective for the financial year beginning 1st January 2012 and have not been adopted early:

International Accounting Standards (IAS/IFRSs)		Effective date[1]
IFRS 9	Financial Instruments: Classification and Measurement	1st January 2015
IFRS 10	Consolidated Financial Statements	1st January 2013
IFRS 11	Joint Arrangements	1st January 2013
IFRS 12	Disclosure of Interests in Other Entities	1st January 2013
IFRS 13	Fair Value Measurement	1st January 2013
IAS 27 (Revised)	Separate Financial Statements	1st January 2013
IAS 28 (Revised)	Investments in Associates and Joint Ventures	1st January 2013
Amendment to IAS 1	Presentation of Items of Other Comprehensive Income	1st July 2012
IAS 19 (Revised)	Employee Benefits	1st January 2013
Amendments to IFRS 7	Disclosures: Offsetting Financial Assets and Financial Liabilities	1st January 2013
Amendments to IAS 32	Financial Instruments	1st January 2014

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

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

3. Revenue

Revenue represents the amounts derived from the provision of services which fall within the Group's ordinary activities, stated net of value added tax. The revenue and pre-tax income is attributable to the continuing activity of Estate Agency and Related Services and the provision of Surveying and Valuation Services on residential property. All the revenue arises in the United Kingdom.

Revenue disclosed in the income statement is analysed as follows:

	2012 £'000	2011 £'000
Revenue from services	**243,845**	218,381
Revenue	**243,845**	218,381
Rental income	**1,120**	1,044
Finance income	**10**	4
Total revenue	**244,975**	219,429

4. Segment analysis of revenue and operating profit

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

- The Estate Agency and Related Services provides services related to the sale and letting of housing. It operates a network of high street branches. As part of this process, the division also provides marketing and conveyancing services. In addition, it provides repossession asset management services to a range of lenders. It also sells mortgages for a number of lenders and sells life assurance and critical illness policies, etc for a number of insurance companies via the estate agency branch and Linear network. It also operates a financial services segment as separate mortgage and insurance distribution companies providing products and services to financial intermediaries. The results of this financial services segment, which does not meet the quantitative criteria for separate reporting under IFRS have been aggregated with those of Estate Agency and Related Services.
- The Surveying and Valuation segment provides a professional survey service of domestic properties to various lending corporations and individual customers.

Each segment has various products and services and the revenue from these products and services are disclosed on pages 14 to 19 under Business Review.

The Directors monitor 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 2012 and financial year ended 31st December 2011 respectively.

Year ended 31st December 2012

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

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Balance sheet information				
Segment assets – intangible	128,490	9,768	–	**138,258**
Segment assets – other	37,084	7,018	16,749	**60,851**
Total Segment assets	165,574	16,786	16,749	**199,109**
Total Segment liabilities	(56,313)	(32,797)	(33,920)	**(123,030)**
Net assets/(liabilities)	109,261	(16,011)	(17,171)	**76,079**
Other segment items				
Capital expenditure	4,977	700	3	**5,680**
Depreciation	(3,168)	(298)	(33)	**(3,499)**
Amortisation of intangible assets	(1,072)	(2,400)	–	**(3,472)**
Share of results of joint venture	(1,283)	–	–	**(1,283)**
PI claim provision	–	(21,204)	–	**(21,204)**
Onerous leases provision	(875)	–	–	**(875)**
Share based payment	(353)	(212)	(82)	**(647)**
Impairment of brand	–	–	–	**–**
Impairment of trade receivables	(42)	(9)	–	**(51)**

Unallocated net liabilities comprise certain property, plant and equipment (£39,000), financial assets (£11,921,000), investments in joint ventures (£2,313,000), cash and bank balances (£225,000), other assets (£9,000), other taxes and liabilities (£219,000), other creditors (£45,000), accruals (£1,320,000) financial liabilities (£26,037,000), deferred and current tax liabilities (£3,222,000), interest rate swap (£836,000).

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

Year ended 31st December 2011

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

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

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

5. Finance income

	2012 £'000	2011 £'000
Interest receivable on funds invested	**10**	4

6. Finance costs

	2012 £'000	2011 £'000
Interest on revolving credit facility	**1,826**	1,422
Interest on loan notes	**299**	82
Unwinding of discount on PI provision	**508**	266
Unwinding of discount on contingent consideration (see note 21)	**258**	104
	2,891	1,874

7. Exceptional items and contingent consideration

	2012 £'000	2011 £'000
Exceptional costs:		
Employee costs		
Redundancy costs due to business reorganisation	**955**	266
Other		
Acquisition related costs	**(98)**	1,629
Branch closure costs	**245**	–
Gain on disposal of freehold properties	**(1,426)**	–
Onerous leases	**675**	–
Impairment of brand	**–**	153
Provision for PI claims/notifications	**17,333**	–
Total operating exceptional costs	**17,684**	2,048
Contingent consideration:		
Contingent consideration on acquisitions linked to employment	**4,152**	166
	4,152	166
Exceptional finance costs:		
Movement in fair value of interest rate swap	**(429)**	182
	(429)	182
Net exceptional cost	**21,407**	2,396

Branch closures

A number of branches closed in 2012 relating to the Your Move and Reeds Rains brands. This has resulted in redundancy costs, creation of onerous leases on the closed premises and other associated costs which have been treated as exceptional.

Gain on disposal of freehold properties

During the year, freehold properties relating to the HEAL acquisition with a book value totalling £4,663,000 (2011: nil) were sold for net proceeds of £6,178,000 (2011: nil) resulting in a gain on disposal of £1,515,000 (2011: nil). Other assets relating to closure of branches totalling £201,000 (2011: nil) were sold for net proceeds of £122,000 (2011: nil) resulting in a loss on disposal of 89,000 (2011: nil).

Provision for PI claims/notifications

During 2012 the Group has seen a deterioration in claims experience relating to the 2004 to 2008 period, which was a period of relatively high risk lending characterised by higher house prices, high loan-to-value ratios and considerable levels of buy-to-let and sub-prime lending. As a result the provision for PI costs has been increased.

The PI provision was made up of a 'Specific Provision' and 'Incurred But Not Reported' (IBNR). The Specific Provision was based on the Group's review of any notifications or claims which had been made against the Group as at 31st December 2012. The main factors considered in quantifying the specific provision were the likelihood that a claim would be successful, an assessment of the likely cost for each claim, including any associated legal costs, and whether any reduction in the claim is considered likely due to contributory negligence of the lender.

The IBNR provision, was based on Directors' estimates on the number of claims which would be received in the future with regard to work completed before 31st December 2012. The Directors have then applied an average cost per case, based on historical averages, to estimate the IBNR provision.

The increase in the PI provision was partly driven by lenders, most of whom are no longer active in the market, pursuing notifications and claims previously considered dormant. It has also been necessary to make additional provisions for existing claims which are being aggressively pursued by lenders who often use solicitors engaged on a no win, no fee basis. This trend has increased recently in advance of April 2013 when it is expected that the legislation governing civil litigation will change.

Both these factors have had a significant impact on the IBNR provision required for notifications and claims estimated to be received in the future for the 2004 to 2008 period. It should be noted this was the Directors' best estimate of future claims and the conclusions on the appropriate level of IBNR provision are sensitive to small changes in assumptions and are therefore highly subjective. The additional charge relating to the 2004 to 2008 risk years has been included as an exceptional item.

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

7. Exceptional items and contingent consideration (continued)

Contingent consideration

The acquisition of Marsh & Parsons in November 2011 has resulted in an exceptional contingent consideration expense of £1.8m (2011: £0.1m) in the current year. Assuming the level of profits and new branch openings remain on forecast, this charge is expected to continue at this level until 31st December 2015. The acquisitions of Davis Tate and Lauristons in the current year resulted in an exceptional expense of £2.3m (2011: £nil), but the impact of these acquisitions on future years will be far smaller unless there are significant changes in the forecast profitability of these acquisitions. See notes 21 and 27 to these Financial Statements for more details.

8. Profit before tax

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

	2012 £'000	2011 £'000
Auditors' remuneration (note 9)	**341**	589
Operating lease rentals:		
Land and buildings	**10,091**	9,817
Plant and machinery	**2,769**	3,214
(Gain)/loss on sale of property, plant and equipment	**(1,426)**	8

9. Auditors' remuneration

The remuneration of the auditors is further analysed as follows:

	2012 £'000	2011 £'000
Audit of the Financial Statements	**42**	40
Audit of subsidiaries	**204**	186
Total Audit	**246**	226
Audit related assurance services (interim results review fee)	**16**	14
Other assurance services	**4**	–
Tax compliance services	**64**	60
Tax advisory services	**11**	34
Corporate finance services	**–**	255
	341	589

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

10. Earnings per share

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

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

	2012 Profit after tax £'000	2012 Weighted average number of shares	2012 Per share amount Pence	2011 Profit after tax £'000	2011 Weighted average number of shares	2011 Per share amount Pence
Basic EPS	**7,001**	102,912,662	**6.8**	13,217	102,889,561	12.9
Effect of dilutive share options	**–**	–	**–**	–	1,829	–
Diluted EPS	**7,001**	102,912,662	**6.8**	13,217	102,891,390	12.9

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:

	2012 £'000	2011 £'000
Group operating profit before contingent consideration in acquisitions linked to employment, exceptional costs, share-based payments and amortisation (excluding non-controlling interest):	**35,124**	31,099
Net finance costs (excluding exceptional costs and unwinding of discount on contingent consideration)	**(2,623)**	(1,766)
Normalised taxation	**(7,963)**	(7,773)
Adjusted profit after tax[1] before exceptional costs, share-based payments and amortisation	**24,538**	21,560

Adjusted basic and diluted EPS

	Adjusted profit after tax[(1)] £'000	Weighted average number of shares	2012 Per share amount Pence	Adjusted profit after tax[(1)] £'000	Weighted average number of shares	2011 Per share amount Pence
Adjusted Basic EPS	**24,538**	102,912,662	**23.8**	21,560	102,889,561	21.0
Effect of dilutive share options	**–**	–	**–**	–	1,829	–
Adjusted Diluted EPS	**24,538**	102,912,662	**23.8**	21,560	102,891,390	21.0

1 This represents adjusted profit after tax attributable to equity holders of the parent. Tax has been adjusted to exclude the prior year tax adjustments, and the tax impact of exceptional items, amortisation and share-based payments. Effective tax rate considered to calculate normalised taxation in 2012 is 24.5% (2011: 26.5%).

11. Dividends paid and proposed

	2012 £'000	2011 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
2010 Final: 5.9p	**–**	6,065
2011 Interim: 2.8p	**–**	2,880
2011 Final: 5.9p	**6,070**	–
2012 Interim: 3.1p	**3,191**	–
	9,261	8,945
Dividends on Ordinary Shares proposed (not recognised as a liability as at 31st December):		
Equity dividends on Ordinary Shares:		
Dividend: 6.4p per share (2011: 5.9p)	**6,666**	6,070

12. Directors and employees

Remuneration of Directors

	2012 £'000	2011 £'000
Directors' remuneration (short-term benefits)[1]	**1,524**	1,122
Contributions to money purchase pensions schemes (post-employment benefits)	**37**	37
Share-based payments	**59**	208
	1,620	1,367

[1] Included within this amount is accrued bonuses of £442,000 (2011 – £88,000).

The number of Directors who were members of Group money purchase pension schemes during the year totalled 4 (2011: 4).

12. Directors and employees (continued)

Employee numbers and costs

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

	2012 £'000	2011 £'000
Wages and salaries	**124,597**	107,598
Social security costs	**12,702**	10,885
Pension costs	**1,917**	2,111
Total employee costs	**139,216**	120,594
Subcontractor costs	**3,008**	4,192
Total employee and subcontractor costs[1]	**142,224**	124,786
Share-based payment expense (see below)	**647**	787

[1] The total employee and subcontractor costs exclude employees redundancy costs of £954,000 (2011 – £266,000), which have been shown under exceptional costs (note 7).

The monthly staff numbers (including Directors) during the year averaged 4,113 (2011 – 3,930).

	2012	2011
Estate Agency and Related Services	**3,315**	3,083
Surveying and Valuation Services	**798**	847
	4,113	3,930

Share-based payments

Long Term Incentive Plan (LTIP)

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 providing the performance conditions are met.

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

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

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

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

Joint Share Ownership Plan (JSOP)

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

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

EPS growth p.a. [1]	Value of shares under the JSOP award at date of grant (as a percentage of salary) Chief Executive Officer	Senior Executives
10%	100%	100%
13%	150%	–
17%	200%	–

[1] With straight line vesting between points for the Chief Executive Officer's award.

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

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

	2012		2011	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**3.20**	**1,223,001**	3.20	382,104
Granted during the year	**–**	**–**	3.20	840,897
Lapsed during the year	**3.20**	**(123,695)**	–	–
Outstanding at 31st December	**3.20**	**1,099,306**	3.20	1,223,001

There were nil options exercisable at the end of the year (2011: nil). The weighted average fair value of options granted during the year was £nil (2011: £0.996). The weighted average remaining contractual life is 1.0 years (2011: 2.0 years).

Company Stock Option Plan (CSOP)

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

	2012		2011	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**2.44**	**809,010**	2.40	481,870
Granted during the year	**2.75**	**334,149**	2.50	327,140
Lapsed during the year	**2.40**	**(29,082)**	–	–
Outstanding at 31st December	**2.53**	**1,114,077**	2.44	809,010

There were nil options exercisable at the end of the year (2011: nil).

The weighted average fair value of options granted during the year was £1.22 (2011: £1.13). The weighted average remaining contractual life is 1.21 years (2011: 1.75 years).

Save-As-You-Earn scheme (SAYE)

In December 2006, the Group announced an employee SAYE scheme effective from January 2007 and in March 2008 the Group announced a new SAYE scheme effective April 2008. In March 2011, the Group announced a new SAYE scheme effective from April 2011. In March 2012, the Group announced a new SAYE scheme effective from April 2012. All these schemes are open to all qualifying employees and provide for an exercise price equal to the daily average market price on the date of grant less 20% for the 2007 and 2008 schemes and at the daily average market price for the 2011 and 2012 schemes. The options will vest if the employee remains in service for the full duration of the option scheme (three years). There are no cash settlement alternatives.

12. Directors and employees (continued)

2008 Scheme

	2012 Weighted average exercise price £	2012 Number	2011 Weighted average exercise price £	2011 Number
Outstanding at 1st January	–	–	1.155	764,977
Granted during the year	–	–	1.155	40,922
Exercised during the year	–	–	1.155	(805,899)
Outstanding at 31st December	–	–	–	–

The weighted average remaining contractual life was nil years (2011: nil years). There were nil options exercisable at the end of the year (2011: nil). The weighted average share price of the options exercised during the year was £nil per share.

The aggregate gains made by Directors on exercise of options in the year was nil (2011: £27,000).

2011 Scheme

	2012 Weighted average exercise price £	2012 Number	2011 Weighted average exercise price £	2011 Number
Outstanding at 1st January	**2.57**	**680,554**	–	–
Granted during the year	–	–	2.57	680,554
Lapsed during the year due to employees withdrawal	**2.57**	**(153,525)**	–	–
Outstanding at 31st December	**2.57**	**527,029**	2.57	680,554

The weighted average fair value of options granted during the year was £nil (2011: £1.13) and the weighted average remaining contractual life was 1.25 years (2011: 2.25 years). There were nil options exercisable at the end of the year (2011: nil).

2012 Scheme

	2012 Weighted average exercise price £	2012 Number	2011 Weighted average exercise price £	2011 Number
Outstanding at 1st January	–	–	–	–
Granted during the year	**2.62**	**360,728**	–	–
Outstanding at 31st December	**2.62**	**360,728**	–	–

The weighted average fair value of options granted during the year was £1.25 (2011: £nil) and the weighted average remaining contractual life was 2.25 years (2011: nil years). There were nil options exercisable at the end of the year (2011: nil).

Equity-settled

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

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

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

	2012 £'000	2011 £'000
Share-based payment charged during the year	**647**	787

A charge of £81,000 (2011: £273,000) relates to employees of the Company.

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

Cash-settled

As stated in note 21, in 2007 the Group issued shares in a subsidiary undertaking to certain employees of that subsidiary. The shares transferred are subject to restrictions on transferability if the concerned employees are not in continuous employment in the Group. The Group had a 'call option' on these shares and the exercise price for the call option is based on future profitability of the subsidiary. The Group has accounted for this share transfer as a cash-settled share-based payment due to the nature of the transaction. In 2010, the Group acquired the shares in the subsidiary for a total consideration of £328,000 of which £143,000 was paid in 2010. The remaining £185,000 was outstanding at 31st December 2012 (2011: £185,000) and is payable in March 2013.

13. Taxation

a. Tax on profit on ordinary activities

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

		2012 £'000	2011 £'000
UK corporation tax	– current year	**2,997**	5,383
	– adjustment in respect of prior years	**(1,407)**	160
		1,590	5,543
Deferred tax:			
Origination and reversal of temporary differences		**(1,718)**	(764)
Adjustment in respect of prior year		**(156)**	(422)
Total deferred tax credit		**(1,874)**	(1,186)
Total tax (benefit)/charge in the income statement		**(284)**	4,357

Income tax charged directly to equity is £2,456,000 (2011: £nil) and relates to the revaluation of financial assets (note 16).

In March 2012, the UK government announced proposals to reduce the main rate of corporation tax to 22% from 1st April 2014. As of 31st December 2012 reductions to the main rate of corporation tax to 23% had been enacted. Accordingly this is the rate at which deferred tax has been provided. If the subsequent reductions in the tax rate to 22% had been substantively enacted at 31st December 2012 the deferred tax liability would have reduced by £239,000.

13. Taxation (continued)

b. Factors affecting tax charge for the year

The tax assessed in the profit and loss account is lower (2011: lower) than the standard UK corporation tax rate, because of the following factors:

	2012 £'000	2011 £'000
Profit on ordinary activities before tax	**6,733**	17,592
Tax calculated at UK standard rate of corporation tax rate of 24.5% (2011 – 26.5%)	**1,650**	4,662
Non taxable negative goodwill on acquisition	**–**	(24)
Non taxable income from joint ventures	**(314)**	(180)
Benefit of deferred tax asset not previously recognised	**(49)**	75
Disallowable expenses	**295**	622
Impact of movement in contingent consideration charge to income statement	**1,017**	–
Share-based payment relief	**29**	141
Temporary differences on non-qualifying properties no longer recognised	**(1,060)**	(380)
Impact of rate change on deferred tax	**(289)**	(390)
Others	**–**	94
	1,279	4,620
Prior period adjustments – current tax	**(1,407)**	159
Prior period adjustment – deferred tax	**(156)**	(422)
Total taxation (benefit)/charge	**(284)**	4,357

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

	2012 £'000	2011 £'000
Unrecognised deferred tax asset relating to:		
Property, plant and equipment temporary differences	**–**	10
Losses	**3,277**	5,693
	3,277	5,703

No (2011: £nil) unrecognised deferred tax on losses carried forward relates to acquisitions during the year. The deferred tax assets in respect of property, plant and equipment temporary differences, other temporary differences and losses may be recoverable in the future and this is dependent on subsidiary companies generating taxable profits sufficient to allow the utilisation of these amounts. These deferred tax assets cannot be offset against profits elsewhere in the Group as they relate to losses brought forward which can only be offset against taxable profits arising from the same trade in which the losses arose. There is no time limit for utilisation of the above tax losses and other temporary differences.

d. Deferred tax

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

	2012 £'000	2011 £'000
Net deferred tax liability/(asset) at 1st January	**4,772**	2,183
Deferred tax liability arising on business combinations	**110**	3,775
Deferred tax liability recognised directly in equity	**2,456**	–
Deferred tax credit in income statement for the year (note 13a)	**(1,874)**	(1,186)
Net deferred tax liability at 31st December	**5,464**	4,772

Analysed as:

	2012 £'000	2011 £'000
Accelerated capital allowances	**(588)**	651
Deferred tax liability on separately identifiable intangible		
assets on business combinations	**4,137**	4,726
Deferred tax on financial assets	**2,456**	-
Deferred tax on share options	**(155)**	(63)
Deferred tax on interest rate swap	**(192)**	(316)
Other short-term temporary differences	**(194)**	(226)
	5,464	4,772

Deferred tax credit in income statement relates to the following:

	2012 £'000	2011 £'000
Intangible assets recognised on business combinations	**699**	822
Accelerated capital allowance	**1,239**	568
Deferred tax on share options	**92**	(259)
Other temporary differences	**(156)**	55
	1,874	1,186

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

14. Intangible assets

Goodwill

	2012 £'000	2011 £'000
Cost		
At 1st January	**116,452**	74,742
Arising on acquisitions during the year	**3,453**	41,710
Adjustment in respect of change in contingent consideration	**(156)**	–
At 31st December	**119,749**	116,452

	2012 £'000	2011 £'000
Carrying amount of goodwill by operating unit		
Estate Agency and Related Services companies		
Marsh & Parsons	**40,307**	40,307
Your Move	**39,088**	39,078
Reeds Rains	**15,279**	15,279
LSLi	**9,302**	6,015
AMF (trading as Pink Home Loans)	**2,604**	2,604
First Complete	**3,998**	3,998
Templeton LPA	**336**	336
Others	**348**	348
	111,262	107,965
Surveying and Valuation Services companies		
e.surv Chartered Surveyors	**8,487**	8,487
	8,487	8,487
	119,749	116,452

14. Intangible assets (continued)

Impairment of goodwill and other intangibles with indefinite useful lives

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

	2012 £'000	2011 £'000
Estate Agency and Related Services companies		
Marsh & Parsons	**11,724**	11,724
Your Move	**2,510**	2,510
Reeds Rains	**1,241**	1,241
LSLi	**1,044**	596
AMF (trading as Pink Home Loans)	**180**	180
	16,699	16,251
Surveying and Valuation Services companies		
e.surv Chartered Surveyors	**1,281**	1,281
	1,281	1,281
	17,980	17,532

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

- Estate Agency and Related Services companies
  - Marsh & Parsons
  - Your Move (including its share of cash flows from LSL CCS)
  - Reeds Rains
  - LSLi, which includes ICIEA, David Frost Estate Agency, JNP Estate Agents, GFEA, Davis Tate and Lauristons[1]
  - AMF
  - Templeton LPA
  - First Complete
- Surveying and Valuation Services companies
  - e.surv

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

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

Estate Agency and Related Services companies

The recoverable amount of the Estate Agency and Related Services companies has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Board and three year plan. The discount rate applied to cash flow projections is 11.3% (2011: 10.7%) and cash flows beyond the three year plan are extrapolated using a 0% (2011: 0%) growth rate even though there is evidence of gain in market share in 2012.

Surveying and Valuation Services companies

The recoverable amount of the Surveying and Valuation Services companies is also determined on a value-in-use basis using cash flow projections based on financial budgets approved by the board and three year plan. The discount rate applied to the cash flow projections is 11.3% (2011: 10.7%). The growth rate used to extrapolate the cash flows of the Surveying and Valuation Services companies beyond the three-year plan is 0% (2011: 0%).

Key assumptions used in value-in-use calculations

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

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

Discount rates reflect management's estimate of the post-tax Weighted Average Cost of Capital (WACC) of the Group and this is grossed up to arrive at a pre-tax discount rate (using a tax rate of 23%) of 11.3%. This is the benchmark used by management to assess operating performance and to evaluate future acquisition proposals.

Market share and market recovery assumptions are important because, as well as using industry data for growth rates (as noted below) management assess how the Company's relative position to its competitors might change over the budget period. Management expects the Group's share of the surveying market to remain at similar levels over the budget period. There has been growth in the market share of the Estate Agency companies organically (due to various market share growth initiatives). For impairment test purposes, management have not considered any further market share growth beyond 2012.

Growth rate estimates are conservatively estimated at nil (2011: nil) after the end of the three year plan. Given the housing and mortgage markets are currently considered to be at a very low point in the cycle, with transaction volumes at approximately half the long term average, this estimate is considered very conservative.

There has been no impairment in respect of the carrying amount of goodwill or brand (an indefinite useful life asset) held on the balance sheet.

Sensitivity to changes in assumptions

With regard to the assessment of value-in-use for each of the above companies, Directors believe that no reasonably possible change in any of the above key assumptions would cause the recoverable amount to be below the carrying value. Despite the unprecedented market conditions, the principal Estate Agency and Related Services companies, Your Move and Reeds Rains have been profitable in 2012.

14. Intangible assets (continued)

Other intangible assets

As at 31st December 2012

	Brand Names £'000	Customer Contracts £'000	Insurance Renewals £'000	Lettings Contracts £'000	Order Book £'000	Other [1] £'000	Total £'000
Cost							
At 1st January 2012	17,723	47,274	5,612	2,246	5,451	1,127	79,433
Arising on acquisition during the year	448	158	–	–	–	333	939
Disposals	–	(30,116)	–	–	–	–	(30,116)
At 31st December 2012	**18,171**	**17,316**	**5,612**	**2,246**	**5,451**	**1,460**	**50,256**
Aggregate amortisation and impairment							
At 1st January 2012	191	44,083	5,612	2,102	5,382	1,021	58,391
Disposals	–	(30,116)	–	–	–	–	(30,116)
Charge for the year	–	3,217	–	144	69	42	3,472
At 31st December 2012	**191**	**17,184**	**5,612**	**2,246**	**5,451**	**1,063**	**31,747**
Carrying amount							
At 31st December 2012	**17,980**	**132**	**–**	**–**	**–**	**397**	**18,509**

As at 31st December 2011

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

[1] Other relates to in-house software and franchise agreements.

The brand value relates to the following:

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

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.

At 31st December 2011, £2.4m of the balance in respect of customer contracts related to one contract. This was fully amortised in the year ended 31st December 2012, as the contract has now ended.

15. Property, plant and equipment

As at 31st December 2012

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

As at 31st December 2011

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

Assets held for sale

During the year the Group classified £1,097,000 (2011: £nil) as assets held for sale. This relates to seven freehold properties acquired as part of the HEAL acquisition in 2010 which are now being actively marketed. These assets are part of the Estate Agency and Related Services segment. During the year, freehold properties relating to the HEAL acquisition with a book value totalling £4,663,000 (2011: nil) were sold for net proceeds of £6,178,000 (2011: nil) resulting in a gain on disposal of £1,515,000 (2011: nil) which has been recorded in exceptional items (note 7).

16. Financial assets

Available-for-sale financial assets

	2012 £'000	2011 £'000
Unquoted shares carried at cost less impairment of £345,000 (2011: £345,000)	**148**	1,097
Less: Reclassified as investments (see note below)	**–**	(750)
Unquoted shares at fair value	**11,773**	–
	11,921	347

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

Unquoted shares carried at cost

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

Unquoted shares at fair value

In April 2012, the Group acquired a further 1.38% of Zoopla Group Limited (Zoopla) for £897,000. In August 2012, Zoopla merged with Digital Property Group (DPG), owner of Findaproperty.com and Primelocation.com. As part of the merger, any warrants held in Zoopla were exercised so that the Group now owns 4.81% of the post-merger entity.

At 31st December 2012, the Directors reviewed the fair value of Zoopla. Zoopla is a private company and so any assessment of fair value will be judgmental. The price paid per share in April 2012 was £6.03 which the Directors have assessed to be fair value at 31st December 2012. This values the combined Zoopla Group at £245m, with LSL Group's share of this being £11.8m. This resulted in a £10.7m valuation uplift being recorded at December 2012 on Zoopla shares with an original cost of £1.1m.

17. Investments in joint ventures

	2011 £'000	2011 £'000
Investment in joint ventures	**2,313**	1,768

The Group has a 33.33% interest in TM Group (UK) Limited, a jointly controlled entity whose principal activity is to provide property searches.

In July 2011, the Group also acquired a 33.33% interest in Cybele Solutions Holdings Limited (trading as Legal Marketing Services (LMS)) for a total consideration of £671,000. In December 2012, the Group paid an additional £10,000 to increase its ownership interest to 33.82%. The principal activity of LMS is to provide panel management of conveyancing services.

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

	2012 £'000	2011 £'000
Share of the joint ventures' balance sheets:		
Non-current assets	**995**	978
Current assets	**3,734**	3,189
Current liabilities	**(2,333)**	(2,008)
Non-current liabilities	**(83)**	(391)
Share of net assets	**2,313**	1,768

	2012 £'000	2011 £'000
Share of the joint ventures' results:		
Revenue	**20,520**	13,857
Operating expenses	**(18,968)**	(12,936)
Operating profit	**1,552**	921
Finance income	**16**	12
Finance costs	**(6)**	(3)
Profit before tax	**1,562**	930
Taxation	**(279)**	(251)
Profit after tax	**1,283**	679

18. Trade and other receivables

	2012 £'000	2011 £'000
Current		
Trade receivables	**20,966**	20,492
Prepayments and accrued income	**8,586**	8,189
	29,552	28,681

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

As at 31st December 2012, trade receivables with a nominal value of £1,233,000 (2011: £1,394,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2012 £'000	2011 £'000
At 1st January	**1,394**	533
Acquisitions during the year	–	403
Charge for the year	**52**	666
Amounts written off	**(213)**	(208)
At 31st December	**1,233**	1,394

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

			Past due but not impaired	
	Total £'000	Neither past due nor impaired £'000	0-90 days £'000	>90 days £'000
2012	**20,966**	**14,552**	**6,124**	**290**
2011	20,492	17,096	2,784	612

19. Cash and cash equivalents

	2012 £'000	2011 £'000
Short-term deposits	**225**	435

Cash at bank earns interest at floating rates based on daily bank overnight deposit rates. Short-term deposits are made for varying periods of between one day and three days depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £0.2m (2011: £0.4m). At 31st December 2012, the Group had available £49.0m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2011: £40.1m).

20. Trade and other payables

	2012 £'000	2011 £'000
Current		
Trade payables	**9,470**	8,112
Other taxes and social security payable	**9,199**	9,491
Other payables	**928**	577
Accruals	**28,208**	28,423
	47,805	46,603

Terms and conditions of the above financial liabilities:

- Trade payables are non interest bearing and are normally settled on between 30 and 60 day terms.
- Other payables are mainly non interest bearing and have an average term of three months.

21. Financial liabilities

	2012 £'000	2011 £'000
Current		
2% unsecured loan notes	**–**	1,496
Overdraft	**1,537**	–
Other unsecured loans	**–**	750
Contingent consideration	**369**	–
Deferred consideration	**490**	–
	2,396	2,246
Non-current		
Bank loans – Revolving Credit Facility (RCF)	**24,500**	34,918
12% unsecured loan notes	**8,660**	8,660
Deferred consideration	**450**	724
Contingent consideration	**7,719**	1,215
Derivatives carried at fair value	**836**	1,265
	42,165	46,782

2% unsecured loan notes (2% LN)

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

Other unsecured loan

The £750,000 outstanding at the prior year-end represented amounts payable to a customer of the Group and was repaid on 31st March 2012 and did not carry any interest.

Bank loans - revolving credit facility and overdraft

The bank loan totalling £24.5m (2011: £34.9m) and overdraft totalling £1.5m (2011: £nil) are secured via a cross guarantee issued from all of the Group's subsidiaries excluding the following subsidiaries, Lending Solutions, Homefast Property Services, Linear Mortgage Network, Linear Financial Services, Templeton LPA, AMF, BDS, Chancellors Associates and LSLi and its subsidiaries.

The utilisation of the revolving credit facility may vary each month as long as this does not exceed the maximum £75m facility (2011: £75m). The Group's overdraft is also secured on the same facility but can not exceed £5m and the combined overdraft and revolving credit facility can not exceed £75m (2011: £75m). The banking facility was renewed in 2010 for a further period until March 2014.

Interest and fees payable on the revolving credit facility amounted to £1.8m (2011: £1.4m). The interest rate applicable to the facility is LIBOR plus a margin rate of 1.75% (2011: LIBOR plus 1.75%). The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

12% unsecured loan notes (12% LN)

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

Deferred consideration

The total deferred consideration is as below:

	2012 £'000	2011 £'000
Acquisition of Barnwoods shares	**190**	190
Deferred consideration relating to Marsh & Parsons acquisition	**450**	334
Templeton LPA deferred consideration	**300**	200
	940	724

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

Deferred consideration of £450,000 relates to the Marsh & Parsons acquisition in November 2011. This is payable at any time between 31st March 2016 and 31st March 2020 at the option of Marsh & Parsons management shareholders of Marsh & Parsons.

Deferred consideration of £300,000 is payable on acquisition of Templeton LPA. This is payable in January 2013 and no interest is payable on this.

Contingent consideration

Due to changes in accounting standards effective from 2010 it is more likely that contingent consideration on future acquisitions will be recognised in the profit and loss instead of being recorded in full at acquisition. Further details are disclosed in note 2,7 and 27 to these Financial Statements.

£6,220,000 (2011: £1,149,000) of contingent consideration is payable to third parties in relation to the acquisition of certain subsidiaries in 2007 and 2012. This is payable between three and five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years. In 2012, the contingent consideration has been recalculated based on the latest management's expectation using a discount rate of 7% (2011: 7%).

£1,868,000 (2011: £66,000) of contingent consideration relates to the 'Growth Shares' issued to the management of Marsh & Parsons subsequent to acquisition as an incentive to grow the Marsh & Parsons business. Holders of Growth Shares will have the option to require LSL to buy their Growth Shares at any time between 31st March 2016 and 1st April 2020, at their discretion, at a price determined by a multiple of EBITDA in the previous financial year. The payment of the consideration is contingent on the holder of the Growth Shares being continuously employed by the relevant company and consequently the expected value of the Growth Shares is charged to the income statement over the earn-out period.

Derivatives carried at fair value –interest rate swap

During 2009 the Group entered into three interest rate swaps to hedge its interest rate risks (see note 29). These are carried at fair value.

22. Provisions for liabilities

	2012			2011		
	Professional indemnity claim provision £'000	**Onerous leases £'000**	**Total £'000**	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000
Balance at 1st January	**9,641**	**417**	**10,058**	10,901	992	11,893
Amount utilised	**(6,682)**	**(255)**	**(6,937)**	(4,031)	(243)	(4,274)
Amount released	**–**			–	(334)	(334)
Unwinding of discount	**508**	**–**	**508**	266	–	266
Provided in financial year (including exceptional costs)	**20,696**	**875**	**21,571**	2,505	2	2,507
Balance at 31st December	**24,163**	**1,037**	**25,200**	9,641	417	10,058
Current	**1,770**	**535**	**2,305**	512	194	706
Non-current	**22,393**	**502**	**22,895**	9,129	223	9,352
	24,163	**1,037**	**25,200**	9,641	417	10,058

The PI claim provision relates to ongoing and expected future legal claims relating to valuation services and is the Directors' best estimate of the likely outcome of such claims, taking account of the incidence of claims and the size of the loss that may be borne by the claimant after taking account of actions that can be taken to mitigate losses. The provision will be utilised as individual claims are settled and the settlement amount may vary from the amount provided depending on the outcome of each claim. It is not possible to estimate the timing of payment of all claims and therefore most of the provision has been classified as non-current. See also the explanation in note 7.

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

23. Obligations under leases

Operating leases

The Group had annual commitments in respect of non-cancellable operating leases for which no provision has been made in these Financial Statements (other than the onerous lease provision as disclosed in note 22). Future minimum rentals payable under these operating leases are as follows:

	2012			2011		
	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	**8,109**	**2,751**	**10,860**	8,814	2,099	10,913
After one year but not more than five years	**20,839**	**2,799**	**23,638**	20,078	2,147	22,225
After five years	**12,727**	**–**	**12,727**	8,931	–	8,931
	41,675	**5,550**	**47,225**	37,823	4,246	42,069

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

	2012 Land and buildings £'000	2011 Land and buildings £'000
Not later than one year	**707**	946
After one year but not more than five years	**1,497**	1,002
After five years	**436**	445
	2,640	2,393

24. Share capital

	2012		2011	
	Shares	**£'000**	Shares	£'000
Authorised:				
Ordinary shares of 0.2p each	**500,000,000**	**1,000**	500,000,000	1,000
Issued and fully paid:				
At 1st January and 31st December	**104,158,950**	**208**	104,158,950	208

25. Reserves

Share premium

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

Share-based payment reserve

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

Treasury shares

Treasury shares represent the cost of Ordinary Shares purchased in the market and held by the Trust to satisfy future exercise of options under the Group's share options schemes. At 31st December 2012 the Group held 1,246,288 (2011: 1,269,389) of its own shares at an average cost of £2.16 (2011: £2.28). The market value of the shares at 31st December 2012 was £3,228,000 (31st December 2011: £2,843,000). The nominal value of each share is 0.2p.

Fair value reserve

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

26. Pension costs and commitments

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

Total contributions to the defined contribution schemes in the year were £1,900,000 (2011: £2,100,000). There was an outstanding amount of £255,000 in respect of pensions as at 31st December 2012 (2011: £293,000).

27. Acquisitions during the year

Year ended 31st December 2012

The Group acquired the following businesses during the year:

a. Davis Tate Limited

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

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

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

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

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

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

b. Lauristons Limited

In July 2012, the Group acquired 85% of Lauristons, a 5 branch estate agency chain in South West London for a cash consideration of £1.8m. The remaining 15% is subject to put and call options exercisable in 2016 dependent on profit performance and in part continued employment of the vendors. Due to the nature of the payment terms, the deferred consideration is considered to be an employee expense and not a capital payment for accounting purposes (see note 7 for the expense in the current year).

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

	Fair value recognised on acquisition £'000
Intangible assets	212
Property, plant and equipment	84
Trade and other receivables	744
Cash and cash equivalents	(16)
Trade and other payables	(376)
Total identifiable net assets acquired	**648**
Purchase consideration	1,802
Goodwill	1,154
Purchase consideration discharged by:	
Cash	1,802
Deferred consideration	–
	1,802

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

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

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

c. Lettings acquisition by LSLi

During the year LSLi (through its subsidiaries) acquired a number of lettings businesses for an aggregate consideration of £323,000 in cash.

- Assets of the lettings business of Reynolds (Wimbledon) Limited acquired on 1st March 2011 – additional consideration £17,000 paid in 2012;
- Assets of the lettings business of Goddard Management Ltd trading as A120 Lettings acquired on 30th September 2011– additional consideration £47,000 paid in 2012;
- Assets of the Withers letting business acquired on 4th May 2012 for £79,000;
- Assets of Appletons lettings business acquired on 13th August 2012 for £180,000.

The combined fair values of the identifiable assets and liabilities as at the date of acquisition of the above acquisitions was £nil and so the entire purchase price of £323,000 was ascribed to goodwill.

The goodwill of £0.3m for the above acquisitions comprises certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the expected value of synergies and the potential to grow the business.

27. Acquisitions during the year (continued)

d. Acquisition by Linear Mortgage Networks

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

e. Lettings acquisition by Your Move

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

From the date of acquisition to 31st December 2012, the acquisitions in aggregate have contributed to £4.8m of revenue and £1.2m profit before tax of the Group, excluding the impact of movements in the contingent consideration recorded through the profit and loss. If all of these combinations had taken place at the beginning of the year, the consolidated revenue would have been higher by £6.5m and the consolidated profit before tax would have been higher by £1.4m.

Of the total goodwill arising on all acquisitions, none is expected to be deductible for tax purposes.

Year ended 31st December 2011

The Group acquired the following businesses during the year:

a. Marsh & Parsons

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

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

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

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

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

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

In addition to the consideration of £55.9m, management of Marsh & Parsons were issued 'Growth Shares' which entitle them to require LSL to buy their Growth Shares at any time between 31st March 2016 and 1st April 2020, at their discretion, at a price determined by a multiple of EBITDA in the previous financial year. In the current year £1,802,000 (2011: £66,000) has been expensed in the income statement.

b. Lettings acquisition by LSLi

During the prior year LSLi (through its subsidiaries) acquired a number of lettings businesses for an aggregate consideration of £755,000 in cash.

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

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

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

The goodwill of £0.7m for the above acquisitions comprises certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include the expected value of synergies and the potential to grow the business.

c. Lettings acquisition by Your Move and Reeds Rains

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

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

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

28. Client monies

As at 31st December 2012, client monies held by subsidiaries in separate bank accounts amounted to £65,501,000 (2011: £55,647,000). Neither this amount, nor the matching liabilities to the clients concerned are included in the Group balance sheet, as the Group is not entitled to the benefit from the use of the amount held in these accounts.

29. Financial instruments – risk management

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

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

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

29. Financial instruments – risk management (continued)

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

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

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

Cash flow interest rate risk

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

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

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

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

At 31st December 2012, after taking into account the effect of interest rate swaps, approximately 96% of the Group's revolving credit facility is at a fixed rate of interest (2011: 72%).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on that portion of loans and borrowings, which is not covered by the fixed interest rate swap. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows. There is no material impact on the Group's equity.

	Increase/ decrease in basis point	Effect on profit before tax £'000
2012	**+100**	**(10)**
	-100	**10**
2011	+100	(99)
	-100	99

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

Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generation by its operations, dividend policy and acquisition strategy. Acquisitions are carefully selected with authorisation limits operating up to Group board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating to facilitate fund raising. The Group is also very cash generative as demonstrated by the cash from operations. The Group has net current liabilities due to the operating model where debtors are collected earlier than payments to creditors, allowing the cash to be used elsewhere in the business such as to reduce the amount drawn down on the revolving credit facility and to make acquisitions. However, requirement to pay creditors is managed through future cash generation and if required from the revolving credit facility.

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

The table below summarises the maturity profile of the Group's financial liabilities at 31st December 2012 based on contractual undiscounted payments:

Year ended 31st December 2012

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
Interest bearing loans and borrowings (including overdraft)	1,537	318	956	34,103	–	**36,914**
Trade and other payables	–	9,470	–	–	–	**9,470**
Contingent consideration	–	–	380	8,811	–	**9,191**
Deferred consideration	–	490	–	450	–	**940**
Interest rate swap (gross outflow)	–	183	549	280	–	**1,012**
	1,537	**10,461**	**1,885**	**43,644**	**–**	**57,527**

Year ended 31st December 2011

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
Interest bearing loans and borrowings	–	393	2,672	46,216	–	**49,281**
Other unsecured loan	–	750	–	–	–	**750**
Trade and other payables	–	8,112	–	–	–	**8,112**
Contingent consideration	–	–	–	1,215	–	**1,215**
Deferred consideration	–	–	–	724	–	**724**
Interest rate swap (gross outflow)	–	182	547	992	–	**1,721**
	–	**9,437**	**3,219**	**49,147**	**–**	**61,803**

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

Year ended 31st December 2012

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	More than 5 years £'000	Total £'000
Inflows	–	31	92	47	–	**170**
Outflows	–	(183)	(549)	(280)	–	**(1,012)**
Net	–	(152)	(457)	(233)	–	**(842)**

Year ended 31st December 2011

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

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

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

Capital management

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

In the medium to long term, the Group will strive to maintain a reasonable leverage (i.e. balance between debt and equity) to help achieve the Group's business objectives of growth (through acquisitions and organic growth) and dividend policy. In the short term, the Group does not have a set leverage ratio to be achieved but the Directors monitor the ratio of net debt to operating profit to ensure that the debt funding is not excessively high. Certain loan notes issued on acquisition of Marsh & Parsons are excluded from this ratio as they are unsecured, are not relevant to calculate the Group's banking covenant and are due for repayment only after the expiry of the existing banking facility.

The Group has a current ratio of Net Bank Debt (excluding loan notes) to operating profit of 0.67 (2011: 1.15:1), based on Net Bank Debt (excluding loan notes) of £26.6m (2011: Net Bank Debt of £35.7m) and operating profit before exceptional costs, amortisation and share-based payment charge

29. Financial instruments – risk management (continued)

of £35.5m (2011: profit of £31.1m). The business is cash generative with a low capital expenditure requirement. The Group remains committed to its stated dividend policy of 30% to 40% of Underlying Operating Profit after interest and tax. In addition, the Group's other main priority is to generate cash to support its operations and to fund any strategic acquisitions.

	2012 £'000	2011 £'000
Interest bearing loans and borrowings (including loan notes and overdraft)	**44,561**	49,028
Less: 2% and 12% unsecured loan notes	**(8,660)**	(10,156)
Less: other loan notes	**–**	(750)
Less: cash and short term deposit	**(225)**	(435)
Less: deferred and contingent consideration	**(9,028)**	(1,939)
Net Bank Debt (excluding loan notes)	**26,648**	35,748

Credit risk

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

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

Interest rate risk profile of financial assets and liabilities

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

The interest rate profile of the financial assets and liabilities of the Group as at 31st December 2012 is as follows:

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

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

[1] Includes the effect of interest rate swap.

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

	Effective rate	Actual rate
Revolving credit facility	4.4%	2.2%
2% unsecured loan notes	2.0%	2.0%
12% unsecured loan notes	3.65%	12.0%

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

The interest rate profile of the financial assets and liabilities of the Group as at 31st December 2011 is as follows:

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

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

[1] Includes the effect of interest rate swap.

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

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

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

Fair values of financial assets and financial liabilities

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

	2012		2011	
	Book Value £'000	**Fair Value £'000**	Book Value £'000	Fair Value £'000
Financial assets				
Cash and cash equivalents	**225**	**225**	435	435
Available-for-sale financial assets	**11,921**	**11,921**	347	n/a[1]
Financial liabilities				
Interest-bearing loans and borrowings:				
Floating rate borrowings	**(26,037)**	**(26,037)**	(34,918)	(34,918)
Fixed rate borrowings	**–**	**–**	–	–
Derivative financial liabilities – interest rate swaps	**(836)**	**(836)**	(1,265)	(1,265)
Contingent consideration	**(8,088)**	**(8,088)**	(1,215)	(1,215)
Deferred consideration	**(940)**	**(940)**	(724)	(724)
2% unsecured loan notes	**–**	**–**	(1,496)	(1,483)
12% unsecured loan notes	**(8,660)**	**(8,660)**	(8,660)	(8,660)

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

[1] It was not possible to reliably determine the fair value of unquoted investments in available-for-sale financial assets in 2011. An estimate has been made as to the fair value of Zoopla in 2012 which has been recorded in the balance sheet (see note 16).

29. Financial instruments – risk management (continued)

Fair value hierarchy

As at 31st December 2012, the Group held the following financial instruments measured at fair value. The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

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

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

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

	2012 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	11,773	–	–	11,773
Liabilities measured at fair value				
Interest rate swap	836	–	836	–
Contingent consideration	8,088	–	–	8,088

	2011 £'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Liabilities measured at fair value				
Interest rate swap	1,265	–	1,265	–
Contingent consideration	1,215	–	–	1,215

The Directors reviewed the fair value of Zoopla at 31st December 2012. The methods used to determine the fair value are disclosed in more detail in note 16.

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.

The fair value of the contingent consideration has been increased from £1,215,000 to £8,088,000. £2,928,000 has been recorded directly through retained earnings as it relates to a new agreement with a non-controlling interest. £4,052,000 has been recorded through the profit and loss as an exceptional item (see note 7) as it relates to acquisitions where the payment of the consideration has been deemed to be linked to employment. The remaining movements in the provision have been recorded against goodwill is £155,000 reduction and interest expense due to the unwinding of the provision is £48,000 expense. Further details of these provisions are shown in note 21.

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

	2012 £'000	2011 £'000
Interest bearing loans and borrowings		
– Current	**2,396**	2,246
– Non-current	**42,165**	46,782
	44,561	49,028
Less: 2% unsecured loan notes	**–**	(1,496)
Less: 12% unsecured loan notes	**(8,660)**	(8,660)
Less: other loan notes	**–**	(750)
Add: cash and short-term deposits	**(225)**	(435)
Less: deferred and contingent consideration	**(9,028)**	(1,939)
Net Bank Debt at the end of the year	**26,648**	35,748

During the year, the Group has repaid £10.4m (2011: borrowed £33.4m) of the revolving credit facility. The utilisation of this revolving credit facility may vary each month as long as this does not exceed the maximum £75m facility (2011: £75m). In 2010 the banking facility was renewed and is repayable when funds permit or by March 2014.

31. Related party transactions

Key management personnel

In 2010, the Group acquired 4.95% shares from the employees of Barnwoods (of whom one was also a director of Barnwoods) for a total consideration of £328,000 of which £138,000 was paid in 2010 and the remaining £190,000 is payable in March 2013.

In 2011, one of the Executive Directors, Alison Traversoni benefitted from a reduction of £285 in Your Move fees being staff discount. Other than the above and the Directors' Remuneration as disclosed in note 12, there were no related party transactions with key management personnel.

Transactions with Cybele Solutions Holdings Limited and its subsidiaries

	2012 £'000	2011 £'000
Sales	**128**	438
Purchases	**(20)**	(29)
Year-end creditor balance	**–**	(6)

Transactions with TM Group and its subsidiaries

	2012 £'000	2011 £'000
Sales	**633**	–
Purchases	**–**	–
Year-end creditor balance	**–**	–

32. Capital commitments

	2012 £'000	2011 £'000
Capital expenditure contracted for but not provided	**140**	51

Financial Statements

33. Principal subsidiary and joint venture companies

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

Name of subsidiary company	Holding	Proportion of nominal value of shares held	Nature of business
your-move.co.uk Ltd	Ordinary shares	100%	Estate Agency and Related Services
e.surv Ltd[1]	Ordinary shares	100%	Surveying and Valuation Services
Marsh & Parsons Ltd	Ordinary shares	100%	Estate Agency and Related Services
Marsh & Parsons Holdings Ltd[1]	'A' Ordinary shares	100%	Holding Company
	'B' Ordinary shares	0%	
	'C' Ordinary shares	0%	
First Complete Ltd[1]	Ordinary shares	100%	Financial Services
LSL Corporate Client Services Ltd[1]	Ordinary shares	100%	Asset Management
St Trinity Ltd[1]	Ordinary shares	100%	Asset Management
Reeds Rains Ltd[1]	Ordinary shares	100%	Estate Agency and Related Services
Linear Mortgage Network Ltd	Ordinary shares	76%	Financial Services
Chancellors Associates Ltd	Ordinary shares	100%	Surveying and Valuation Services
LSLi Ltd[1]	Ordinary shares	75%	Holding Company
ICIEA Ltd	Ordinary shares	87.5%	Estate Agency and Related Services
Davis Tate Ltd	Ordinary shares	51%	Estate Agency and Related Services
Lauristons Ltd	Ordinary shares	85%	Estate Agency and Related Services
GFEA Ltd	Ordinary shares	75.1%	Estate Agency and Related Services
Barnwoods Ltd[1]	Ordinary shares	100%	Surveying and Valuation Services
David Frost Estate Agents Ltd	Ordinary shares	100%	Estate Agency and Related Services
	Non cumulative redeemable preference shares		
JNP (Estate Agents) Ltd	Ordinary shares	80%	Estate Agency and Related Services
	Ordinary 'B' shares		
	Ordinary 'C' shares		
Albany Insurance Company (Guernsey) Ltd[1]	Ordinary shares	100%	Captive Insurer
Advanced Mortgage Funding Ltd[1]	Ordinary shares	100%	Financial Services
	Preference shares	100%	
Templeton LPA Limited	Ordinary shares	100%	LPA Receiver
Cybele Solutions Holdings Ltd[2]	Ordinary 'A' Shares	33.82%	Conveyancing
TM Group (UK) Ltd[2]	Ordinary shares	33.33%	Property Searches

[1] Held directly by the Company.

[2] Joint ventures.

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

The Directors are responsible for preparing the annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

We have audited the parent company financial statements of LSL Property Services plc for the year ended 31st December 2012 which comprise the Parent Company Balance Sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 105, the Directors are responsible for the preparation of the parent company financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the parent company financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the 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 & Accounts to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the parent company financial statements:

- give a true and fair view of the state of the company's affairs as at 31st December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Other matters

We have reported separately on the group financial statements of LSL Property Services plc for the year ended 31st December 2012.

Stuart Watson (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds
28th February 2013

Parent Company Balance Sheet

as at 31st December 2012

	Note	2012 £'000	2011 £'000
Fixed assets			
Intangible fixed assets	2	**–**	(204)
Tangible fixed assets	3	**39**	70
Investments	4	**177,596**	160,952
		177,635	160,818
Current assets			
Debtors	5	**32,880**	28,269
Creditors: amounts falling due within one year	6	**(126,126)**	(88,398)
Net current liabilities		**(93,246)**	(60,129)
Total assets less current liabilities		**84,389**	100,689
Creditors: amounts falling due after one year	7	**(25,336)**	(39,765)
Net Assets		**59,053**	60,924
Capital and reserves			
Called up share capital	10	**208**	208
Share premium account	11	**5,629**	5,629
Share-based payment reserve	11	**1,526**	912
Treasury shares	11	**(2,691)**	(2,747)
Fair value reserve	11	**10,677**	–
Profit and loss account	11	**43,704**	56,922
Shareholders' funds		**59,053**	60,924

The Financial Statements were approved by the Board on 28th February 2013 and were signed on its behalf by:

Steve Cooke
Group Finance Director

Simon Embley
Group Chief Executive Officer

1. Accounting policies

Basis of preparation of financial statements

The Financial Statements of the Company have been prepared under the historical cost convention modified to include the fair value of derivative financial liabilities and are prepared in accordance with applicable Accounting standards in the United Kingdom and with those parts of the Companies Act 2006 applicable to companies reporting under UK GAAP.

The accounting policies which follow set out those policies which apply in preparing the Financial Statements for the year ended 31st December 2012. The Company's Financial Statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£000) except when otherwise indicated.

The Company has taken advantage of the exemption in paragraph 2D of FRS 29 *Financial Instruments: Disclosures* and has not disclosed information required by that standard, as the Group's Group Financial Statements, in which the Company is included, provide equivalent disclosures for the Group under IFRS 7 *Financial Instruments: Disclosures*.

Taxation

Current Tax

Current tax (UK corporation tax) is provided at amounts expected to be paid (or recovered) using the tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred Tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the Financial Statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the Financial Statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the Financial Statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pensions costs

The Company operates a defined contribution pension scheme for employees of the Company. The assets of the scheme are invested and managed independently of the finances of the Company. Contributions to the defined contribution scheme are recognised in the profit and loss account in the period in which they become payable.

Share-based payment transactions

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

The financial effect of awards by the Company of options over its equity shares to employees of subsidiary undertakings are recognised by the Company in its individual financial statements. In particular, the Company records an increase in its investment in subsidiaries with a credit to equity equivalent to the FRS 20 cost in subsidiary undertakings.

Investment in subsidiaries

Investments in subsidiaries are stated at cost and reviewed for impairment if there are any indications that the carrying value may not be recoverable.

Treasury shares

The Company has an employee share trust ("ESOT") for the granting of Group shares to Executive Directors and senior employees. Shares in the Company held by the ESOT are treated as treasury shares and presented in the balance sheet as a deduction from equity. Dividends earned on shares held in the ESOT have been waived.

Financial instruments

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

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

Interest bearing loans and borrowings

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

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

Borrowing costs are recognised as an expense when incurred.

Derivative financial instruments

The Company uses derivative financial instruments such as interest rate swaps to hedge its risks associated with interest rate fluctuations. Such derivative financial instruments are stated at fair value. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. Further details on the interest rate swap are included in note 29 to the Group Financial Statements.

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Such cost includes costs directly attributable to making the assets capable of operating as intended.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost, less estimated residual value of each asset evenly over its expected useful life as follows:

Fixtures and fittings	–	over 5 years
Computer equipment	–	over 3 years
Leasehold improvements	–	over the life of the lease period

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible fixed assets

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

Negative goodwill

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

2. Intangible fixed assets

As at 31st December 2012

	Negative goodwill £'000
Cost or valuation	
At 1st January 2012	(23,453)
Additions	–
At 31st December 2012	**(23,453)**
Amortisation	
At 1st January 2012	23,249
Credit during the year	204
At 31st December 2012	**23,453**
Carrying amount	
At 31st December 2011	**–**
At 1st January 2011	**(204)**

Negative goodwill

On 15th January 2010 the Company completed the acquisition of 100% of the share capital of New Daffodil Ltd ("NDL") (formerly HEAL). Subsequent to acquisition, the business of NDL was reorganised within the Group and the business of NDL together with certain assets were transferred to the Company for a total consideration of £1 (one pound). The Company then transferred most of the trade and assets to its subsidiaries Your Move, Reeds Rains, LSLi and St Trinity for a consideration of £1 (one pound) each. However, the following assets were acquired by the Company but not transferred further to Your Move, Reeds Rains, LSLi or St Trinity and this has resulted in the creation of negative goodwill:

	£'000
Assets acquired	
Investment in a private company	**750**
Cash	**22,703**
Net Assets	**23,453**
Consideration paid	**–**
Negative goodwill	**(23,453)**

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

3. Tangible fixed assets

As at 31st December 2012

	Leasehold improvements £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
At 1st January 2012	49	91	140
Additions	–	2	2
At 31st December 2012	**49**	**93**	**142**
Depreciation			
At 1st January 2012	14	56	70
Charge for the year	10	23	33
At 31st December 2012	**24**	**79**	**103**
Carrying amount			
At 31st December 2012	**25**	**14**	**39**
At 1st January 2012	35	35	70

4. Investments

	2012 £'000	2011 £'000
Subsidiary undertakings	**164,395**	159,335
Other investments	**11,769**	195
Investments in joint ventures	**1,432**	1,422
	177,596	160,952

Subsidiary undertakings:

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

	2012 £'000	2011 £'000
At 1st January	**159,335**	113,089
Additions	**4,495**	45,733
Adjustments for share-based payment	**565**	513
At 31st December	**164,395**	159,335

In 2012, an adjustment of £565,000 (2011: increase of £513,000) on investment in subsidiaries for the share-based payment, representing the financial effects of awards by the Company of options over its equity shares to employees of subsidiary undertakings. The total contribution to date is £3,332,000 (2011: £2,766,000).

Other investments

	2012 £'000	2011 £'000
At Cost		
At 1st January	**195**	195
Additions	**897**	–
Revaluation uplift	**10,677**	–
At 31st December	**11,769**	195

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

In April 2012, the Group acquired a further 1.38% of Zoopla for £897,000. In August 2012, Zoopla merged with Digital Property Group (DPG), owner of Findaproperty.com and Primelocation.com. As part of the merger, any warrants held in Zoopla were exercised so that the Group owned 4.81% of the post-merger entity.

4. Investments (continued)

At 31st December 2012, the Directors reviewed the fair value of Zoopla. Based on an analysis of the price paid per share in April 2012, an analysis of the valuation of Zoopla assumed as part of the merger and an analysis of trading subsequent to these events, the Directors determined that the most appropriate fair value for combined Zoopla Group was £245m, with LSL Group's share of this being £11.8m. This resulted in a £10.7m valuation uplift being recorded at December 2012.

Investments in joint ventures

	2012 £'000	2011 £'000
At Cost		
At 1st January	**1,422**	750
Additions	**10**	672
At 31st December	**1,432**	1,422

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

5. Debtors

	2012 £'000	2011 £'000
Deferred tax asset (note 8)	**203**	323
Corporation tax recoverable	**–**	764
Group relief receivable	**11,667**	9,445
Prepayments	**10**	2
Amounts owed by Group undertakings	**21,000**	17,735
	32,880	28,269

6. Creditors: amounts falling due within one year

	2012 £'000	2011 £'000
Bank overdraft (note 9)	**22,516**	8,613
Other taxes and social security payable	**219**	393
Accruals	**2,862**	1,899
Contingent consideration	**–**	145
Deferred consideration	**450**	334
Amounts owed to Group undertakings	**100,079**	77,014
	126,126	88,398

Contingent consideration

£nil (2011: £145,000) of contingent consideration is payable to third parties in relation to the acquisition of its subsidiaries in 2007 and 2012. This is payable between three and five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years. In 2012, the contingent consideration has been recalculated based on the latest management's expectation using a discount rate of 7% (2011:7%).

Deferred consideration

Deferred consideration of £450,000 relates to Marsh & Parsons acquisition in November 2011. This is payable at any time between 31st March 2016 and 31st March 2020 at the option of management of Marsh & Parsons Ltd. No interest is payable on this.

7. Creditors: amounts falling due after one year

	2012 £'000	2011 £'000
Loans (note 9)	**24,500**	38,500
Derivative financial liability – interest rate swap	**836**	1,265
	25,336	39,765

8. Deferred tax asset

	2012 £'000	2011 £'000
Deferred tax asset at 1st January	**323**	293
Deferred tax (charge)/credit in profit and loss account for the year	**(120)**	30
Deferred tax asset at 31st December	**203**	323

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

In March 2012, the UK government announced proposals to reduce the main rate of corporation tax to 22% from 1st April 2014. As of 31st December 2012 reductions to the main rate of corporation tax to 23% had been enacted. Accordingly this is the rate at which deferred tax has been provided. If the subsequent reductions in the tax rate to 22% had been substantively enacted at 31st December 2012 the deferred tax liability would have reduced by £17,000.

No provision has been made for deferred tax on gains recognised on revaluing investments. Such tax would become payable only if the investment were sold. The total amount unprovided for is £2,456,000. At present, it is not envisaged that any tax will become payable in the foreseeable future.

9. Loans

	2012 £'000	2011 £'000
Amounts falling due		
In more than one year but not more than two years	**24,500**	–
In more than two years but not more than five years	**–**	47,113
	24,500	47,113

Bank loans – revolving credit facility and overdraft

The bank loan totalling £24.5m (2011: £34.9m) and overdraft totalling £1.5m (2011: £nil), is secured via a cross guarantee issued from all of the Group's subsidiaries excluding the following subsidiaries, Lending Solutions, Homefast Property Services, Linear Mortgage Network, Linear Financial Services, Templeton LPA, AMF, BDS, Chancellors Associates and LSLi and its subsidiaries.

The bank loans relate to the revolving credit facility. The utilisation of this revolving credit facility may vary each month as long as this does not exceed the maximum £75m facility (2011: £75m). The Group's overdraft is also secured on the same facility but can not exceed £5m and the combined overdraft and revolving credit facility can not exceed £75m (2011: £75m). The banking facility was renewed in 2010 for a further period until March 2014.

The interest rate applicable to the facility is LIBOR plus a margin rate of 1.75% (2011: 2%). The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

10. Called up share capital

	2012 Shares	£'000	2011 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

Financial Statements

11. Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Treasury shares £'000	Fair value reserve £'000	Profit and loss account £'000	Total £'000
Balance at 1st January 2011	**208**	**5,629**	**1,014**	**(3,139)**	**–**	**35,333**	**39,045**
Share-based payments	–	–	787	–	–	–	787
Purchase of treasury shares	–	–	–	(1,762)	–	–	(1,762)
Reassurance of treasury shares	–	–	(889)	2,154	–	(307)	958
Dividend paid	–	–	–	–	–	(8,945)	(8,945)
Profit for the year	–	–	–	–	–	30,841	30,841
Balance at 1st January 2012	**208**	**5,629**	**912**	**(2,747)**	**–**	**56,922**	**60,924**
Revaluation of financial assets	–	–	–	–	10,677	–	10,677
Share-based payments	–	–	647	–	–	–	647
Reissuance of treasury shares	–	–	(33)	56	–	(23)	–
Dividend paid	–	–	–	–	–	(9,261)	(9,261)
Loss for the year	–	–	–	–	–	(3,934)	(3,934)
Balance at 31st December 2012	**208**	**5,629**	**1,526**	**(2,691)**	**10,677**	**43,704**	**59,053**

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

Share premium

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

Share-based payment reserve

This represents the amount provided in the year in respect of share awards. The Company operates Long Term Incentive Plan (including JSOP and CSOP) and a number of SAYE schemes for the employees in the Company and the Group. See note 12 to the Group Financial Statements for details of the LTIP, JSOP, CSOP and the SAYE schemes.

12. Company profit/loss for the financial year after tax

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The loss after tax for the year was £3,934,000 (2011: profit of £30,841,000).

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

The Company paid £42,000 (2011: £40,000) to its auditors in respect of the audit of the financial statements of the Company.

Fees paid to the auditors and their associates for non audit services to the Company itself are not disclosed in the individual accounts of LSL Property Services plc because group financial statements are prepared which are required to disclose such fees on a consolidated basis. These are disclosed in note 9 to the Group Financial Statements.

13. Pensions costs and commitments

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

The Company's contributions for 'old' members of the existing defined contribution section of the scheme (those members who have always been in this scheme) throughout 2008, were a maximum of 5% of pensionable salaries where members contribute and the cost of the death-in-service benefits. Contributions to the scheme were suspended in April 2009 and recommenced in 2010.

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

Total contributions to the defined contribution schemes in the year were £60,797 (2011: £54,324). There were no outstanding amounts in respect of pensions as at 31st December 2012 (2011: £nil).

14. Capital commitments

The Company had no capital commitments as at 31st December 2012 (2011: none).

15. Related party transactions

The Company has taken advantage of the exemption under FRS 8 not to disclose transactions with wholly owned subsidiaries. During the year the transactions entered into by the Company with the non wholly owned subsidiaries are as follows:

	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Linear Mortgage Network				
2012	–	–	121	–
2011	–	–	256	–
Linear Financial Services				
2012	–	–	277	–
2011	–	–	277	–
LSLi				
2012	–	–	8,440	–
2011	–	–	5,785	–
ICIEA				
2012	–	–	249	–
2011	–	–	63	–
Barnwoods				
2012	–	–	–	9,810
2011	–	–	–	3,410
JNP Estate Agents				
2012	–	–	28	–
2011	–	–	61	–
GFEA				
2012	–	–	792	–
2011	–	–	559	–
Intercounty Lettings				
2012	–	–	29	–
2011	–	–	29	–
Marsh & Parsons Holdings				
2012	–	–	1,661	–
2011	–	–	–	–

Other Information

IN THIS SECTION

Definitions

"2011 EBT" employee benefit trust established in November 2011 as part of the acquisition of Marsh & Parsons
"Adjusted Basic Earnings Per Share" is defined at note 10 of the Financial Statements
"AGM" Annual General Meeting
"AMF", **"Advance Mortgage Funding"**, **"Pink Home Loans"** or **"Pink"** are all trading names of Advance Mortgage Funding Limited
"Asset Management" refers to LSL's repossessions asset management and property management for multi property landlords services
"ARLA" Association of Residential Lettings Agents
"AMI" Association of Mortgage Intermediaries
"Audit Committee" LSL's audit committee
"Basic Earnings Per Share" is defined at note 10 of the Financial Statements
"Barnwoods" trading name of Barnwoods Limited
"BDS" is a trading name of BDS Mortgage Group Limited
"Board" the Board of Directors of LSL
"Committees" refers to LSL's Nominations Committee, Audit Committee and Remuneration Committee
"C&G" and **"Cheltenham & Gloucester"** are trading styles of Cheltenham & Gloucester plc
"Chairman" Roger Matthews
"Chairman of the Audit Committee" Mark Morris
"Company" LSL Property Services plc
"Code" UK Code of Corporate Governance by the Financial Reporting Council
"Company Secretary" Sapna B FitzGerald
"CSOP" company share ownership plan
"CSR" corporate social responsibility
"Davis Tate" trading name of Davis Tate Limited
"Director" an Executive Director or Non Executive Director of LSL
"DBP" deferred bonus plan
"DEFRA"Department for Enviroment, Food and Rural Affairs
"DPG" Digital Property Group
"EBITDA" earnings, before interest, taxes, depreciation and amortisation
"EPC" Energy Performance Certificate
"EPS" earnings per share
"Ernst & Young" trading name of Ernst & Young LLP
"ESG" environmental, social and governance
"Estate Agency Division" includes LSL's Residential Sales, Lettings, Financial Services, LPA fixed charge receiver and Asset Management businesses
"Estate Agency and Related Services" refers to LSL's Estate Agency Division
"e.surv Chartered Surveyors" or **"e.surv"** are trading names of e.surv Limited
"Executive Director" refers to Steve Cooke, Simon Embley and David Newnes
"Executive Director for Estate Agency" David Newnes
"Financial Services" refers to LSL's financial services business (including mortgage and protection brokerage and the operation of intermediary networks)
"Financial Statements" financial statements contained in this Report
"FRC" Financial Reporting Council
"FSA" Financial Services Authority
"First Complete" trading name of First Complete Limited
"Frosts" or **"David Frosts Estate Agents"** are trading names of David Frosts Estate Agents Limited
"Group" LSL Property Services plc and its subsidiaries
"Group CEO" or "Group Chief Executive Officer" Simon Embley
"Group Finance Director" Steve Cooke
"Group HR Director" Lisa Charles-Jones
"Growth Shares" the B1, B2 and C classes of ordinary shares (each £0.001) in Marsh & Parsons (Holdings) Limited
"Goodfellows" trading name of GFEA Limited
"Head of Risk and Audit" David Walsh
"HEAL" Halifax Estate Agencies Limited
"HEAL Business" HEAL branches and St Trinity Asset Management (formerly HEAL Corporate Services)
"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
"Independent Non Executive Director" refers to Helen Buck, Adrian Gill, Mark Morris and Mark Pain
"Intercounty", **"Intercounty Lettings"** or **"ICIEA"** are all trading names of ICIEA Limited
"IPO" initial public offering
"JNP" or **"JNP Estate Agents"** are trading names of JNP Estate Agents Limited
"JSOP" joint share ownership plan
"KPI" key performance indicators
"Lauristons" trading name of Lauristons Limited
"Legal Marketing Services" trading name of Legal Marketing Services Limited
"Lettings" refers to LSL's residential property lettings and property management services
"Linear" and **"Linear Mortgage Network"** are trading names of Linear Mortgage Network Limited
"Linear Financial Services" is a trading name of Linear Financial Services Limited
"Lloyds Banking Group" Lloyds TSB Bank plc group of companies
"LMS Direct Conveyancing" trading name of LMS Direct Conveyancing Limited

Definitions (continued)

"LPA" the Law of Property Act 1925
"LSLi" trading name of LSLi Limited and references in this Report include its subsidiaries JNP, Intercounty, Frosts, Goodfellows, Davis Tate and Lauristons
"LSL" LSL Property Services plc and, where the context so requires, its subsidiaries
"LSL Corporate Client Department" trading name of LSL Corporate Client Services Limited
"LSL Land & New Homes" trading style used by members of the Estate Agency Division
"LTIP" long term investment plan
"Marsh & Parsons" trading name of Marsh & Parsons Limited
"MBO" management buy out
"NAEA" National Association of Estate Agents
"NBS" New Bridge Street Limited
"Net Bank Debt" see note 30 of the Financial Statements
"NFoPP" National Federation of Property Professionals
"Non Executive Director" refers to Helen Buck, Adrian Gill, Roger Matthews, Mark Morris and Mark Pain
"Notice of Meeting" the circular made available to Shareholders setting out details of the AGM
"Openwork" trading name of Openwork Holdings Limited
"Ordinary Shares" 0.2p ordinary shares in LSL
"PI" professional indemnity
"Phillip Green" trading name of Intercounty
"PropertyCare+" e.surv's private surveying service delivered direct to private house purchasers
"RCF" revolving credit facility
"Reeds Rains" trading name of Reeds Rains Limited
"Reeds Rains Financial Services" trading name of Reeds Rains Financial Services Limited
"Registered Office" Newcastle House, Albany Court, Newcastle Business Park, Newcastle Upon Tyne NE4 7YB
"Report" LSL's annual report and accounts 2012
"Residential Sales" refers to LSL's services for residential property sales
"RICS" Royal Institution of Chartered Surveyors
"SAYE" save-as-you-earn
"Senior Independent Director" or "Senior Independent Non Executive Director" Mark Morris
"Shareholders" shareholders of LSL
"SIP" share incentive plan
"St Trinity Asset Management" trading name of St Trinity Limited
"Surveying Division" includes LSL's surveying and valuation businesses
"Surveying and Valuation Services" refers to LSL's Surveying Division
"Templeton" trading name of Templeton LPA Limited
"The Bridge" LSL's call centre operation based in Southampton
"The Mortgage Alliance" or **"TMA"** are trading names of First Complete's mortgage club
"TPO" The Property Ombudsman
"Trust" LSL Property Services plc Employee Benefit Trust
"Trustees" Capita Trustee Limited
"TSR" total shareholder return
"Underlying Operating Margin" Group Operating Profit before exceptional costs, amortisation and share based payments shown as a percentage of turnover
"Underlying Operating Profit/(Loss)" before exceptional costs, amortisation of intangible assets and share based payments
"Your Move" trading name of your-move.co.uk Limited
"Zoopla" trading name of Zoopla Property Group Limited

Investor Information

Company details

LSL Property Services plc
Registered in England (Company Number 5114014)
Registered Office
Newcastle House, Albany Court, Newcastle Business Park,
Newcastle Upon Tyne, NE4 7YB
Telephone: 0203 215 1015
Facsimile: 0207 920 9443
Email: enquiries@lslps.co.uk
Website: www.lslps.co.uk

Share listing

LSL Property Services plc 0.2p Ordinary Shares are listed on the London Stock Exchange under ISIN GB00BIG5HX72

Registrar

Capita Registrars
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Beckenham
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Overseas Telephone: +44 208 639 3399
Website: www.capitaregistrars.co.uk
Email: shareholder.services@capitaregistrars.com

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

Provisional calendar of events

Preliminary Results Released	**28th February 2013**
AGM Proxy Form Deadline	**2.30pm 30th April 2013**
AGM	**2.30pm 2nd May 2013**

The AGM will be held at LSL's offices at 1 Sun Street, London EC2A 2EP. The Notice of Meeting details the proposed resolutions.

In accordance with its Articles of Association, LSL publishes shareholder information, including notice of AGMs and the Annual Report and Accounts on its website, www.lslps.co.uk. Reducing the number of communications sent by post not only results in cost savings to LSL, it also reduces the impact that unnecessary printing and distribution of reports has on the environment.

At the 2007 AGM, a resolution was passed to amend LSL's Articles of Association to take full advantage of the provisions in the Companies Act 2006 in relation to electronic communications. In particular, the provisions enable all communications between the Shareholders and LSL to be made in electronic form. Documents will be supplied via LSL's website to Shareholders who have not requested a hard copy, or provided an e-mail address to which documents of information may be sent. Where a Shareholder has consented to receive information via the website, a letter will be sent to the Shareholder on release of any information directing them to the website.

If a Shareholder wishes to continue to receive hard copy documents they should contact Capita Registrars.

Shareholder Notes

LSL Property Services plc

LSL Property Services plc Annual Report and Accounts 2012

www.lslps.co.uk

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