LSL Property Services plc

Annual Report and Accounts Year ended 31st December 2017

LSL Property Services plc

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

Forward Looking Statements

This Report may contain forward looking statements with respect to certain plans and current goals and expectations relating to the future financial condition, business performance and results of LSL. By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of LSL including, amongst other things, UK domestic and global economic and business conditions, market related risks such as fluctuations in interest rates, inflation, deflation, the impact of competition, changes in customer preferences, delays in implementing proposals, the timing, impact and other uncertainties of future acquisitions or other combinations within relevant industries, the policies and actions of regulatory authorities, the impact of tax or other legislation and other regulations in the UK. As a result LSL's actual future condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward looking statements. Nothing in this Report should be construed as a profit forecast. Information about the management of the Principal Risks and Uncertainties facing LSL is set out within the Strategic Report on pages 22 to 27.

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Highlights 2017

Robust performance in subdued market conditions

Group

£311.5m
Group Revenue
(2016: £307.8m)

£37.5m
Group Underlying Operating Profit
(2016: £34.6m)

12.0%
Group Underlying Operating Margin
(2016: 11.3%)

£42.7m
Group Adjusted EBITDA
(2016: £40.1m)

£42.1m
Group Operating Profit
(2016: £65.4m)

£40.1m
Profit before tax
(2016: £63.5m)

£9.3m
Net exceptional gain
(2016: £32.2m)

28.3p
Adjusted Basic Earnings Per Share
(2016: 25.9p)

11.3p
Full year dividend per share
(2016: 10.3p)

Estate Agency and Related Services

£26.9m
Underlying Operating Profit
(2016: £24.5m)

Surveying and Valuation Services

£18.9m
Underlying Operating Profit
(2016: £17.5m)

	2017	2016	% Change
Group Revenue – £m	311.5	307.8	+1
Group Underlying Operating Profit[1] – £m	37.5	34.6	+8
Group Underlying Operating Margin – %	12.0	11.3	
Group Adjusted EBITDA[2]	42.7	40.1	+7
Group operating profit – £m	42.1	65.4	-36
Profit before tax – £m	40.1	63.5	-37
Net exceptional gain – £m	9.3	32.2	-73
Basic Earnings Per Share (EPS) – pence	32.6	49.2	-34
Adjusted Basic Earnings Per Share (EPS) – pence[3]	28.3	25.9	+9
Net Bank Debt[4] at 31st December – £m	30.0	20.3	-48
Final proposed dividend per share – pence	7.3	6.3	+16
Full year dividend per share – pence	11.3	10.3	+10

Notes:
[1] Group Underlying Operating Profit is before exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments (as defined in Note 5 to the Financial Statements)
[2] Group Adjusted EBITDA is Group Underlying Operating Profit plus depreciation on property, plant and equipment (as defined in Note 5 to the Financial Statements)
[3] Refer to Note 10 to the Financial Statements for the calculation
[4] Refer to Note 30 to the Financial Statements for the calculation

LSL Today

LSL has established leading positions in its market segments

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

Information included in this section of the Report is provided as at 5th March 2018.

Estate Agency Division - Estate Agency and Related Services

Residential Sales and Lettings

LSL is one of the largest estate agency networks in the UK[1]. It has strong established high street brands including Your Move, the largest UK single brand estate agent on the high street[2], and Marsh & Parsons which brings exposure to the prime and outer Central London property markets. Branch services include Residential Sales, Lettings and Financial Services and a successful franchise model which operates in 104 branches across predominantly Your Move and Reeds Rains. All Estate Agency brands are members of The Property Ombudsman (TPO) Redress Scheme, which operates a residential sales and lettings code of practice approved by the Trading Standards Institute (TSI) under its Consumer Codes Approval Scheme (CCAS). The Financial Services businesses are subject to the Financial Ombudsman Service and also contribute to the funding of the Financial Services Compensation Scheme through regulatory fees and charges.

Your Move
your-move.co.uk

The largest UK single branded estate agent[2] with 260 branches operating throughout the UK with strong brand awareness and one of the most visited UK estate agency websites[3] with over 11 million visits in 2017[4].

Reeds Rains
reedsrains.co.uk

A predominantly northern based network of 154 branches with the highest brand awareness of any estate agent brand in the North East, the North West and Yorkshire[2].

Marsh & Parsons
marshandparsons.co.uk

Leading London premium brand estate agency operating out of 27 branches in the prime Central, North West, West and South West London property markets.

LSLi
lsli.co.uk

LSLi is the holding company and financial services provider for nine estate agency brands with a network of 64 branches. The brands in the LSLi network are based predominantly in and around Greater London and the Home Counties.

Yopa
yopa.co.uk

In September 2017, LSL made a strategic investment in the online hybrid estate agent, Yopa, acquiring a 17.3% shareholding. Following this investment, LSL and Yopa started collaborative activities as part of a strategic partnership. Yopa operates independently of any other LSL company, under its own brand and management team.

Group First: Mortgages First and Insurance First Brokers
mortgages-first.co.uk insurance-first.co.uk

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

LSL Land & New Homes
lsllandandnewhomes.co.uk

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

Asset Management

LSL's asset management companies are market leaders in the sale of residential properties on behalf of corporate clients. In 2017 they managed 2,269 repossessions utilising a network of up to 1,157 estate agency branches nationwide.

LSL Corporate Client Department
lsl-ccd.co.uk

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

St Trinity Asset Management
sttrinityassetmanagement.co.uk

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

Templeton LPA
templetonlpa.co.uk

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

Financial Services

LSL's Financial Services teams specialise in the brokerage of mortgage, pure protection and general insurance products through a range of brands. Following the acquisition of Personal Touch Financial Services in January 2018, LSL's combined appointed representative network is the second largest in the UK[5] and across its brands, the Group has 682 appointed representative firms and 1,745 advisers. The total value of mortgage completions arranged by PRIMIS in 2017 was £21.0bn up 22.8% from 2016.

PRIMIS Mortgage Network
primis.co.uk

PRIMIS Mortgage Network is a trading name of First Complete and Advance Mortgage Funding and both companies are directly authorised by the FCA. First Complete acts as principal for most of the estate agency businesses within LSL's Estate Agency Division, enabling their employed financial consultants to offer Financial Services to customers of the branch networks. Advance Mortgage Funding (previously trading as Pink Home Loans), operates a mortgage intermediary network, providing products and services to financial intermediaries since 1990, joining the LSL Group in 2010.

The Mortgage Alliance
tmaclub.com

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

Personal Touch Financial Services
personaltouchfs.com

Personal Touch Financial Services is directly authorised by the FCA and operates a financial services intermediary network, providing products and services to financial intermediaries, launched in 1994 and joining the LSL Group in 2018.

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

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

Surveying Division – Surveying and Valuation Services

e.surv Chartered Surveyors
esurv.co.uk

e.surv Chartered Surveyors is one of the country's largest providers of property risk and residential valuation services[6]. Combining industry-leading technology with a nationwide network of over 400 surveyors, e.surv provides a range of products and services to a customer base that includes lenders, intermediaries, social housing entities, estate agents, private homeowners and other stakeholders in the UK residential property sector. Now in its fifth year, the e.surv Graduate Residential Surveying Programme has launched the careers of nearly 200 graduates and represents a strategic commitment to a sustainable and evolving industry.

Walker Fraser Steele
walkerfrasersteele.co.uk

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

Notes:
1 The LSL Estate Agency Network is made up of wholly owned and franchised branches. The market position is based on LSL's own calculations and assessment of branch numbers using publicly available data.
2 With 260 physical branches, Your Move has more branches than any other single brand of estate agents, verified using publicly available data.
3 Hitwise December 2017.
4 Google Analytics January – December 2017.
5 Which Network – network performance figures for 2017 showing the combined numbers for PRIMIS (First Complete and Advance Mortgage Funding).
6 The market position is based on LSL's own calculations and assessment using publicly available data.

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

Milestones

2013

New banking facility agreed.

Acquisition of Lawlors.

Completed five lettings book acquisitions.

Acquisition of Walker Fraser Steele.

2014

Commencement of a new contract with Lloyds Banking Group for UK residential survey and valuation services.

Commencement of renewed contract with Barclays Bank PLC for UK residential survey and valuation services.

ZPG plc IPO and special dividend of 16.5 pence per share paid to Shareholders.

Acquisition of Hawes & Co.

Completed 10 lettings book acquisitions.

2015

Acquisition of Thomas Morris.

Completed 30 lettings book acquisitions.

2016

Extension of banking facility to May 2020.

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

Sale of entire shareholding in ZPG plc.

Completed nine lettings book acquisitions.

2017

Strategic investment in Yopa, an online hybrid estate agent.

Extension of contract to supply UK residential survey and valuation services to Barclays Bank PLC.

Extension of contract to supply UK residential survey and valuation services to Santander UK plc.

Chairman's Statement

Introduction

I am pleased to report positive progress for the Group in 2017. Group Underlying Operating Profit[1] of £37.5m in 2017 increased 8% compared to the prior year (2016: £34.6m) with Group Adjusted EBITDA[2] up 7%. Group Revenue in 2017 grew by 1% to £311.5m (2016: £307.8m).

The Group's business model and disciplined focus on its strategy has enabled LSL to successfully navigate the challenging residential property market conditions in 2017.

The LSL strategy has been consistently and successfully executed in 2017 and remains unchanged. The Board remain confident of the opportunities for further positive progress for the Group.

Dividend

The Board continues to support our previously communicated dividend policy, to apply a dividend pay-out ratio of between 30% to 40% of Group Underlying Operating Profit after interest and tax. The Board has reviewed the policy while considering the risks and capital management decisions facing the Group.

Adjusted Basic Earnings Per Share for 2017 was 28.3 pence, an increase of 9.3% on the prior year (2016: 25.9 pence). The Board has a positive view of the future prospects for the business whilst also being mindful of the uncertain economic and political landscape which has an impact on consumer sentiment. The proposed dividend payment is at the upper end of the range of our stated policy and a final dividend of 7.3 pence per share (2016: 6.3 pence per share) will be proposed to Shareholders at the forthcoming AGM, giving a total dividend for 2017 of 11.3 pence per share (2016: 10.3 pence per share).

Our market position

LSL holds a market leading position in its core Estate Agency business comprising 12 Estate Agency brands, including Your Move, which is the largest UK single brand estate agent measured by the number of branches[3]. The businesses are organised to deliver integrated Residential Sales, Lettings and Financial Services, as well as a range of additional residential property related services.

Consumer confidence was impacted by rising inflation, subdued wage growth and changes to buy-to-let regulations, leading to reduced housing transactions in 2017. Despite the subdued market backdrop, LSL's focus on its stated strategy delivered growth in both Financial Services income and Lettings income and improved productivity in the Surveying business. These self-help measures have protected LSL from the full impact of the challenging housing market in 2017.

We continued to invest in our brands in 2017 to drive future growth, and increased dedicated headcount to support our successful Lettings and Financial Services income streams and to grow our Land & New Homes business. During 2017 we also opened two new Marsh & Parsons branches in outer prime Central London.

In Financial Services, during 2017 the Group arranged total mortgage lending of £21.0bn (2016: £17.1bn). Measured by the number of appointed representatives, as at 5th March 2018, LSL's overall combined network is the second largest in the UK[4]. Financial Services income represented 24% of total Group Revenue in 2017 (2016: 21%) and demonstrates LSL's growing position as a leading financial services distributor.

During 2017 and into 2018, we have assessed and continued to selectively acquire businesses and make strategic investments:

- Following LSL's strategic review of digital opportunities in the estate agency market, in September 2017 LSL made a 17.3% strategic acquisition of a shareholding in Yopa, an online hybrid estate agent. Following this investment, LSL and Yopa started collaborative activities as part of a strategic partnership.
- In January 2018 LSL acquired the entire issued share capital of Personal Touch Financial Services and its subsidiary company, Personal Touch Administration Services. Personal Touch Financial Services is a financial services business specialising in the provision of mortgage and other financial services products via its network of intermediaries. This acquisition supports LSL's stated strategy of enhancing its position as a leading mortgage distributor and is an excellent fit with our existing financial services businesses, which were rebranded to PRIMIS in February 2018. Details of the acquisition are included in this Report as a post balance sheet event.

Following the publication of the draft Tenant Fees Bill in November 2017, setting out the government's approach to banning letting fees paid by tenants, we are monitoring developments. Whilst the exact timing of the introduction of the legislation is uncertain, our current expectation is that it will be introduced in 2019.

Our Surveying Division continues to hold a market leading position, maintaining strong relationships with many of the UK's largest lenders. During 2017 LSL negotiated extensions to its contracts to supply UK residential surveying and valuation services to Barclays Bank PLC and Santander UK plc. LSL's Surveying Division is one of the country's largest providers of residential valuation services nationwide and is one of the largest employers of surveyors in the UK[4].

Simon Embley
Chairman

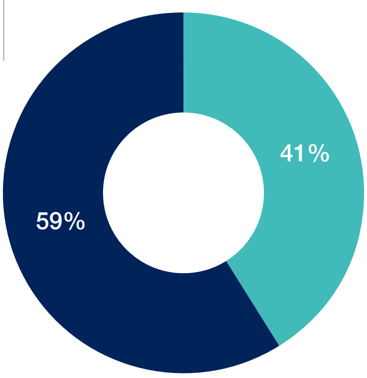
£311.5m
Group Revenue
Up 1.2% (2016: £307.8m)

£40.1m
Profit before tax
Down 36.8% (2016: £63.5m)

28.3p
Adjusted Basic Earnings Per Share
Up 9.3% (2016: 25.9p)

11.3p
Full year dividend per Share
Up 9.7% (2016: 10.3p)

Full year 2017
Underlying Operating Profit
£37.5m



Corporate Governance and Board
The Board remains committed to high levels of corporate governance and during 2017, LSL has complied in all respects with the UK Corporate Governance Code (April 2016 edition). We are also closely monitoring the Government's review of corporate governance and the FRC's consultation in relation to the Code.

As Chairman, with the responsibility for leadership of the Board, I review its effectiveness on all aspects of its role and encourage feedback. During our annual evaluation exercise we reviewed the composition of our Board and its Committees and concluded that we have the appropriate balance of skills, independence and knowledge of the Group to enable the Board to discharge our duties and responsibilities effectively.

Details of our corporate governance arrangements and the recommendations arising from the evaluation exercise are contained within the Corporate Governance Report and details of the Directors are included in The Board section of this Report.

Our people
Ultimately the success of our business model is attributable to, and underpinned, by our strong brands and excellence in the delivery of high levels of customer services by our colleagues throughout the Group. The total number of employees as at 31st December 2017 was 5,084 (2016: 4,990). I would like to take this opportunity to thank all of our colleagues for the continued hard work and commitment which they have demonstrated throughout 2017.

Outlook
Market conditions in 2018 have been slightly softer than the equivalent period in 2017. LSL's financial performance in 2018 has tracked closely to the Board's expectations and the Group is well placed to deliver a solid performance during the year. LSL continues to execute on its stated strategy and is well placed to deliver increased Shareholder value.

LSL expects to see a modest reduction in the volume of house purchase transactions compared to the prior year, with the rate of House Price Inflation outside Greater London continuing to ameliorate. Mortgage costs continue to be low by historic standards and mortgage availability remains good. The medium to longer term fundamentals of the UK housing market remain solid.

We are positive regarding the outlook for the business, driven in part by LSL's ambition to continue to deliver a programme of self-help measures, including organic growth in Estate Agency in Financial Services Income and Lettings Income, with the aim of optimising organic growth. LSL will also continue to evaluate selective acquisitions and in 2018, LSL's ambition is to restart its lettings book acquisition programme.

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

Simon Embley
Chairman
6th March 2018

Notes:
[1] Group Underlying Operating Profit is before exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments (as defined in Note 5 to the Financial Statements).
[2] Group Adjusted EBITDA is Group Underlying Operating Profit plus depreciation on property plant and equipment (as defined in Note 5 to the Financial Statements).
[3] Your Move has 260 branches and has been internally verified as the largest single brand estate agent in the UK
[4] LSL estimates on the combined networks of PRIMIS and Personal Touch Financial Services.

Group Chief Executive's Review

2017 Overview

The Group delivered a robust performance in 2017, particularly against the backdrop of a subdued residential property market during the year. I am pleased to report that in 2017, Group Revenue (+1%), Group Underlying Operating Profit (+8%) and Group Adjusted EBITDA (+7%) were all up year-on-year. Further, at the end of 2017 LSL's Net Bank Debt (£30m) and operational gearing[1] ratio (0.7x) both remained modest.

Group Revenue increased by 1% to £311.5m (2016: £307.8m). Group Underlying Operating Profit[2] was up 8% to £37.5m (2016: £34.6m). Group Adjusted EBITDA was up 7% to £42.7m (2016: £40.1m). 2017 Profit before tax of £40.1m was down compared to the prior year (2016: £63.5m). The 2016 financials included an exceptional gain on the disposal of ZPG plc shares of £32.9m.

In the Estate Agency Division, we continued to invest in the growing parts of our businesses and delivered strong year-on-year revenue growth in Lettings (+4%) and Financial Services (+16%). In the Surveying Division, we delivered strong profit growth (+8%), strong margins (29.4%) and we were pleased to announce contract extensions with Barclays Bank PLC (September 2017) and Santander UK plc (December 2017).

Yopa's latest TV advertising campaign, on air January 2018.

During 2017 LSL completed the exploration and evaluation of options to capitalise on digital opportunities created by the growth in consumer acceptance of online and hybrid estate agency business models. Following this evaluation, in September 2017, LSL announced the strategic acquisition of a 17.3% shareholding in Yopa for a total consideration of £20m. LSL and Yopa have started collaborative activities as part of a strategic partnership

The Market in 2017

The UK residential property sales market was subdued in 2017. Approvals for house purchases[3] in 2017 were down by 1.5% with the drop in market transactions more pronounced in London and the South East[4].

Approvals for house purchases were down 2.9% in the first half of 2017 compared to the same period in 2016 when an increase in Stamp Duty on 1st April 2016 led to a spike in market activity in the period up to the change. In the second half of 2017, approvals for house purchases were broadly flat compared to the same period in 2016. Whilst approvals for house purchases in the third quarter of 2017 were relatively positive (+5.4%) compared to the same period in 2016 when consumer confidence was impacted by the June 2016 EU referendum result, approvals for house purchases were down in the final quarter of 2017 (-5.5%) compared to the same period in 2016.

Total mortgage approvals[3] increased by 2.3% in 2017. This reflected an increase in remortgage approvals in the first half of 2017 (+3.6%) compared to the same period in 2016 reflecting low interest rates and the availability of remortgage products and also the second half of 2017 (+10.2%) reflecting a spike in remortgage activity following the interest rate increase announced by the Bank of England in November 2017.

Average house prices[5] in England and Wales grew by 0.2% (2016: 3.1%) to £301,022 annually with a drop in Greater London (-4.3%) and the South East (-0.2%) offsetting increases elsewhere in the country. Excluding Greater London and the South East, the average increase was 2.3%.

Residential property values in Greater London decreased by 4.3%. Within prime Central London (five prime boroughs) prices fell by 9.5% while the remainder of Greater London experienced a decrease of 1.3% in year-on-year house prices[5].

The proportion of new sales instructions placed with online and hybrid estate agents has continued to grow, increasing from 3% of the market in the second half of 2015 to 7% in the second half of 2017[6]. Channel dynamics continue to evolve in 2017 with online and hybrid agents share growing in both the first and second half of 2017 compared to the same periods in 2016, to represent circa 7% of new instructions (H216: 6%). Their market share remained broadly flat in the second half of 2017.

Ian Crabb
Group Chief Executive Officer

Total gross mortgage lending in 2017 was £256bn[7] (2016: £245bn). The proportion of mortgage lending in the market placed through intermediaries increased to 68% in 2017 (2016: 67%)[8].

Following market declines in the repossessions market in the past few years, market repossession volumes again declined in 2017, reducing by 4% to 7,400[9] total repossessions as interest rates remained low and was the lowest number since 1982.

Strategy

LSL remains committed to delivering on our stated strategy:

Estate Agency

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

Surveying and Valuation Services

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

In addition to delivering on our stated strategy, in the second half of 2017 we launched a new ways of working programme across our Estate Agency business to respond to the changing landscape and customer demands. We expect this to deliver improvements to our operational performance and result in enhancements to the quality of service provided to Estate Agency Division customers over the medium-term.

LSL performance in 2017

Estate Agency Division

Total Estate Agency income of £247.4m (2016: £243.1m) increased by 2%. This increase resulted from the consistent execution of our strategies with strong growth in both Lettings and in Financial Services income, where we continued to invest in additional people to support growth.

During 2017 eight owned branches and three franchises were selectively closed as part of the on-going management and optimisation of LSL's branch estate. LSL does not expect either a rationalisation from the current number of its Estate Agency brands or any material change to the size of its branch estate in the foreseeable future.

Residential Sales exchange income

Residential Sales exchange income decreased by 9% to £76.6m (2016: £83.8m) with average fees per unit down 1%. Exchange volumes fell by 7%, back 19% in the first quarter compared to the increased activity in the first quarter of 2016. This was attributable to the change in Stamp Duty on 1st April 2016, followed by a relatively flat second and third quarter in 2017 compared to the same periods in 2016. However the fourth quarter saw a subdued end to the year reflecting on-going market conditions in 2017.

Lettings income

We remain committed to our strategy of increasing recurring Lettings income. In 2017 we delivered growth in Lettings income of 4% (organic growth 3%). Lettings income increased as a proportion of the Estate Agency business and represented 30% of total Estate Agency Division income in 2017 (2016: 29%).

To drive recurring income growth, we have previously acquired lettings books which have been successfully integrated into our Estate Agency networks. Lettings book acquisitions were paused during the second half of 2016 and into 2017 following the EU referendum. Our ambition is to recommence lettings book acquisitions during 2018.

Financial Services

Total Financial Services income grew strongly again with 16% year-on-year growth in 2017. Adjusting for the acquisition of Group First in February 2016, we delivered organic growth of 14% as we continued to roll out our model across the Estate Agency business and delivered growth from our intermediary networks. Financial Services income increased as a proportion of the Estate Agency businesses and represented 30% of total Estate Agency Division income in 2017 (2016: 26%) reflecting our continuing strategy to enhance LSL's position as a leading distributor of mortgage and non-investment insurance products.

In 2017, LSL further strengthened its position as a leading distributor of mortgage and non-investment insurance products and delivered strong growth in the value of mortgage completions which were up to £21.0bn in 2017 (2016: £17.1bn). Further, measured by the number of appointed representatives, as at 5th March 2018, LSL's overall combined network is the second largest in the UK[10].

Marsh & Parsons

LSL estimates that residential sales volumes in the prime Central London market fell by more than 15% in 2017 with prime Central London house prices falling by 9.5%. Given the overall challenging prime Central London market, Marsh & Parsons delivered a positive top line performance with revenue up by 2% in 2017 to £34.3m (2016: £33.5m).

Marsh & Parsons Residential Sales income fell by 5% in 2017 which represents a solid performance in light of the overall prime Central London market conditions. We are pleased with the Lettings performance with income growth of 10% (9% adjusting for branch openings). Lettings revenue now represents 59% of Marsh & Parson's total revenue (2016: 56%).

Expenditure at Marsh & Parsons increased by 4% during 2017 including the investment in additional Lettings headcount to support revenue growth, additional investment in headcount for New Homes, full year costs for branches opened in 2016 and the opening of two new branches in 2017. These increases have been partly offset by the gain on sale of leasehold premises (£0.7m in the first half of 2017). Full year operating profit fell by 12% to £3.9m (2016: £4.4m).

We continued with our branch expansion strategy in 2017, opening two new branches during the year in the outer prime Central London locations of Brixton and Islington. We are pleased with the performance of these new branches. This takes our total number of Marsh & Parsons branches to 27 as at 31st December 2017.

Our ambition is to expand to 36 branches in the medium-term. Outer prime Central London has not been as negatively impacted as prime Central London and Marsh & Parsons is looking to expand its branch footprint in outer prime Central London locations. Marsh & Parsons is also planning to open a new branch in Chiswick in the spring of 2018.

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

Underlying Operating Profit per owned branch in 2017 increased to £32,000 (2016: £30,500) reflecting the growth in Financial Services income and Lettings income offset by the impact of the challenging residential sales market conditions on Residential Sales exchange income.

LSL has increased Underlying Operating Profit per owned branch from £30,100 in 2013 to £32,000 in 2017. Our medium-term ambition is to drive Underlying Operating Profit per owned branch to between £80,000 and £100,000 on the expectation of a normalised level of market transactions in the UK residential property sales market.

Our Lettings growth and Financial Services growth across the network continues to underpin this ambition and we will also focus on our Land & New Homes business. We will also plan to selectively deploy new technology to improve the consumer journey and increase efficiency.

Surveying Division

Surveying revenue was £64.1m (2016: £64.7m), a decrease of 1% on the previous year with the total number of jobs performed during the year of 309,499 (2016: 318,077) reflecting the overall management of the mix of jobs. Profit growth was strongly influenced by the successful continuation of investment in our IT platform, optimising efficiency and operational performance. This continued focus on optimising efficiency drove an increase in income per job to £207, an improvement of 2% year-on-year. We delivered strong growth in Underlying Operating Profit to £18.9m (2016: £17.5m)

Investment in technology has enabled e.surv to optimise efficiency.

with an enhancement of profit margin to 29.4% (2016: 27.1%).

In 2017 we signed contract extensions with two of our largest customers, Barclays Bank PLC and Santander UK plc.

The total number of qualified surveyors at 31st December 2017 was 321, which is broadly in line with 2016. Our on-going graduate programme continues to be successful and assists in alleviating the impact of capacity constraints in the market.

Our customers

Our continued focus on providing the best service to our customers has been recognised in 2017 and 2018 with numerous industry awards including:

- *Marsh & Parsons*: **International Property Awards (UK) 2017**: Best Estate Agent, London – Gold Award, Best Estate Agency Marketing, London – Gold Award. **The London Magazine Club Awards 2017**: Advertising Campaign of the Year – Gold Award.
- *Your Move*: **British Property Awards 2017**: Gold Award for ten Your Move branches.
- *Reeds Rains*: **Best Estate Agent Guide 2018 (*)**: Leamington Spa – Top 100 Agent, Rated Exceptional, Kenilworth Lettings – Rated Highly. **British Property Awards 2017**: Gold Award for two Reeds Rains branches.
- *Davis Tate*: **Best Estate Agent Guide 2018 (*)**: Didcot Lettings – Top 100 Agent, Rated Exceptional, Henley Sales & Lettings – Top 100 Agent, Rated Exceptional (Lettings), Twyford Sales – Top 100 Agent, Burghfield Sales and Lettings – Rated Excellent, Pangbourne, Reading, Wallingford and Wantage Sales – Rated Highly, Abingdon, Reading and Wantage Lettings – Rated Highly. **The 2017 allAgents Awards**: Best Estate Agent – 17 Gold Awards in various locations, Best Letting Agent – 20 Gold Awards in various locations.
- *Frost's*: **Best Estate Agent Guide 2018(*)**: Harpenden Sales and Lettings – Top 100 Agent, Rated Exceptional.
- *Goodfellows*: **Best Estate Agent Guide 2018(*)**: Morden Sales – Rated Exceptional, Wimbledon Sales (under Finch & Co – Goodfellows) – Rated Excellent, Carshalton Beeches, Cheam Village, Raynes Park and Mithcam Sales – Rated Highly, Raynes Park Lettings – Rated Highly. **The 2017 allAgents Awards** – Best Estate Agent – 9 Gold Awards in various locations, Best Letting Agent – 4 Gold Awards in various locations.
- *JNP*: **Best Estate Agent Guide 2018(*)**: High Wycombe Sales – Rated Highly, Princes Risborough Sales – Rated Highly, Hazlemere Sales – Rated Excellent,

Stokenchurch Sales – Rated Exceptional. **British Property Awards 2017**: Gold Award for Princes Risborough branch.

- *Thomas Morris*: **Best Estate Agent Guide 2018(*)**: Biggleswade Sales – Top 100 Agent, Rated Exceptional, St Neot's Sales – Rated Exceptional, Sawtry Sales – Rated Excellent. **The Negotiator Awards**: Medium UK Estate Agency of the Year – Gold Award. **Relocation Agent Network Awards**: Customer Relocation Award – Winner, Best Regional Agent Award – East Anglia and Essex Regional Winner. **Agents Giving Awards 2017**: Outstanding Contribution Award. **The Guild of Property Professionals Awards**: East Anglia – Winner. **Fine & Country Awards 2017**: St.Neots, East Anglia Regional Award – Winner. **The 2017 allAgents Awards**: Best Estate Agent, East of England – Gold Award.
- *e.surv Chartered Surveyors*: Awarded: ISO27001 Information Security Global Standard. Re-awarded: ISO 9001:2015 Global Quality Management Systems. Awarded: RoSPA Quality Safety Award, Level 3. Awarded: BS 18001 Occupational Health & Safety Award.
- *PRIMIS (Advance Mortgage Funding)*: **Financial Adviser Service Awards 2017** – 5 Star Award.
- *LSL Financial Services*: **Precise Mortgage Awards**: Best Distribution Group 2017.

(*) As judged and announced in 2017

Balance sheet and exceptionals

The Group has a strong balance sheet with closing Net Bank Debt at 31st December 2017 of £30.0m (2016: £20.3m) and a gearing level at 0.70 times Group Adjusted EBITDA[1] (2016: 0.51 times).

In relation to the PI Costs provision, the Group continued to make positive progress in addressing historic claims and there has been a net £3.7m exceptional gain (H117: £1.1m, H217: £2.6m).

In July 2017 LSL disposed of its investment in GPEA for cash (£3m) and shares in eProp Services plc with an exceptional gain of £5.6m.

Post balance sheet events

In January 2018, LSL acquired the entire issued share capital of Personal Touch Financial Services and its subsidiary company, Personal Touch Administration Services. Personal Touch Financial Services is a financial services business specialising in the provision of mortgage and other financial services products via its network of intermediaries.

This acquisition supports LSL's stated strategy of enhancing its position as a leading financial services distributor and growing long-term profitability in the provision of residential property services in the UK by identifying value enhancing opportunities. LSL has deep sector expertise in the provision of financial services and Personal Touch Financial Services is an excellent fit with our existing Financial Services businesses.

In January 2018, LSL extended its banking facility until May 2022. The facility comprises a £100m revolving credit facility (RCF) (2016: £100m).

Our people

I would like to take this opportunity to thank all my colleagues across our business for their professionalism and dedication during 2017. I look forward to working with my colleagues to deliver a successful year in 2018.

Outlook

Market conditions in 2018 have been slightly softer than the equivalent period in 2017. LSL's financial performance in 2018 has tracked closely to the Board's expectations and the Group is well placed to deliver a solid performance during the year. LSL continues to execute on its stated strategy and is well placed to deliver increased Shareholder value.

LSL expects to see a modest reduction in the volume of house purchase transactions compared to the prior year, with the rate of House Price Inflation outside Greater London continuing to ameliorate. Mortgage costs continue to be low by historic standards and mortgage availability remains good. The medium to longer term fundamentals of the UK housing market remain solid.

We are positive regarding the outlook for the business, driven in part by LSL's ambition to continue to deliver a programme of self-help measures, including organic growth in Estate Agency in Financial Services Income and Lettings Income, with the aim of optimising organic growth. LSL will also continue to evaluate selective acquisitions and in 2018, LSL's ambition is to restart its lettings book acquisition programme.

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

Ian Crabb
Group Chief Executive Officer
6th March 2018

Notes:

1 Operational gearing is defined as Net Bank Debt divided by Group Adjusted EBITDA (Group Adjusted EBITDA is Group Underlying Operating Profit (Note 5 to the Financial Statements) plus depreciation on property plant and equipment).

2 Group Underlying Operating Profit is before exceptional costs, contingent consideration, amortisation of intangible assets and share-based payments (as defined in Note 5 to the Financial Statements).

3 Bank of England for "House Purchase Approvals" and "Total Mortgage Approvals" - December 2017 released January 2018.

4 LSL estimates and including Land Registry regional data (Oct 2017),

5 December 2017 LSL Property Services/ACADATA HPI

6 LSL sources/data analysis.

7 UK Finance "Gross mortgage lending estimate" – January 2018.

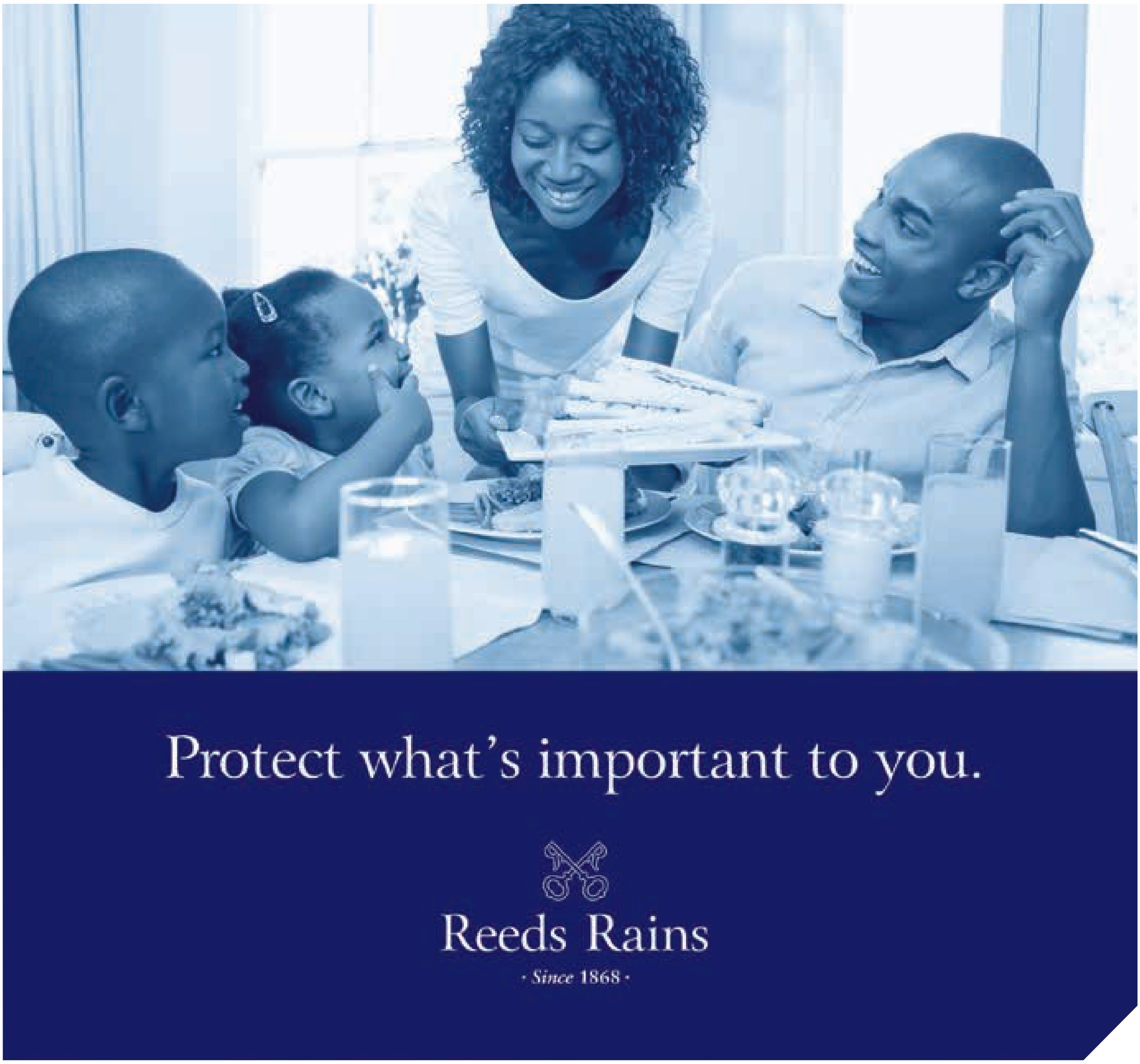
8 UK Finance, new mortgages sold by intermediaries – February 2018.

9 UK Finance "Possessions on mortgaged properties" – January 2018, released February 2018.

10 Which Network? January 2018.

Strategic Report

In this section



Reeds Rains brochure.

Strategy

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

LSL remains committed to the strategy to grow long-term profitability in the UK residential property services sector, by identifying value enhancing opportunities.

The components of LSL's strategy are:

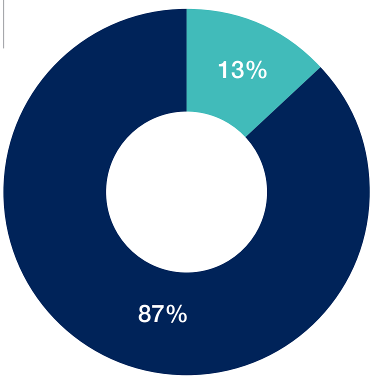
Estate Agency and Related Services:
- Ambition to drive operating profit per branch to between £80,000 and £100,000 in the medium-term.
- Ambition to expand the number of Marsh & Parsons branches to a total of 36 in the medium-term, particularly outside prime Central London.
- Grow recurring and where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

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

In addition to delivering on our stated strategy, in the second half of 2017 LSL launched a new ways of working programme across our Estate Agency business to respond to the changing landscape and customer demands. LSL expect this to deliver improvements to operational performance and result in enhancements to the quality of service provided to Estate Agency Division customers over the medium-term.

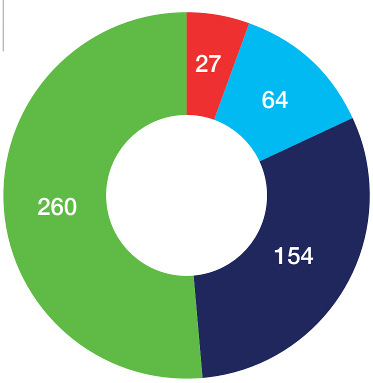
Full year 2017 average FTE

4,515



Estate Agency branches

505



Estate Agency and Related Services:

Residential Sales and Lettings
- Deliver future branch profitability through Lettings income growth, Financial Services income growth, Land & New Homes growth and re-engineering the costs base together with volume and fee growth, lettings book acquisitions and selective branch refurbishments.
- Provide a service proposition that recognises customer needs and maximises income across the value chain.
- Drive organic growth through increasing Residential Sales transaction volumes and investing further in Lettings services.
- Grow LSL's share of the prime and outer prime Central London Residential Sales and Lettings markets by supporting Marsh & Parsons' branch expansion plans.
- Grow recurring revenue (e.g. Lettings) and, where market conditions permit, counter-cyclical income (e.g. Asset Management).
- Identify, evaluate and invest in selective acquisitions.

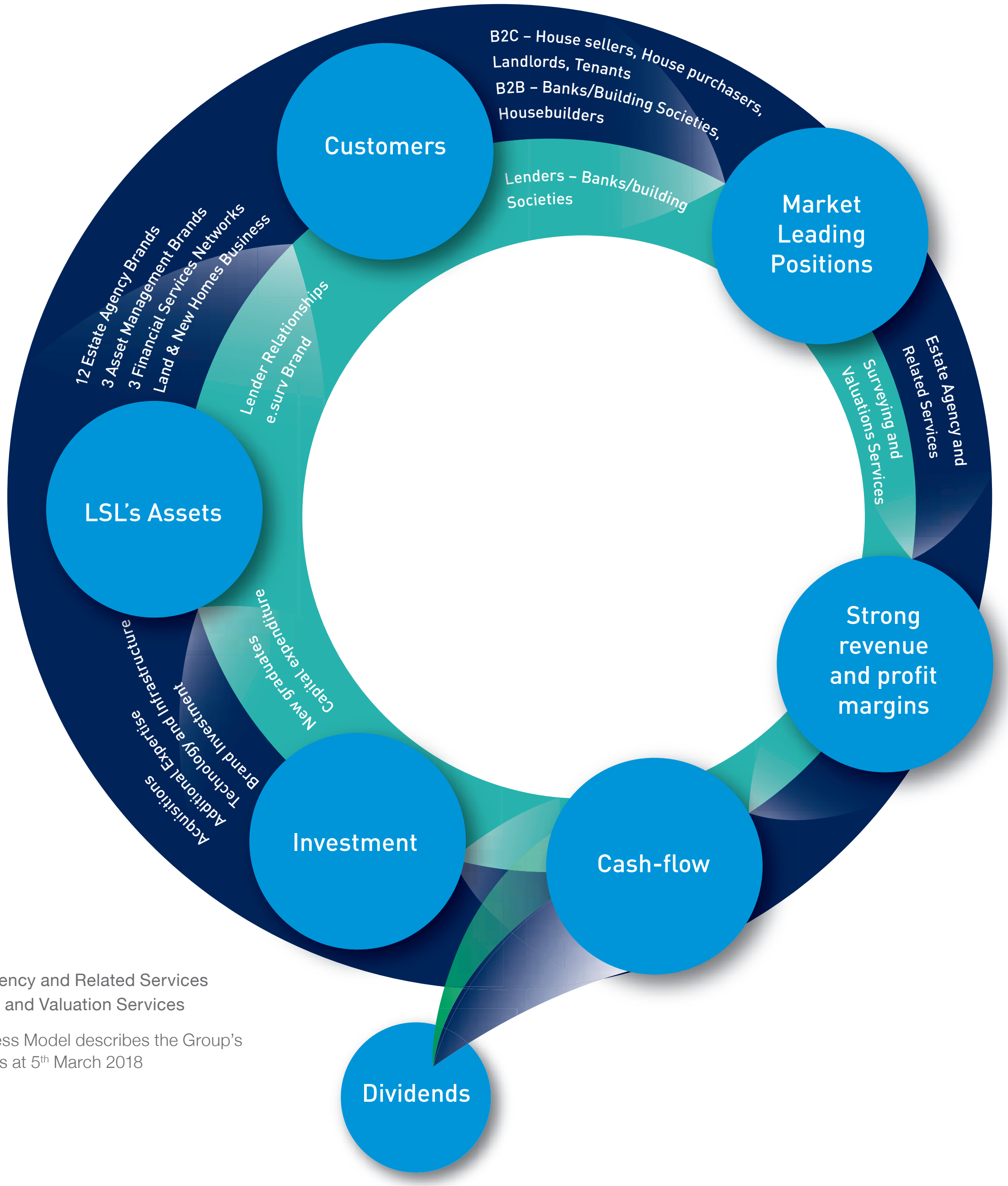
Asset Management
- Grow counter-cyclical income streams where market conditions permit.
- Increase market share by providing innovative solutions and strong service delivery to a broader selection of clients.

Financial Services
- Consistent delivery of appropriate customer outcomes for consumers and maintain focus on best practice standards of regulatory compliance.
- Capitalise on mortgage market shift towards intermediary distribution channels.
- Investment in selective acquisitions.
- Investment in additional mortgage advisers within the Estate Agency branches.
- Grow LSL's intermediary networks and expansion of the Group's mortgage club and realise synergies and cost savings to make the networks more efficient.
- Enhancements of technology solutions to improve the customer experience, raise productivity and deliver process efficiencies.
- Use the networks to strengthen relationships with key lender clients and to provide high quality service and good financial outcomes for consumers.

Surveying and Valuation Services:
- Focus on the business to business market where the economics are better and service business to consumer clients where capacity allows.
- Optimise contract performance and revenue generation from business to business customers.
- Investment in a market leading IT system that provides scalable and secure technology to deliver services to clients.
- Continue focus on improving efficiency through optimising capacity management supported by new IT technology.
- Continued investment and delivery of the graduate training programme which assists in alleviating the impact of capacity constraints in the market.

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

Business Model



■ Estate Agency and Related Services
■ Surveying and Valuation Services

Note: Business Model describes the Group's operations as at 5th March 2018

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

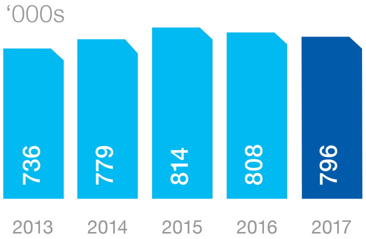
- LSL has market leading positions in residential property surveying, mortgage valuations, asset management, residential sales and lettings, as well as mortgage, pure protection and general insurance brokerage services.
- LSL serves retail customers in its Estate Agency businesses, such as house sellers and buyers, and landlords and tenants by providing Residential Sales, Lettings, as well as mortgage, pure protection and general insurance brokerage services and other related services.
- LSL serves business customers in its Surveying and Asset Management businesses, such as banks and building societies, and benefits from long-term relationships and contracts.
- The growth and reputation of LSL is dependent on providing exceptional service and appropriate outcomes for customers.
- The business model has demonstrated resilience to changes in the residential property market due to its market positions in Lettings (recurring income) and Asset Management (counter-cyclical income).
- The model benefits from scale and investment to ensure the Surveying business has the best technology in the market to help it maintain its market leading position and to improve quality, service performance and risk management for clients.
- The Estate Agency branches focus on customer service by utilising hubs and call centres to provide instructions to the branches and to handle certain administrative tasks centrally.
- The business has low capital requirements and is highly cash generative.
- LSL allocates the strong cash generation between paying dividends to Shareholders, reinvesting in the business to drive future organic growth, and in making selective, value adding acquisitions.

Markets

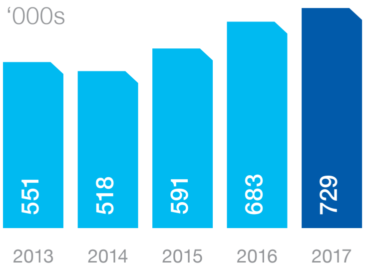
LSL operates across the residential property services value chain

Market transaction data

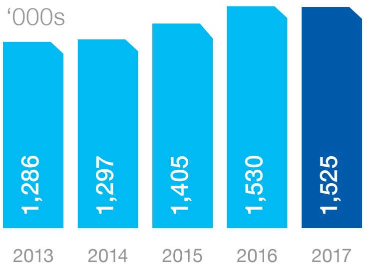
Total mortgage approvals for house purchase[1]



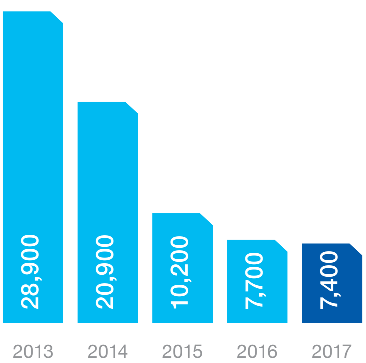
Remortgage and other loans volumes[1]



Total mortgage approvals[1]

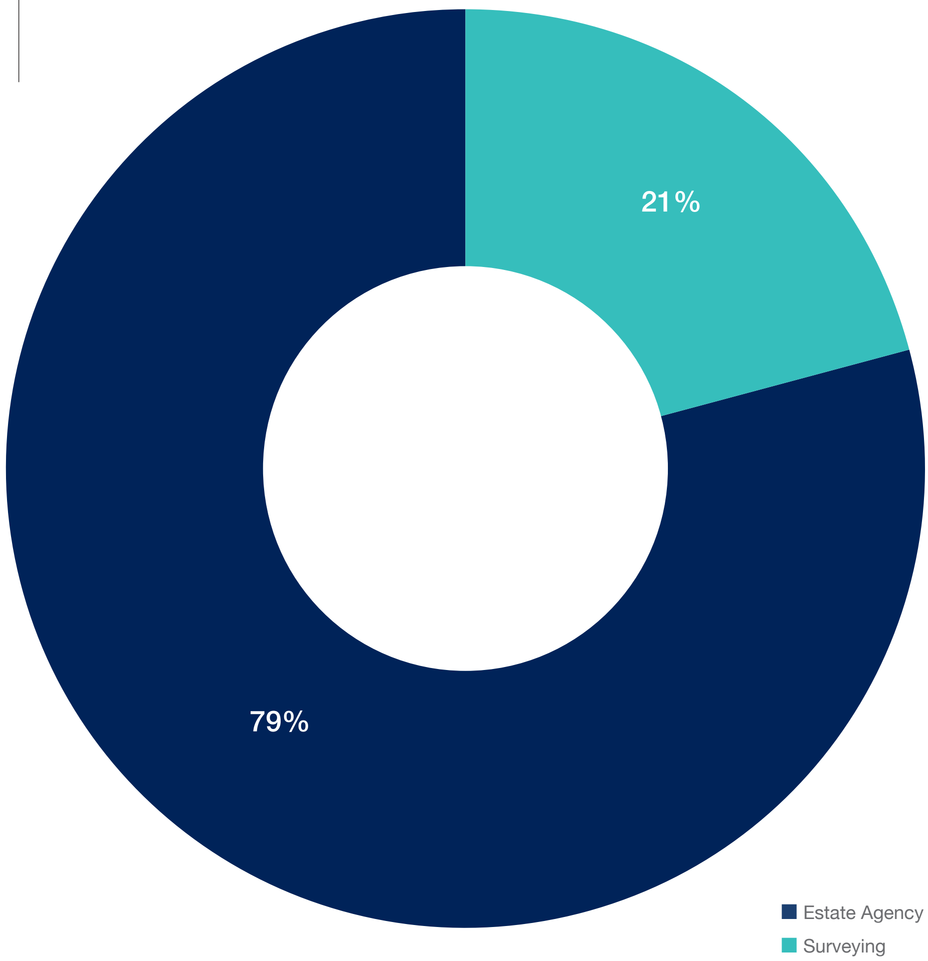


Repossessions volumes[2]



Full Year 2017 Revenue

£311.5m



In 2017 total mortgage approvals decreased by 0.3% to 1,525,000 (2016: 1,530,000)[1]. Overall house purchase approvals fell by 1.5% to 796,000 (2016: 808,000)[1]. Remortgage volumes of 729,000 were up by 6.7% compared to 2016 (2016: 683,000)[1].

LSL's Markets

LSL's market can be categorised into two principal segments

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

Estate Agency and Related Services

Estate Agency and Related Services 79.4%

of Group Revenue in 2017 (2016: 79.0%)

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

Residential Sales and Lettings 48.3%

of Group Revenue in 2017 (2016: 50.4%)

Estate Agency services for residential property sales.

Comprehensive Lettings service for residential landlords and tenants.

The market in 2017

The UK residential property services market was subdued in 2017. Approvals for house purchases[1] in 2017 were down by 1.5% with the drop in market transactions more pronounced in London and the South East[2].

Approvals for house purchases were down 2.9% in the first half of 2017 compared to the same period in 2016 when an increase in Stamp Duty on 1st April 2016 led to a spike in market activity in the period up to the change. In the second half of 2017, approvals for house purchases were broadly flat compared to the same period in 2016. Whilst approvals for house purchases in the third quarter of 2017 were relatively positive (+5.4%) compared to the same period in 2016 when consumer confidence was impacted by the June 2016 EU referendum result, approvals for house purchases were down in the final quarter of 2017 (-5.5%) compared to the same period in 2016.

Total mortgage approvals[1] increased by 2.3% in 2017. This reflected an increase in remortgage approvals in the first half of 2017 (+3.6%) compared to the same period in 2016 reflecting low interest rates and the availability of remortgage products, and also the second half of 2017 (+10.2%) reflecting a spike in remortgage activity following the interest rate increase announced by the Bank of England in November 2017.

Average house prices[3] in England and Wales grew by 0.2% (2016: 3.1%) to £301,022 annually with a drop in Greater London (-4.3%) and the South East (-0.2%) offsetting increases elsewhere in the country. Excluding Greater London and the South East, the average increase was 2.3%.

Residential property values in Greater London decreased by 4.3%. Within prime Central London (five prime boroughs) prices fell by 9.5% while the remainder of Greater London experienced a decrease of 1.3% in year-on-year house prices[3].

The proportion of new sales instructions given to online and hybrid estate agents has continued to grow, increasing from 3% of the market in the second half of 2015 to 7% in the second half of 2017[4]. Channel dynamics continue to evolve in 2017 with online and hybrid agents share growing in both the first and second half of 2017 compared to the same periods in 2016, to represent circa 7% of new instructions (H216: 6%). LSL's market share remained broadly flat in the second half of 2017.

The total gross mortgage lending in 2017 was £256bn[5] (2016: £245bn). The proportion of mortgage lending in the market placed through intermediaries increased to 68% in 2017 (2016: 67%)[6].

Following market declines in the repossessions market in the past few years, market repossession volumes again declined in 2017, reducing by 4% to 7,400[2] total repossessions as interest rates remained low and was the lowest number since 1982.

Asset Management 2.0%

of Group Revenue in 2017 (2016: 2.1%)

Repossessions asset management services for lenders.

Property management services for multi-property landlords.

Repossession volumes fell by 4% to 7,400 (2016: 7,700) in 2017[2] in a declining market.

Mortgage, pure protection and general insurance brokerage services 23.9%

of Group Revenue in 2017 (2016: 20.8%)

Brokerage services for mortgages, pure protection and general insurance.

Other income 5.2%

of Group Revenue in 2017 (2016: 5.6%)

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

Surveying and Valuation Services

Surveying and Valuation Services 20.6%

of Group Revenue in 2017 (2016: 21.0%)

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

Notes:

1 Bank of England for 'House purchase approvals' and 'Total mortgage approvals' - December 2017 released January 2018.

2 LSL estimates and including Land Registry regional data (October 2017).

3 December 2017 LSL Property Services/ACADATA HPI.

4 LSL sources/data analysis.

5 UK Finance 'Gross mortgage lending' estimate – January 2018.

6 UK Finance, new mortgages sold by intermediaries – February 2018.

Business Review

Estate Agency Division

+2%
Total income
2016: +3%

-9%
Exchange income
2016: -10%

+4%
Lettings income
2016: +9%

+16%
Financial Services income
2016: +27%

-1%
Fee per exchange unit
2016: -2%

10.9%
Operating margin
2016: 10.1%

Financial	2017 £m	2016 £m	% change
Residential Sales exchange income	76.6	83.8	-9
Lettings income	73.9	71.4	+4
Financial Services income	74.4	64.1	+16
Asset Management income	6.3	6.6	-4
Other income[1]	16.2	17.2	-6
Total income	247.4	243.1	+2
Operating expenditure	(220.5)	(218.6)	-1
Underlying Operating Profit[2]	26.9	24.5	+10

KPIs	2017	2016	% change
Exchange units	25,176	27,193	-7
Underlying Operating Margin (%)	10.9	10.1	-
Fees per unit £	3,042	3,083	-1

Market data	2017	2016	% change
House purchase approvals (000s)[3]	796	808	-1
Total mortgage approvals (000s)[3]	1,525	1,530	-
UK housing transactions (000s)[4]	1,220	1,235	-1
Repossessions[5]	7,400	7,700	-4

Notes:

[1] 'Other income' includes franchising income, conveyancing services, EPCs, Home Reports, utilities and other products and services to clients of the branch network.
[2] Refer to Note 5 to the Financial Statements for the calculation.
[3] Bank of England, 'Mortgage approvals for house purchases' and 'Total mortgage approvals' – December 2017, released January 2018.
[4] HMRC Stats, 'Monthly property transactions completed in the UK with value of £40,000 or above' – December 2017, released January 2018.
[5] UK Finance 'Possessions on mortgaged properties' January 2018, released February 2018.

Estate Agency Division performance

Year-on-year income growth in the Estate Agency Division was 2%. Lettings income and Financial Services income showed positive growth with Residential Sales performance reflecting market conditions.

Residential Sales exchange income

Residential Sales exchange income decreased by 9% to £76.6m (2016: £83.8m), average fees per unit decreased by 1%. Residential Sales exchange volumes fell by 7%.

Lettings income

Lettings income grew in each quarter of the year as LSL continued to focus on this recurring revenue stream. Total Lettings growth for the year of 4% comprised organic growth of 3% and a full year of lettings books acquired in 2016 as well as the positive impact of the opening of additional Marsh & Parsons branches in 2016 and 2017.

Financial Services income

Total Financial Services income is delivered through the Estate Agency Division's branches, Group First (acquired in 2016) and the intermediary networks of PRIMIS grew strongly again with 16% year-on-year growth in 2017, as well as income growth across all Estate Agency brands and also the intermediary network businesses.

Other income

Other income fell by 6% year-on-year in large part due to a fall in conveyancing income due to lower residential transaction volumes.

Asset Management

Asset Management maintained its position in a smaller repossessions market.

Estate Agency Division operating margin

The Estate Agency Division Underlying Operating Margin was 10.9% in 2017 (2016: 10.1%).

Regulation – Financial Services

PRIMIS is the trading name of both First Complete and Advance Mortgage Funding, and both companies are directly authorised by the FCA in relation to the sale of mortgage, pure protection and general insurance products.

Your Move, Reeds Rains, First2Protect, Mortgages First, Insurance First and Embrace Mortgage Services along with the LSLi subsidiaries are all appointed representatives of First Complete.

Linear Financial Solutions is an appointed representative of Advance Mortgage Funding for mortgage and insurance business and also an appointed representative of Openwork for investment business.

In 2018, LSL acquired Personal Touch Financial Services which is also directly authorised by the FCA in relation to mortgage, pure protection, general insurance and investment products.

First Complete acts as principal for most of the estate agency businesses within LSL's Estate Agency Division, enabling their employed financial advisers to offer Financial Services to customers of the branch networks. Advance Mortgage Funding (previously trading as Pink Home Loans) and Personal Touch Financial Services both operate intermediary networks, providing products and services to financial services intermediaries.

LSL's Financial Services businesses are also members of the Association of Mortgage Intermediaries (AMI) which is an industry representative and trade body and the Financial Services businesses are subject to the Financial Ombudsman Service and contribute to the funding of the Financial Services Compensation Scheme through regulatory fees and charges.

The Financial Services businesses have dedicated compliance teams and the Financial Services activities are subject to the oversight of the Financial Services Risk Committee and Financial Services Management Committee.

Regulation – Residential Sales and Lettings

The Estate Agency Division's branches adhere to the Codes of Practice issued by industry professional and regulatory bodies, including The Property Ombudsman (TPO) and/or the Association of Residential Lettings Agents (ARLA)/ National Association of Lettings Agents (NALS). Membership of these bodies is in addition to observing compliance with relevant legislation, such as Data Protection, the Consumer Protection Regulations and the Consumer Rights Act; guidance material published by relevant regulators, including the Competition and Markets Authority (CMA) (and its predecessor the Office of Fair Trading (OFT)), the National Trading Standards Agency/Trading Standards Institute (TSI), HMRC; and codes published by other relevant bodies, including the Advertising Standards Authority (ASA).

LSL has also on behalf of all its Estate Agency businesses entered into a primary authority agreement with York Trading Standards Office.

LSL from time to time also enters into direct dialogue with the regulators and consumer groups. During 2017 LSL has been monitoring and responding to the wide range of consultations published by the Government as part of its review of the housing market which commenced at the start of 2017 and will continue during 2018.

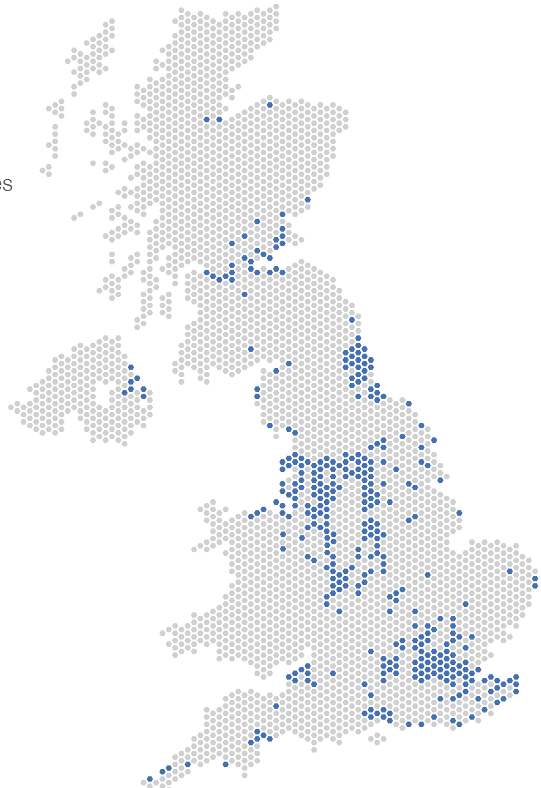
The Estate Agency Division has dedicated compliance teams and is subject to oversight by the Estate Agency Management Committee.

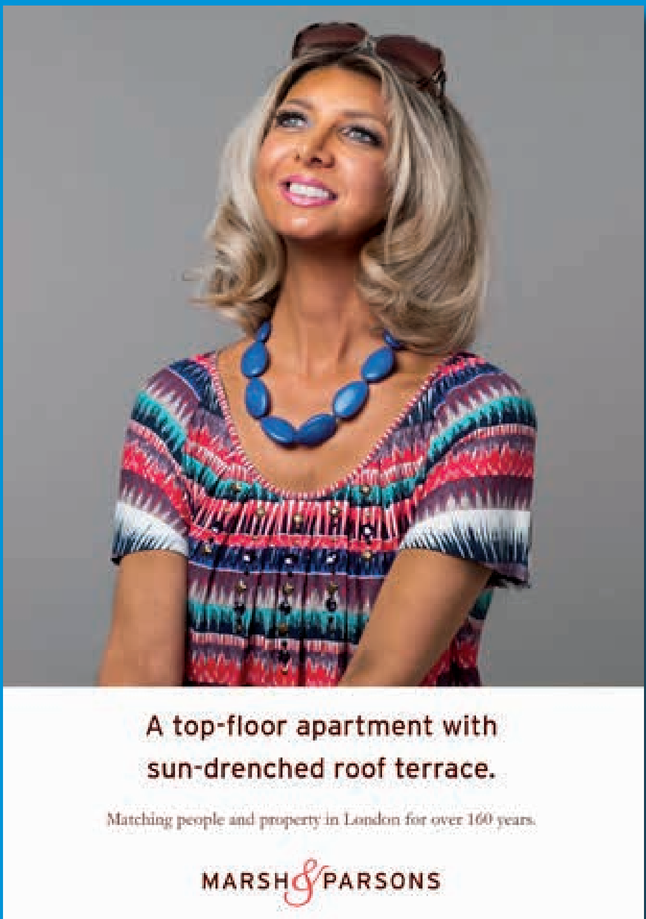
Branch numbers

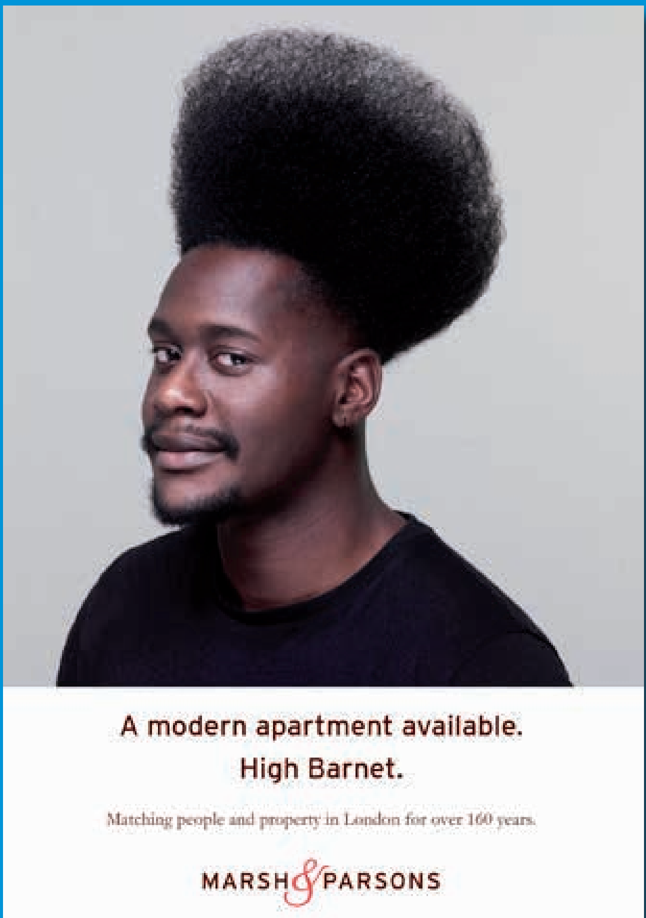
Breakdown of LSL's Estate Agency branches as at 31st December 2017 and 31st December 2016:

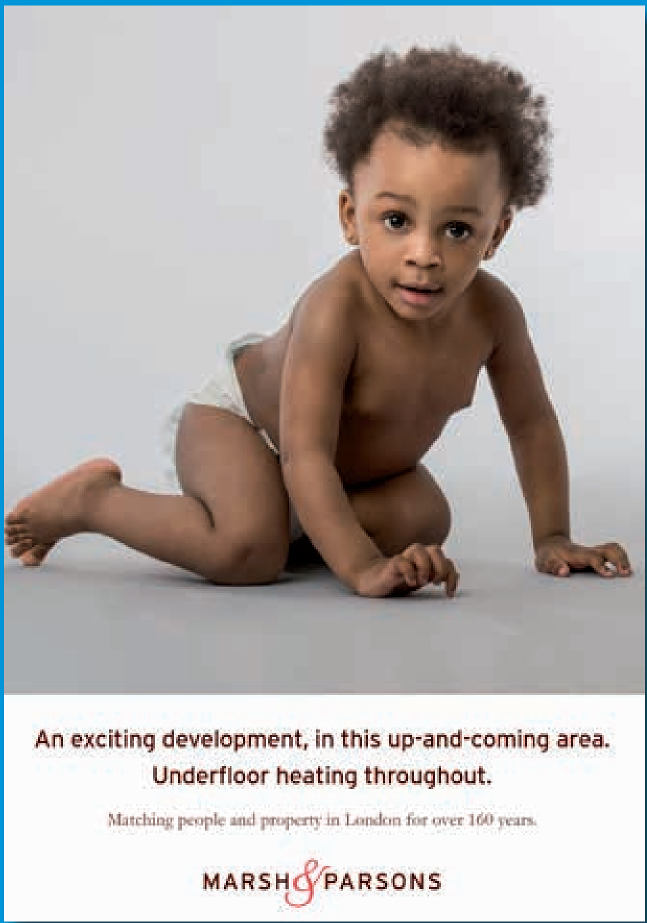
	Owned	Franchised	Total 2017	Total 2016
Your Move	198	62	260	267
Reeds Rains	114	40	154	157
LSLi	62	2	64	65
Marsh & Parsons	27	0	27	25
Totals	**401**	**104**	**505**	**514**

The total number of branches reduced by nine in 2017, following the closure of eight owned branches and three franchises and the opening of two new branches in Marsh & Parsons. Of the eight owned branches closed in the year, four were in Your Move, three in Reeds Rains, and one in LSLi. All closed branch operations and employees were transferred into existing local branches.









Advertisements from Marsh & Parson's award winning campaign.

Business Review

Surveying Division

-1%

Revenue

2016: +1%

+2%

Income per job

2016: +4%

29.4%

Profit margin

2016: 27.1%

321

Number of qualified surveyors

2016: 323

Financial	**2017 £m**	2016 £m	% change
Revenue	**64.1**	64.7	-1
Operating expenditure	**(45.2)**	(47.2)	+4
Underlying Operating Profit[1]	**18.9**	17.5	+8

KPIs	**2017**	2016	% change
Underlying Operating Margin (%)	29.4	27.1	-
Jobs performed ('000s)	309	318	-3
Revenue from private surveys (£m)	2.4	2.3	+3
Income per job (£)	207	203	+2
Historic PI Costs provision (balance sheet) at 31st December (£m)	15.9	20.7	+23
Number of qualified surveyors at 31st December (FTE)[2]	321	323	-1
Total mortgage approvals ('000s)[3]	1,525	1,530	-

Notes:

[1] Refer to Note 5 to the Financial Statements for the calculation.

[2] Full Time Equivalent (FTE).

[3] Source: Bank of England, 'Mortgage approvals for house purchases' and 'Total mortgage approvals' 2017.

Surveying Division performance

Surveying revenue was £64.1m (2016: £64.7m), a decrease of 1% on the previous year with a total number of jobs performed during the year of 309,499 (2016: 318,077) reflecting the overall management of the mix of jobs.

Profit performance was enhanced by the on-going investment in the IT platform, as well as optimising efficiency and operational performance. This continued focus on optimising capacity drove an increase in income per job to £207, an improvement of 2% year-on-year. As a result, LSL delivered an increase in Underlying Operating Profit[1] to £18.9m (2016: £17.5m) with an enhancement of profit margin to 29.4% (2016: 27.1%).

In 2017 LSL successfully negotiated contract renewals with two of its largest lender customers.

The total number of qualified surveyors at 31st December 2017 was 321[2], which was broadly in line with the 2016 position. The on-going graduate programme continues to be successful and assists in alleviating the impact of skill constraints in the market. In 2018 LSL will continue to focus on its graduate training programme.

At 31st December 2017 the total historic provision for PI Costs was £15.9m (2016: £20.7m). In 2017 LSL continued to make positive progress in addressing these historic claims. There was an exceptional gain of £3.7m during the year.

Training new e.surv graduates.

Financial Review

The key drivers of the financial performance of LSL in 2017 are summarised below:

£311.5m
Group Revenue
Up 1.2% (2016: £307.8m)

£37.5m
Group Underlying Operating Profit
Up 8.3% (2016: £34.6m)

£41.5m
Cash generated from operations
Up 26.9% (2016: £32.7m)

£42.1m
Group operating profit
Down 35.7% (2016: £65.4m)

Income Statement

Revenue

Revenue increased by 1% to £311.5m in the year ended 31st December 2017 (2016: £307.8m).

Operating expenses

Operating expenses increased by 0.5% to £276.8m (2016: £275.3m). Increases in the Estate Agency Division included additional headcount to support the growth of LSL's Financial Services businesses, Lettings and Land & New Homes; and increased costs in Marsh & Parsons due to the two new branches opening in Brixton and Islington, and the full year costs for the two Marsh & Parsons branches opened in 2016.

Group Underlying Operating Profit

Group Underlying Operating Profit[1] increased by 8.3% to £37.5m (2016: £34.6m) with an Underlying Operating Margin of 12.0% (2016: 11.3%). On a statutory basis, the Group operating profit decreased by 35.7% to £42.1m (2016: £65.4m). The 2016 financial results included an exceptional gain on the disposal of ZPG plc shares of £32.9m.

Group Adjusted EBITDA

Group Adjusted EBITDA[2] increased by 6.5% to £42.7m (2016: £40.1m) driven by an increased Group Underlying Operating Profit and a slightly reduced depreciation charge of £5.2m (2016: £5.5m).

Exceptional items

Total exceptional gains in 2017 were £9.3m (2016: £34.5m) comprising of £3.7m of exceptional gain relating to the historic PI Costs provision and an exceptional gain of £5.6m relating to the sale of the Group's share in GPEA in July 2017. The 2016 financials included an exceptional gain on the disposal of ZPG plc shares of £32.9m. Total exceptional costs in 2017 were £nil (2016: £2.3m).

PI Costs provision for PI claims and notifications

At 31st December 2017, the total provision for historic PI Costs was £15.9m (2016: £20.7m). In 2017 the Group continued to make positive progress in addressing historic claims and there has been a net £3.7m exceptional gain.

Contingent consideration

In 2017 contingent consideration in the Income Statement amounted to a charge of £0.7m (2016: £3.8m credit). This included a charge relating to the Group First acquisition of £0.4m (acquired in 2016) and a charge of £0.3m in LSLi (2016: credit of £1.1m).

Amortisation

The amortisation charge was £4.1m (2016: £3.9m). This is slightly higher than 2016 given there was a full year charge for lettings book acquisitions made in the first half of 2016.

Net financial costs

Net financial costs amounted to £2.0m (2016: £1.9m) and are in line with the prior year. The finance costs related principally to interest and fees on the RCF. Additional costs relate to the unwinding of discounts on provisions and contingent consideration.

Taxation

The UK corporation tax rate reduced to 20% with effect from 1st April 2015 and subsequently 19% with effect from 1st April 2017. A future UK corporation tax of 17% has been enacted and is effective from 1st April 2020, and this is the rate at which deferred tax has been provided (2016: 17%). Corporation tax is recognised at the headline UK corporation tax rate of 19.25% (2016: 20%).

The effective rate of tax for the year was 16.7% (2016: 20.5%). The most significant reason that LSL's effective tax rate for 2017 is lower than the headline UK tax rate is that the gain on the disposal of GPEA in the year is not taxable due to the application of the *Substantial Shareholding Exemption*. Adjusting for this item, the effective tax rate is 19.4%.

Deferred tax credited directly to other comprehensive income is £0.6m (2016: £3.8m). This is comprised of a credit of £0.9m and a charge of £0.3m, and relates respectively to the disposal and revaluation of financial assets. Income tax credited directly to the share-based payment reserve is £nil (2016: £0.1m).

In 2017 corporation tax payments of £11.1m (2016: £8.9m) were made which is greater than the current year corporation tax charge of £7.5m (2016: £12.7m). This is a result of the timing of the settlement of the corporation tax liability of the ZPG plc shareholding in the second half of 2016 – the corporation tax liability on these disposals was not settled until the quarterly instalment payments made in January and April 2017.

Basic Earnings Per Share

The Basic Earnings Per Share was 32.6 pence (2016: 49.2 pence). The Adjusted Basic Earnings Per Share[3] is 28.3 pence (2016: 25.9 pence), an increase of 9.3% which is broadly in line with the increase in Group Underlying Operating Profit[1]. The Group seeks to present a measure of underlying performance which is not impacted by the unevenness in profile of exceptional gains and exceptional costs, contingent consideration, amortisation and share-based payments. The Directors consider that the adjustments made to exclude the after tax effect of exceptional items, contingent acquisition consideration treated as remuneration, and amortisation provides a better and more consistent indicator of the Group's underlying performance.

Balance sheet

Joint ventures and other investments

The Group has two joint ventures: a 33.3% (2016: 33.3%) interest in TM Group, whose principal activity is to provide property searches, and a 50% (2016: 50%) interest in LMS whose principal activity is to provide conveyancing panel management services.

During 2017 LSL made three investments:

- in September 2017, LSL acquired a 17.3% stake in Yopa for total consideration of £20m;
- in October 2017 LSL acquired 19,675 ordinary shares in NBC Property Master for a total consideration of £65,000; and
- in November 2017, LSL invested £0.25m by way of a convertible loan note, in Global Property Ventures (trading as Zero Deposit) which distributes a tenancy deposit replacement product.

During the year, LSL disposed of its 18.1% investment (2016: 18.1%) in GPEA, which is a membership organisation with a national network of independently owned estate agents. The investment was disposed of for £5.7m (£3.0m cash and shares in eProp Services plc) in July 2017 and resulted in an exceptional gain of £5.6m.

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

Capital expenditure

Total capital expenditure in the year amounted to £5.0m (2016: £4.6m) and an additional £0.6m (2016: £1.4m) has been spent internally on developing new software which has been treated as an intangible asset.

Bank facilities

In January 2018, LSL extended its bank facility until May 2022. The facility includes a £100m RCF (2016: £100m). During the period under review, the Group complied with all of the financial covenants contained within the facility.

Net Bank Debt and cash-flows

As at 31st December 2017 Net Bank Debt was £30.0m (2016: £20.3m) and Shareholders' funds amounted to £148.6m (2016: £128.8m) providing a balance sheet gearing of 20.2% (2016: 15.8%). The increase in Net Bank Debt was primarily the result of the investment in Yopa in September 2017 of £20.0m. The 2017 gearing level was 0.7 times[3] Group Adjusted EBITDA (2016: 0.51 times). The Group has a committed RCF until May 2022 and in 2017 the Group generated cash from operations of £41.5m (2016: £32.7m).

Net assets

The Group's net assets as at 31st December 2017 were £148.6m (2016: £128.8m).

Treasury and risk management

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

Post balance sheet events

In January 2018, LSL acquired the entire issued share capital of Personal Touch Financial Services and its subsidiary company, Personal Touch Administration Services. Personal Touch Financial Services is a financial services business specialising in the distribution of mortgage and other financial services products via its network of intermediaries.

This acquisition supports LSL's stated strategy of enhancing its position as a leading financial services distributor and growing long-term profitability in the provision of residential property services in the UK by identifying value enhancing opportunities. LSL has deep sector expertise in the provision of financial services and Personal Touch Financial Services is an excellent fit with the Group's existing Financial Services businesses.

In January 2018, LSL extended its bank facility until May 2022. The facility includes a £100m RCF (2016: £100m).

International Financial Reporting Standards (IFRS)

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

Notes:

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

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

[3] Refer to Note 30 to the Financial Statements for the calculation.

Principal Risks and Uncertainties

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

Development of risk appetite

During 2017, in line with the FRC's Guidance on 'Risk Management, Internal Control and Related Financial and Business Reporting', the Board continued to develop LSL's risk appetite framework to ensure continued compliance with the Code and FRC guidance. The Board has through this process expressed and reviewed the types and level of risk which it is willing to take or accept to achieve LSL's strategy and business plans and to support consistent, risk-informed decision making across the Group.

The development of the risk appetite began with the Directors approving a risk framework policy and defining individual risk appetite statements for LSL's principal risks and uncertainties and for key decisions made by the Board. These statements provide parameters within which the Board typically expect LSL's businesses to operate, facilitating structured consideration of the risk and reward trade-off for the decisions made around how the Group conducts business. This includes monitoring risk measures and identification of actions needed to bring any specific outlying areas of risk within target levels. During 2017, a programme has been progressed to enhance the existing risk framework within each of the Group's subsidiary businesses, including the development of risk appetite measures by each subsidiary. This exercise has included each subsidiary business quantifying their highest ranked risk areas and introduced the use of graphical management information to facilitate the tracking of risk status versus tolerance by the subsidiary boards and divisional governance committees. The framework has also improved the visibility of action plans to address any core risk areas considered outside tolerance. These developments have in turn served to provide a more robust means for evaluating the capture and measurement of risk factors within the established risk appetite framework at Group level.

The framework covers a wide range of risks, which reflect the nature of LSL's businesses and acknowledges that there is not a 'one size fits all' approach to establishing risk parameters. During 2018, LSL will continue to re-visit the status of this framework to ensure it remains in line with emerging best practice and continues to foster the maturity of risk appetite routines at both Group and subsidiary level.

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

On-going evolution of the risk management framework is carried out as part of an on-going cycle of continual improvement, and remains a key priority for the Audit & Risk Committee and the Board in 2018.

Developing the financial viability statement

Assessment of prospects

The Group's business model and strategy are central to an understanding of its prospects, and details can be found on pages 12 and 13 of this Report.

Through organic growth, selective acquisitions and a delivery of high quality services to customers, the Group's key objective is to build market leading positions and ultimately deliver long-term Shareholder value.

Prospects of the Group are assessed by the Board throughout the year at its meetings, including a particular focus during the strategic planning process. This process includes an annual review of the on-going plan, led by the Group Chief Executive Officer and Group Chief Financial Officer in addition to the relevant business functions involved.

The Directors participate fully in the annual planning process by means of a Board meeting and part of the Board's role is to consider whether the plan continues to take appropriate account of the changing external environment including macroeconomic, political, regulatory and technical changes.

This process allows the Board to produce strategic objectives and detailed financial forecasts over a three year period. The latest updates to the on-going plan were finalised in December 2017. This considered the Group's current position and its prospect of operating over the three year period ending 31st December 2020, and reaffirmed the Group's stated strategy. Furthermore the Group's future prospects have been further strengthened with the extension of the RCF.

EU referendum

The Board has been fully aware of the significance of the EU referendum since the announcement of the referendum result in 2016. Following the referendum, 'Brexit' has been included as a subset entry within the Group's risk appetite framework. This process ensures EU referendum developments are formally monitored, and the risk status is regularly reassessed with reactive action plans identified to respond to the effects of on-going uncertainties and the resolution of the UK/EU negotiations as they crystalise. These practices will continue throughout 2018, with linkage to viability assessment modeling and wider consideration of the likely impacts of other major economic and political events.

The Group's principal risks and uncertainties are set out on pages 24 to 27. The Board reviewed LSL's principal risks and uncertainties when assessing the Group's prospects, and noted that none of these individual risks would, in isolation, compromise the Group's prospects.

Assessment of viability

Although the strategic plan reflects the Directors' best estimate of the prospects of the Group in accordance with provision C.2.2 of the Code, the Directors have assessed the viability of the Company over a longer period than the 12 months required by the 'going concern' provision.

For the purposes of assessing the viability of the Group, it was determined that a three year period ending on 31st December 2020 should be used, as this corresponds with the Board's strategic planning cycle. This assessment has been made with reference to the Group's current position and prospects, the Board's risk appetite and the Group's principal risks and uncertainties.

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

The following scenarios were modelled:

- Severe downturn in the UK housing market caused by Brexit and/or political uncertainties.
- A data breach causing a regulatory fine and reputational damage, with the potential loss of customers.
- Changes to regulation and compliance and the subsequent impact on revenue.

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

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

The results from the stress testing indicated that the Group would be able to withstand the financial impact of each scenario and therefore continue to operate and meet its liabilities, as they fall due, over the three year period ending 31st December 2020.

Furthermore the Board also considered it appropriate to prepare the Financial Statements on the going concern basis, as explained in the Basis of Accounting paragraph in the Principal Accounting Policies section (see page 103).

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

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

Risk management and internal controls framework

LSL's risk management and internal controls framework for 2017 included:

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

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

c. the documentation and monitoring of risks are recorded and managed through risk appetite measures which undergo regular reviews and scrutiny by subsidiary boards, divisional governance committees and the Head of Risk and Internal Audit;

d. the Board regularly identifies, reviews and evaluates the principal risks and uncertainties which may impact the Group as part of the planning and reporting cycle to ensure that such risks are identified, monitored and mitigated;

e. the development and application of LSL's risk appetite statement and associated framework (for further details on steps taken during the year, see the Audit & Risk Committee Report); and

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

The Group-wide risk appetite statement and risk framework policy will continue to be developed in 2018.

The risk framework includes the following:

a. a risk framework policy;

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

c. assessment of prospects and viability;

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

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

During 2017, the Directors carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that threaten the Group's business model, future performance, solvency or liquidity. The Directors believe that the assessment which has been completed is appropriate to the complexity, size and circumstances of the Group, which is a matter of judgment of the Board and has been supported by the Management Team.

The Directors also carried out a risk appetite assessment exercise which involved the evaluation of continually evolving aspects of risk management. During 2017, this included responses to the threat of external technology-based business models, articulation of risk appetite tolerances for key aspects of selective external contract renewals, identifying responses to a fast changing regulatory environment and consideration of major scenarios of further external political and economic change on the UK housing market.

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

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

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

The Group also faces other risks which, although important and subject to regular review, have been assessed as less significant and are not listed in this Report. This may include some risks which are not currently known to the Group or that LSL currently deems as immaterial, or were included in previous Annual Report and Accounts and, through changes in external factors and careful management, are no longer deemed to be as material to the Group as a whole.

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

Further information relating to how LSL managed these risks and uncertainties during 2017 is set out in the Audit & Risk Committee Report (Internal Controls) of this Report.

	Risk	Description	Mitigation
Strategic:			
1	**UK housing market**	Group performance is intrinsically linked to the overall performance of the UK housing market (including subsets – e.g. prime Central London). The housing market is also impacted by changes in national and global political and economic environments (e.g. Brexit vote in 2016). The impact of this risk can be direct (such as changes in Government policy or legislation arising from a change in Government) or indirect (such as changes in consumer behaviour/ sentiment arising from changes in Government policy or legislation).	• Daily, weekly and monthly monitoring of trading and market performance data. • Market share, product mix and segmentation initiatives. • Development of counter-cyclical and recurring revenue income streams. • Responsive investment and cost control measures during the housing market cycle. • Investment in teams to deliver strategic projects. • Balanced UK-wide geographical spread. • Monitoring of wider macro-economic and political developments (including domestic and national developments).
2	**New UK housing market entrants**	Traditional business models and pricing structures for residential property services are exposed to new business models and technological advancements (e.g. online/hybrid estate agents, automated valuation models and automated financial services operating models).	• Competitor and industry benchmarking. • Development of strategies in response to market disrupters, including exploring options to capitalise on digital opportunities. • Development of Estate Agency business through new ways of working programme. • Infrastructure investment, including investment in innovation, technology and upgrading and consolidating core operating systems to improve service delivery and customer experience. • Service delivery enhancements, product/services differentiation and experimentation. • Engagement of specialist external consultative support as necessary. • Monitoring of investment, acquisition and joint venture opportunities. • Marketing initiatives. • Operation of staff incentive schemes to mitigate staff attrition.

	Risk	Description	Mitigation
Strategic:			
3	**Investment, acquisitions and growth initiatives**	Realising appropriate targets for investment, acquisition and major project initiatives, including delivery of appraisals, due diligence and integration/implementation requirements, in line with LSL's strategy to complete selective acquisitions.	• Defined pre and post-acquisition reporting to the Board and Audit & Risk Committee. • Establishment of structured authority levels. • Responsive flexing of risk appetite during the housing market cycle. • Flexible resource pool to support and deliver investments and acquisitions. • Flexible resource pool to deliver integration/implementation activities following completion of acquisitions. • Ability to selectively dispose of assets to protect gearing, as required. • Engagement of specialist external consultative support as necessary. • Established integration/implementation planning methodology. • Post-acquisition and post-integration/implementation review programmes. • Risk and Internal Audit engagements.
Sales/distribution:			
4	**Professional services**	Exposure to major PI claims arising from any lapses in professional services, including surveying and valuation practices, financial services advice, and estate agency services.	**Surveying Division** • Robust framework and monitoring routines to maintain valuation accuracy. • Dedicated surveying risk team. • Timely data capture of all claims and associated trends with regular scenario modelling undertaken. • Utilisation of technology to monitor valuation trends, trigger alerts and 'real time' checks. • Board-level authorities for PI claims settlement payments and governance of underlying claims handling and accounting processes. **Estate Agency Division (including Financial Services)** • Defined responsibilities for claims management and operation of PI insurance together with management of underlying risk areas. **Group-wide** • Risk and Internal Audit reviews. • Experienced claims handling personnel supported by legal experts. • Culture promoting effective sales conduct and open lines of communication with clients.
5	**Client contracts**	The performance of the Estate Agency and Surveying businesses is dependent on entering into appropriate and relevant agreements and retaining contracts with key clients (e.g. lenders, portfolio landlords and house builders).	• Customer outcomes focused forums and initiatives. • Designated senior members of staff with responsibility for relationship management. • On-going investment in resources, innovation, technology and service standards to ensure LSL has the capacity to meet service level demands. • Targeted marketing and training events for corporate clients. • Monitoring of client dependency and compliance with contractual requirements. • Robust control framework supporting the risk profiling of prospective clients, contract renewals (including contract terms) and the quality of professional services. • In-house legal services team, with specialist external legal support engagement when necessary, together with dedicated claims management teams within business areas. • Risk and Internal Audit reviews.

	Risk	Description	Mitigation
Operations:			
6	**Information technology infrastructure**	The Group has varied operations which require a robust IT infrastructure. The IT environment needs to remain adaptable to support growth initiatives, harness technological advancements and counter business continuity threats, including malicious and cyber-related attacks. LSL's strategy recognises the importance of investing in the Group's IT infrastructure to maintain both competitive advantages and deliver system security – all within the context of changing business models within the residential property services sector.	• Group-wide IT governance, policies and initiatives supported by a Group IT Director. • Focus on investment and development of innovation within the Group's strategies. • Dedicated in-house IT teams. • Maintenance of infrastructure to maintain effective service delivery. • On-going IT investment and development programme. • Identifying and securing innovation and technology opportunities through the investment and acquisition strategy. • Implementing business continuity and disaster recovery solutions. • Monitoring of compliance with relevant contractual and regulatory requirements. • Inter-Group IT governance forums. • External consultative support as necessary. • Risk and Internal Audit reviews. • Oversight by the Information Security Governance Group.
7	**Information security**	Group operations involve the processing of high volumes of personal data, with potential for unintended data loss and exposure to increasing levels of external cyber crime.	• LSL Information Security and Governance Group and IT Teams with oversight responsibilities. • Defined Group-wide base policy standards. • Dedicated information security and data protection personnel. **Data security** • Group data protection policies and training in place. • Tracking of data assets/data sharing, in line with authority levels. • Implementation of regulatory changes – e.g. General Data Protection Regulation via defined project teams. **Systems security** • Penetration testing programme. • Benchmarking against and accreditation by best practice standards – e.g. ISO27001 accreditation for e.surv. • Second and third-line risk-based reviews.
8	**Regulatory and compliance**	Compliance with legal and regulatory requirements, including relationship with regulators. Regulations govern roles as an employer and as providers of services. Any compliance breaches could result in sanctions and reputational damage (e.g. prosecutions or fines). This includes compliance with existing regulations and implementing new regulations (e.g. GDPR). Regulatory and compliance risk extends to oversight of standards adopted by business partners (e.g. franchises, appointed representatives, joint ventures and minority investments). The market and business operations are also impacted by regulatory reforms (e.g. Government reviews relating to the housing market, including the proposed tenant fee ban) which may have an effect on Group revenue and expenditures. Regulatory costs, fees and charges continue to grow due to the rising funding requirements of the Financial Services Compensation Scheme (FSCS).	• Top-down management culture focused on fairness, transparency and successful customer outcomes. • Open dialogue with regulators and monitoring of emerging developments and regulatory reforms. • Group risk framework policy incorporating a 'three lines of defence' model to track compliance with regulations. • Group policies including ethics (i.e. whistleblowing structures, anti-fraud and anti-bribery policies) and employee welfare. • Subsidiary businesses have in place health and safety arrangements to ensure welfare of employees and visitors to Group premises. • Group-wide forums with regulatory focus and oversight (e.g. Financial Services Management Committee, Financial Services Risk Committee and Information Security and Governance Group). • Dedicated second line compliance teams in higher risk/regulated functions. Investment in recruitment of expertise within the compliance teams to ensure the Group is able to put in place procedures for regulatory compliance. • Evolution and development of IT systems to strengthen oversight routines. • Responsive complaints tracking of any emerging themes. • In-house legal services team, with specialist external legal support engagement when necessary. • Group Risk and Internal Audit reviews. • Membership of industry trade bodies and participation in Government and Regulator consultations. • Responsive business model changes to address impact of regulatory changes.

	Risk	Description	Mitigation
People:			
9	**Employees**	Securing and retaining key strategic populations and controlling attrition in key business critical areas (e.g through e.surv's graduate training programme), as well as ensuring the effective management of personnel standards and policy frameworks across varied Group businesses.	• Oversight by LSL Remuneration and Nominations Committees supported by the Group HR Director. • Group remuneration policies and incentive schemes to retain key strategic populations. • Regular benchmarking and appraisals of senior management. • Succession planning reviews and targeted reviews in some areas. • Dedicated in-house recruitment team within Group HR which is headed by the Group HR Director. • Targeted retention and recruitment initiatives. • Staff surveys and Group HR initiatives to focus on attrition, improve staff morale, relieve areas of pressure and improve operational efficiencies. • Group-wide HR IT systems. • Monitoring of statutory requirements and developments (including gender pay reporting). • Employee policies and monitoring framework (e.g. health and safety). • Development of a Group-wide culture, values and vision statement taking into account subsidiary company statements. • Development of employee engagement initiatives as part of the Group's stakeholder engagement project. • Clear Group policies and whistleblowing procedures to enable staff to confidentially raise concerns.

Corporate Social Responsibility

Reeds Rains was the main sponsor of Bauer Media's Cash for Kids Superhero Day.

The Board has overall responsibility for establishing the Group's Corporate Social Responsibility (CSR) statement and associated policies with the Group Chief Financial Officer, taking individual responsibility for the creation, operation and implementation of the Group's CSR statement and strategy.

LSL believes that it is necessary to support responsibly-grounded business decision making and consider the broad impact of corporate actions on stakeholders including employees, customers, local communities, and the environment. The growing awareness of and attention to social responsibility issues has many benefits for corporations such as LSL.

LSL recognises that its employees are central to the Group meeting its CSR, environmental and community investment objectives. Guidelines, progress and achievements are communicated to employees at regular intervals through bulletins, intranet sites and notice boards as appropriate (including the Group HR online service systems).

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

LSL believes that the objective of providing goods and services needed or desired by members of society while returning a profit to Shareholders can be – and should be – fully compatible with addressing social responsibility concerns. 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 on reducing costs to the Group's businesses.

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

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

Environmental, Social and Governance (ESG) matters

As part of LSL's regular risk assessment procedures and in its decision making, the Board takes into account the significance of ESG matters to the business of the Group. The Board has identified and assessed the significant ESG risks to LSL's short and long-term value, as well as the opportunities to enhance value that may arise from an appropriate response. The Board receives information to make this assessment and Directors will ensure that their training takes into account ESG matters. The Board will also ensure that LSL has in place effective systems for managing and mitigating significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives.

Employees

LSL recognises that its employees are a valuable asset and the Group's businesses are committed to providing working environments in which employees are supported in their professional and personal development. By creating such an environment, the Group believes that this results in 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 includes the use of employee opinion surveys to obtain employee views. It also ensures that LSL, in its decision making, takes into account employees' views. For further details of the existing employee survey arrangements, see Communication (Employees) below.

The Board has, as part of a stakeholder engagement review exercise in 2017, considered how the Group engages with employees and will also during 2018 monitor corporate governance reforms in relation to employee engagement matters.

LSL's approach

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

Communication

Employees

LSL ensures that employees are kept informed of Group affairs via information distributed by post, email, handbooks and various intranet sites. LSL values employee feedback and all Group employees are encouraged to discuss strategic, operational and business issues within their teams and with their Management Teams.

In addition, the Board receives employee feedback via the Group's employee opinion surveys which are undertaken across all parts of the Group's businesses on an annual basis. The employee opinions that are captured are then presented to the Board as part of a regular review of employee matters which focuses on considering issues relevant to the Group's employees. Key performance indicators such as labour turnover and responses to key questions are also monitored to measure staff morale.

In relation to the annual employee opinion surveys, LSL engages an external consultant to assist and this engagement allows LSL to not only generate an accurate picture of engagement across the Group, but also to assess the results and feedback received against similar organisations using the benchmarking data retained by the agency. As in previous years, the 2017 survey which related to 2016, covered all aspects of the working environment including training, careers, performance and Group companies communications, together with questions on the effectiveness of Group companies management and leadership. The response from employees to the 2017 survey was very positive with 3,574 (72%) (2016: 3,578 (71%)) returns received. The survey relating to 2017 will be conducted in 2018 and the findings reported in the Annual Report and Accounts 2018.

The employee opinion survey results provide the Board with insight into what factors concern and motivate the Group's employees and contribute to action plans and/or focus groups across the Group. The employee survey process is continually evaluated and developed to maximise the validity and reliability of the data that is captured. Further, the process will be repeated again in 2018 as LSL remains committed to the continual development and improvement of employee engagement across the Group. On strategic matters, LSL recognises Unite.

Customers

In relation to its customers, all businesses regularly seek feedback from customers. This feedback is obtained in a range of ways, including relationship management meetings, formal questionnaires, mystery shopping exercises and consumer focus groups. This feedback is taken into account in LSL's decision making processes and in particular in the development of its services to customers. Feedback from customers including monitoring complaints and business performance against agreed service levels is also undertaken by LSL's Executive Committee as part of the Group's regular Customer Outcomes review meetings.

Equal opportunities

LSL promotes equal opportunities in employment, recognising that equality and diversity are a vital part of its success and growth. The Group recruitment, training and selection processes seek to appoint the best candidates based on suitability for the job and to treat all employees and applicants fairly regardless of race, gender, marital status, nationality, social backgrounds, ethnic origin, age, disability, religious belief or sexual orientation, and to ensure that no individuals suffer harassment or intimidation.

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

Gender diversity

During 2017, LSL has remained committed to diversity and equal pay and Group companies will in 2018 commence reporting on gender pay in accordance with the new reporting requirements. During 2017, LSL has ensured full compliance ahead of the reporting requirements which come into force in April 2018.

Disability

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

Employee key performance indicators

The Group uses a number of key performance indicators to measure its progress during the year, including employee turnover and the makeup of its workforce by gender.

	2017	2016	2015	2014	2013
Total employees at 31st December	**5,084**	4,990	5,181	5,222	5,299
Total employee turnover percentage[1] (%)	**28.7**	30.8	28.5	27.8	26.4

Note: [1] Data excludes forced leavers.

Breakdown by gender	2017	2016	2015	2014	2013
Male	**2,273**	2,206	2,285	2,316	2,318
Female	**2,811**	2,784	2,896	2,906	2,981

In accordance with reporting requirements, the gender split for the Board, senior Management Team and Group employees for 2017 and 2016 is as follows:

	Female		Male	
	2017	2016	2017	2016
Directors	**2**	2	**5**	6
Senior managers	**15**	16	**61**	61
Group employees	**2,794**	2,766	**2,207**	2,139

Employee training

LSL's businesses place strong emphasis on the quality of service they provide to customers with employees (and where appropriate consultants) undergoing suitable training. During 2017, LSL continued its commitment to recruit, develop and invest in colleagues. The Group's approach is to prioritise colleague learning and development to strengthen the businesses and to ensure the Group's continued success.

The Group has also during 2017, and will in 2018 continue to review its processes and put into place arrangements to ensure compliance with the new legislation, including data protection requirements ahead of the introduction of the General Data Protection Regulation into UK law during May 2018.

LSL monitors all relevant legislative changes affecting its businesses and keeps under review its training programmes to ensure that employees receive specially designed training courses, with the quality of service monitored on a regular basis. LSL also monitors and contributes to consultations relating to reviews and reforms.

Details of LSL's approaches to training are summarised opposite.

Group HR – Talent Development Team

LSL's Group HR function includes a 'Talent Development Team' which delivered classroom based training to a total of 2,106 employees during 2017, equating to the delivery of 4,094 training days. In addition, during 2017 LSL moved a significant proportion of the classroom training to webinars to offer a blended learning approach in response to the Group's business needs. LSL delivered 8,007 hours of webinar training (which equates to an additional 1,144 days of training) to 1,693 staff during 2017. In addition to this, Group employees completed 73,839 eLearning modules.

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

Estate Agency and Related Services

Residential Sales, Lettings and Asset Management

The Estate Agency Division's branches adhere to the Codes of Practice issued by industry professional and regulatory bodies, including the TPO and/or the Association of Residential Lettings Agents (ARLA Propertymark)/National Association of Lettings Agents (NALS). Membership of these bodies is in addition to observing compliance with relevant legislation, such as Data Protection legislation, the Consumer Protection Regulations, the Consumer Rights Act, guidance material published by relevant regulators, including the Competition and Markets Authority (CMA) (and its predecessor the Office of Fair Trading (OFT)), the National Trading Standards Agency/TSI, HMRC and codes published by other relevant bodies, including the ASA.

LSL has also on behalf of all its Estate Agency businesses entered into a primary authority agreement with York Trading Standards Office.

LSL from time to time also enters into direct dialogue with the regulators and consumer groups. During 2017 LSL has been monitoring and responding to the wide range of consultations published by the Government as part of its review of the housing market which commenced at the start of 2017 and will continue during 2018.

The Estate Agency Division has dedicated compliance teams and is subject to oversight by the Estate Agency Management Committee.

Financial Services

In relation to LSL's Financial Services business, PRIMIS is the trading name of First Complete and Advance Mortgage Funding, and both companies are directly authorised by the FCA in relation to the sale of mortgage, pure protection and general insurance products.

Your Move, Reeds Rains, First2Protect, Mortgages First, Insurance First and Embrace Mortgage Services along with the LSLi subsidiaries are all appointed representatives of First Complete. Linear Financial Solutions is an appointed representative of Advance Mortgage Funding for mortgage and insurance business and also an appointed representative of Openwork for investment business. In 2018, LSL acquired Personal Touch Financial Services which is also directly authorised by the FCA in relation to mortgage, pure protection, general insurance and investment products.

LSL's Financial Services businesses are also members of the Association of Mortgage Intermediaries (AMI) which is an industry representative and trade body and the Financial Services businesses are subject to the Financial Ombudsman Service and contribute to the funding of the Financial Services Compensation Scheme through regulatory fees and charges.

First Complete acts as principal for most of the estate agency businesses within LSL's Estate Agency Division, enabling their employed financial advisers to offer Financial Services to customers of the branch networks. Advance Mortgage Funding (previously trading as Pink Home Loans) and Personal Touch Financial Services both operate intermediary networks, providing products and services to financial services intermediaries.

The Financial Services businesses have dedicated compliance teams and the Financial Services activities are subject to the oversight of the Financial Services Risk Committee and Financial Services Management Committee. The Financial Services companies are also responsible for the training and compliance arrangements of the majority of Financial Services business conducted by Group companies and the Financial Services businesses place strong emphasis on the quality of service provided to customers and as part of the compliance arrangements and have in place arrangements to capture and monitor customer feedback.

All employees involved in the Financial Services businesses receive appropriate and relevant training. In particular, all Financial Services advisers complete a specially designed training programme which is supplemented by effective supervision, regular monitoring and regular refresher training sessions.

Surveying and Valuation Services

There are a total of 101 graduates in the Surveying Division, the majority of whom have achieved AssocRICS qualifications. There are 20 still working towards the competency levels and who are on schedule to qualify during 2018. In addition there are 35 AssocRICS qualified surveyors being sponsored through the Assessment of Professional Competency (APC) programme which, once successfully completed, will result in the MRICS status.

All surveyors are regulated by RICS and Continuing Professional Development (CPD). As members of RICS, surveyors commit to continually update their skills and knowledge in order to remain professionally competent. All RICS professionals must undertake and record online a minimum of 20 hours of CPD activity each calendar year. This is supported by the Group and undertaken through a variety of methods ranging from distance learning, online modules through the Learning Management System, regional workshops and an annual conference.

Training

During 2017, the Group's training expenditure was:

Division	Expenditure 2017 (£)	Expenditure 2016 (£)
Estate Agency and Related Services	**1,221,496**	1,406,325
Surveying and Valuation Services	**426,556**	344,218
Total Expenditure[1]	**1,648,052**	1,750,543

Notes: [1] This includes in-house training costs of £1,155,184 (2016: £1,164,440).

Health, safety and welfare

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

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

Separate health and safety policies exist which employees are required to observe and the Group Chief Financial Officer has overall responsibility for this. Compliance with legislation and Group policies is audited by the Group's Risk and Internal Audit team with regular reporting to the Board, which includes indicators such as accident numbers.

Environmental issues

LSL recognises that the environment has an intrinsic value, which is central to 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.

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

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

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

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

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

The recommendations arising from the audit, which were reported to the Board have contributed to a Group-wide energy strategy. As a result, the following environmental projects were adopted in 2016 and implemented during 2017. Group businesses have completed a proactively managed review of branch premises and head office locations, implementing changes in relation to the key areas listed below, with a particular focus on continued upgrading of lighting, air conditioning and heating systems. Additionally, the Estate Agency businesses continue to progress replacement via the branch refresh programme.

1. *Energy monitoring* – Where installation is practical, continue to build on the existing programme of implementation of smart meters, which now covers the supply of gas and electricity, through the remainder of the Group's premises estate.
2. *Lighting* – Installation of low energy and LED lighting in branches and offices, replacing inefficient fluorescent tubes and halogen lamps, and the installation of PiR motion sensors at large locations.
3. *Heating, ventilation and air conditioning* – Ensuring, through annual servicing, the effectiveness of temperature controls on fixed air conditioning systems. In terms of new installations, heating and air conditioning, ensuring these are in accordance with the Group ESOS strategy in terms of producing energy savings and reducing CO_2 emissions.
4. *Building management* – Undertake reviews at key sites to optimise system installations to improve the working environment for Group employees and generate savings on energy costs.

5. *Water* – Investigate the opportunities which may be available through market deregulation, and what further advantages this could present through the installation of meters to better manage usage and costs.
6. *Transport* – Consider improvements which may be available via the introduction of telematics producing data to allow for the monitoring of fuel consumption, driver fuel performance, alongside offering lower emission fleet vehicles, as Group businesses continue to introduce hybrid vehicles into their fleets. Additionally, further measures introduced to reduce CO_2 emissions include the use of telephone conference facilities and also the use of online web-based training programmes.

The next ESOS audit is due to take place during 2019 which will include reporting on total energy consumption data over a 12 month period (including the qualification date of 31st December 2018).

Greenhouse gas emissions

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

During the 2016/17 reporting period, LSL emitted a total of 6,680 tCO_2e from fuel combustion and operation of LSL's facilities (Scope 1 direct), and electricity purchased for LSL's own use (Scope 2 indirect). This is equal to 22 tCO_2e per £m of revenue or 1.47 tCO_2e per full time equivalent employee.

The table below shows LSL's tCO_2e emissions for the period 1st October – 30th September for the years 2017, 2016, 2015 and 2014.

(tCO_2e)	**2016/ 2017**	2015/2016	2014/2015	2013/2014
Combustion of fuel and operation of facilities (Scope 1)	**3,959**	4,046	4,325	4,781
Electricity, heat, steam and cooling purchased for our own use (Scope 2)	**2,721**	3,553	4,236	4,834
Total Scope 1 and 2	**6,680**	7,599	8,561	9,164
tCO_2e per full time equivalent employee	**1.47**	1.69	1.89	2.08
tCO_2e per £m revenue	**22**	24	29	34

As the table demonstrates, since 2014 LSL's absolute emissions have decreased by 31%. This reduction is principally due to the Group's programme of continual branch refurbishment across the Estate Agency businesses to improve efficiency and modernise fittings, as well as the reduction in average FTE employees across the Group over this period; the disposal of a number of sites; and the decrease in the UK electricity CO^2e GHG conversion factors linked to the reduction in coal powered electrical generation.

Greenhouse gas reporting methodology

The Group quantifies and reports on its organisational greenhouse gas emissions according to Defra's Environmental Reporting Guidelines and has utilised the UK Government 2017 Conversion Factors for Company Reporting in order to calculate CO_2 equivalent emissions from corresponding activity data. LSL has also utilised data required for compliance with the CRC Energy Efficiency Scheme and ESOS.

Greenhouse gas reporting boundaries and limitations

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

The Greenhouse gas sources that constitute LSL's operational boundary for the 2016/2017 reporting period are:

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

Greenhouse gas reporting assumptions and estimations

In some cases, missing data has been estimated using either extrapolation of available data from the reporting period or data from 2015/2016 as a proxy.

Non Domestic Private Rented Property Minimum Standard Guidance

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

With effect from 1st April 2018 it will be unlawful to let residential or commercial properties with an Energy Performance Certificate (EPC) rating of 'F' or 'G' (i.e. the lowest two grades of energy efficiency). Landlords will be required to ensure compliance before the lease is granted or alternatively must demonstrate falling within one of the exemption categories. The new regulations also apply to tenants wishing to assign or sub-let commercial space.

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

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

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

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

1. make donations both to local and national charities;

2. support and organise fundraising events including supporting charities and local community initiatives selected by Group companies; and

3. support employees in their personal fundraising ambitions.

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

LSL's approach to the promotion of human rights and ethical issues is contained within the Group's HR policies, which includes the Group's Combined Ethics Policy (CEP), which is presented to the Board for annual review and approval. The Combined Ethics Policy covers:

a. Anti-slavery and human trafficking

b. Anti-corruption and bribery (including hospitality)

c. Conflicts

d. Fraud

e. Whistleblowing.

While all Group employees are made aware of the policy, the Audit & Risk Committee and the Risk and Internal Audit Team will audit awareness and compliance, with the findings reported to the Board.

Modern Slavery

LSL and its group of companies are all committed to conducting their businesses in a socially responsible way. LSL businesses seek to carry out their operations in accordance with appropriate ethical standards and to be honest and fair in their relationships with customers and suppliers. As part of this, LSL and its subsidiary companies are dedicated to ensuring that effective systems and controls are in place to safeguard against modern slavery and human trafficking occurring within their businesses or any of their supply chains.

During 2017, LSL continued to implement arrangements to ensure compliance with the Modern Slavery Act 2015 including developing its first Modern Slavery Statement which was published in June 2017 (see lslps.co.uk/modern-slavery) and which is described below.

The Statement sets out the steps taken by Your Move, Reeds Rains, LSLi and e.surv and it was signed for and on behalf of the Board by Adam Castleton (Group Chief Financial Officer and director of each of these companies).

LSL Group Slavery and Human Trafficking Statement (Statement)

The published Statement sets out the steps that members of the Group have taken during the financial year ending 31st December 2016 to prevent modern slavery and human trafficking from occurring within its business and supply chains. The initiatives included in the Statement continued to be implemented and developed during 2017 and further reporting will take place during 2018.

Group supply chains

Members of the Group have established direct relationships with a number of primarily UK-based suppliers who deliver a variety of services including: professional services, utilities and telecoms, and facilities management. As part of its service delivery, members of the Group procure services not just for themselves, but also for the benefit of some of the customers of other Group companies (including property management services and contractors).

The vast majority of services are procured via specialist individuals employed or engaged by members of the Group.

Group policies and contractual provisions

The approach of members of the Group to the promotion of human rights and ethical issues is contained within the Group's HR Policies, which includes the CEP. The CEP applies to all individuals employed or engaged by LSL and its subsidiaries and includes an established Whistleblowing Policy which employees can use to report suspected concerns within the LSL businesses and supply chains.

A working group has been established, which consists of representatives from the Group's procurement teams, the in-house legal team (LSL Legal Services) and Group HR, which reviewed and updated the CEP to include a dedicated anti-slavery and human trafficking policy.

Since the enactment of the Modern Slavery Act, members of the Group have taken steps to seek to ensure that any new agreements with suppliers include an express obligation for suppliers to comply with the Modern Slavery Act, to implement due diligence procedures within its own supply chains and notify LSL in the event of any actual or potential incidences of modern slavery. In the event of a breach of these provisions, members of the Group will seek to resolve any issues with its suppliers and it may also seek to terminate the relationship with the supplier where a resolution is not achieved. This provision is regularly reviewed and further amendments will be made.

LSL Group due diligence

Members of the Group have identified their supply chains as the main area of risk and exposure to modern slavery. A two-stage risk assessment to identify possible risks of modern slavery within supply chains was commenced in 2016 and has continued to be undertaken in 2017. The initial risk assessments focused on significant suppliers (who have been identified by reference to total expenditure). The initial stage of the risk assessment enabled members of the Group to attribute a risk rating to each supplier. Where a supplier was considered medium or high risk, further investigation was conducted to enable greater understanding of the possible risks associated with the supply chain and consider whether further action is required.

In addition to carrying out due diligence exercises on existing suppliers, the working group has identified measures that members of the Group will benefit from including the development of supplier due diligence arrangements which form part of procurement processes.

Group areas of risk

Overall exposure to modern slavery for members of the Group has been assessed and is considered to be lower than other sectors taking into account that the Group's businesses operate in the residential property services sector and that the types of services they procure tend to have a lower risk profile. Further the fact that the Group's business operations and those of the majority of its suppliers are primarily based in the UK, also limits the Group's exposure to modern slavery.

Notwithstanding the above, members of the Group are not complacent and understand that the procurement of recruitment and facilities services and the use of subcontractors are practices which may bring about increased risks of modern slavery within supply chains. Accordingly, members of the Group are taking steps to mitigate such risks, including:

- Requiring suppliers to implement due diligence procedures for its own suppliers and subcontractors.
- Having in place stringent checks on recruitment agencies and ensuring internal recruitment processes meet the minimum legal requirements.

As part of this, members of the Group comply with all relevant legislation including the Immigration, Asylum and Nationality Act 2006 and ensure that all appropriate checks are carried out to maintain compliance. In the event that further risks are identified, members of the Group will consider such risks and take appropriate steps to address any emerging risks.

LSL Group training

Members of the Group understand the importance of training employees to enable them to be able to identify risks of modern slavery. LSL is putting in place a training programme to ensure that senior management, procurement leads and Group employees receive sufficient information and/or complete appropriate training to understand the requirements of the Modern Slavery Act and how to identify and report issues of modern slavery. Each employee group identified has a different role to play in combatting modern slavery and therefore the information and/or training shall be tailored accordingly.

KPI monitoring

The Board appreciates that the approach to combatting modern slavery will have to adapt over time in response to the findings following the completion of various risk assessments. The Board intends to monitor the following KPIs over the next financial year to measure how effective the processes have been:

- The number of employees who have received training on modern slavery risks.
- The number of suppliers that have been subject to a risk assessment.

Anti-corruption and bribery

The Group has in place arrangements to ensure compliance with the Bribery Act 2010 and its arrangements are based on the results of a bribery risk assessment. A review of the Group's anti-corruption and bribery risks will be undertaken and reported to the Audit & Risk Committee in 2018 and this will be followed by a review of the Group's policies and procedures with a view to implementing any changes identified as a result of the review.

Payment practices reform

LSL is monitoring the implementation of the payment practices reforms with reporting requirements commencing in July 2018. Arrangements are being put in place to ensure compliance.

Tax evasion and strategy

The Criminal Finances Act 2017 brought into effect two new criminal offences for companies of failing to prevent the facilitation of tax evasion, both in the UK and overseas. The new offences were effective from 30th September 2017. In response to the new legislation, the Group established a working party with the initial aim of raising internal awareness and identifying the Group's existing risks and controls in respect of these new offences.

The Group has also published the following tax strategy in 2017:

Introduction

LSL is a leading provider of residential property services to its key customer groups, incorporating both estate agency and surveying businesses. The Group operates exclusively in the UK through a range of national and regional brands.

This is the Group's first published tax strategy, having been approved by the Board of Directors on 27th April 2017. This strategy will be reviewed and updated annually, following further approvals by the Board. Our tax strategy is outlined below, and outlines the Group's attitude towards tax risk, tax planning and interactions with HMRC.

The Group is committed to the delivery of the tax strategy and this will be owned by the Group's Chief Financial Officer, in conjunction with the finance team. This tax strategy applies to all taxes, and the key principles of the strategy are:

- The Group is committed to paying the correct amount of tax due under UK legislation whilst maximising available reliefs in the way legislation intended.
- The Group has a low appetite for tax risk, and seeks certainty through open and collaborative dialogue with the relevant tax authorities.
- The Group will seek to be proactive in its management of tax risk and in the course of its interactions with tax authorities.

Risk management and governance

The Group's greatest tax risk areas are identified by considering areas of high value taxation, new and unfamiliar transactions, or transactions with which there exists inherent tax complexity or uncertainty. Internal focus is directed to these higher risk areas, with external advisers also engaged by Group Finance when required. External advisors will be used to support the Group where additional resource or expertise is required to mitigate these tax risks. UK tax is a significant cost to the Group, and as a result is an area of focus for the Board and the Group's Risk and Internal Audit function.

Tax is the ultimate responsibility of the Group's Chief Financial Officer, who is also the Group's Senior Accounting Officer. The Group's central finance function develops the Group's tax strategy and underlying policies, and ensures that appropriate knowledge and training is in place across the Group. Within the central finance function there is a Group Tax Manager who, along with the finance functions within the operating businesses, manages day to day taxation matters excluding payroll taxes. The calculation and deduction of payroll taxes (including benefits) is managed by the Group HR department, although this process is controlled by policy and process documents which are managed centrally.

Tax planning

The Group seeks to arrange its affairs in such a way as to ensure that it maximises all available claims and reliefs under UK tax legislation and in the manner in which the legislation was intended. The Group will continue to have a strong focus on compliance with all applicable tax legislation. The Group's focus on CSR demonstrates the Board's focus on ensuring that group companies operate in a responsible way. The Group's attitude towards tax planning fits into this framework.

Assessing and mitigating risk

Taxation risk is mitigated through internal procedure and the use of specialists where appropriate. Where there is uncertainty over a tax filing position, the Group will seek specialist external advice or liaise with HMRC on a real-time basis around the transactions to discuss the appropriate tax treatment. Further to seeking specialist advice, there may still exist inherent risk and uncertainty with regards to a specific filing position. When assessing the level of any remaining risk the Group will seek to take a balanced and cautious approach taking additional third party advice as appropriate.

Relationship with HMRC

The Group is committed to working collaboratively with HMRC, through open and transparent dialogue to ensure it is compliant with all of its compliance and filing obligations. The Group has a proactive working relationship with HMRC and will continue to engage with HMRC on a real-time basis.

Charitable donations

Workplace giving

LSL has implemented the 'Charitable Giving' initiative and all Group employees have been invited to participate. The initiative was launched in October 2010 and in 2017 LSL employees raised over £11,000. Over 95 employees participate in the scheme, which donates to a range of charities.

LSL makes it possible for employees to make regular donations via the payroll system to a charity or charities of their choice on a tax free basis. The tax free element means that the charity benefits by receiving a higher amount. Further information can be found at: charitablegiving.co.uk/payroll/payroll-giving.htm

Estate Agency – Residential Sales and Lettings

LSL's Estate Agency Division encourages and promotes employees' individual fundraising activities in the local communities of all the brands. Employees have raised money for a wide range of causes in 2017, from national and international organisations such as Cancer Research UK, the Alzheimer's Society, The Children's Heart Foundation, Help for Heroes, Diabetes UK, Macmillan Cancer Support, Help the Homeless and Agents Giving, to very local causes such as Katherine House Hospice in Stafford, and gathering donations for Trussell

Trust foodbanks in St Neots, Royston and Godmanchester. In addition to this, Reeds Rains was the headline sponsor of Bauer Radio's Cash for Kids Superhero Day in 2017 across eight radio stations in the North of England and Reeds Rains employees raised over £34,000 for the charity during the event.

Estate Agency – Financial Services

PRIMIS employees participated in a range of local activities including the Pretty Muddy race in July 2017 to raise money for a number of cancer charities.

Surveying

For the second year running, the Surveying Division's corporate charity was Coming Home. Coming Home is a national charity that provides specially adapted housing and support for ex-service personnel.

Support was also provided to a number of different charities (national and local) based on individual employee requests, including but not limited to: Melanoma UK, Sir Bobby Robson Foundation, Heads Together, Bradley Lowery Foundation, Manchester Terror Attack, Circus Starr, Kids Cancer Charity.

The Board

1. David Stewart
Non Executive Director
David joined the Board on 1st May 2015, and is Chairman of the Audit & Risk Committee and a member of the Remuneration and Nomination Committees. David has significant experience in finance, strategy, operations, risk and compliance with a particular expertise in financial services. He is currently Non Executive Chairman of the Enra Group and also sits as a Non Executive Director on the boards of M&S Bank and HSBC Private Bank (UK) Limited. Previously, he was Chief Executive of the Coventry Building Society (2006-2014), having earlier served as Finance Director and Operations Director. Prior to joining the Coventry, David spent 10 years at DBS Management plc, holding a number of board positions including Group Chief Executive, Group Managing Director and Group Finance Director. David qualified as a Chartered Accountant with Peat Marwick (KPMG) and is a graduate of Warwick University.

2. Simon Embley
Non Executive Director and Chairman
Simon was appointed Non Executive Chairman on 1st January 2015, having previously held the positions of Deputy Chairman and Group Chief Executive Officer. He became the Group Chief Executive Officer of LSL at the time of the management buy-out of e.surv and Your Move from Aviva (formerly Norwich Union Life) in 2004. Prior to the management buy-out, Simon was responsible for the strategic direction of these companies, and subsequent to the management buy-out Simon oversaw and was responsible for the turnaround of the initial Group. Simon's other directorships are limited to a small estate management company, Road to Health (a healthcare provider) and he is also Non Executive Chairman at Global Property Ventures (which distributes a tenant deposit replacement product).

3. Bill Shannon
Non Executive Director, Deputy Chairman, Senior Independent Director, and Chairman of the Remuneration Committee and Nominations Committee
Bill was appointed as an independent Non Executive Director and the Chairman of the Remuneration Committee on 7th January 2014 and on 1st January 2015, he took on the roles of Deputy Chairman, Senior Independent Director and Chairman of the Nominations Committee. He is also a member of LSL's Audit & Risk Committee. Bill has significant PLC board experience in strategy, operations, finance and governance in the consumer, financial services, residential and commercial property sectors. He is currently Non Executive Chairman of St Modwen Properties plc, Non Executive Director of Johnson Service Group plc and Council Member at the University of Southampton. He was previously at Whitbread Group plc from 1974 and between 1994 and 2004, he was the Divisional Managing Director. He has also served as Non Executive Chairman of Aegon UK plc and Non Executive Director of Rank Group plc, Barratt Developments plc, and Matalan plc.

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

MBA from Harvard Business School and a BA in Economics from the University of California at Berkeley.

5. Ian Crabb
Executive Director,
Group Chief Executive Officer
Ian was appointed Group Chief Executive Officer on 9th September 2013 and has primary responsibility for the performance, strategy and development of LSL. Ian's previous experience included seven years as CEO of Quadriga Worldwide, Europe's market leader in digital IP communication and entertainment services for hotels, where he was responsible for expanding the business into 50 countries. Earlier, Ian was a member of the Industrial Advisory Board at Permira Advisers LLP and worked on major transactions including the €640m buy-out of Hogg Robinson. Prior to this he was Chief Executive of IKON Office Solutions UK/Europe, the document management and office products provider, for six years; delivering significant growth both organically and through several acquisitions. Ian holds a BA from Oxford University and an MBA from Harvard Business School.

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

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

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

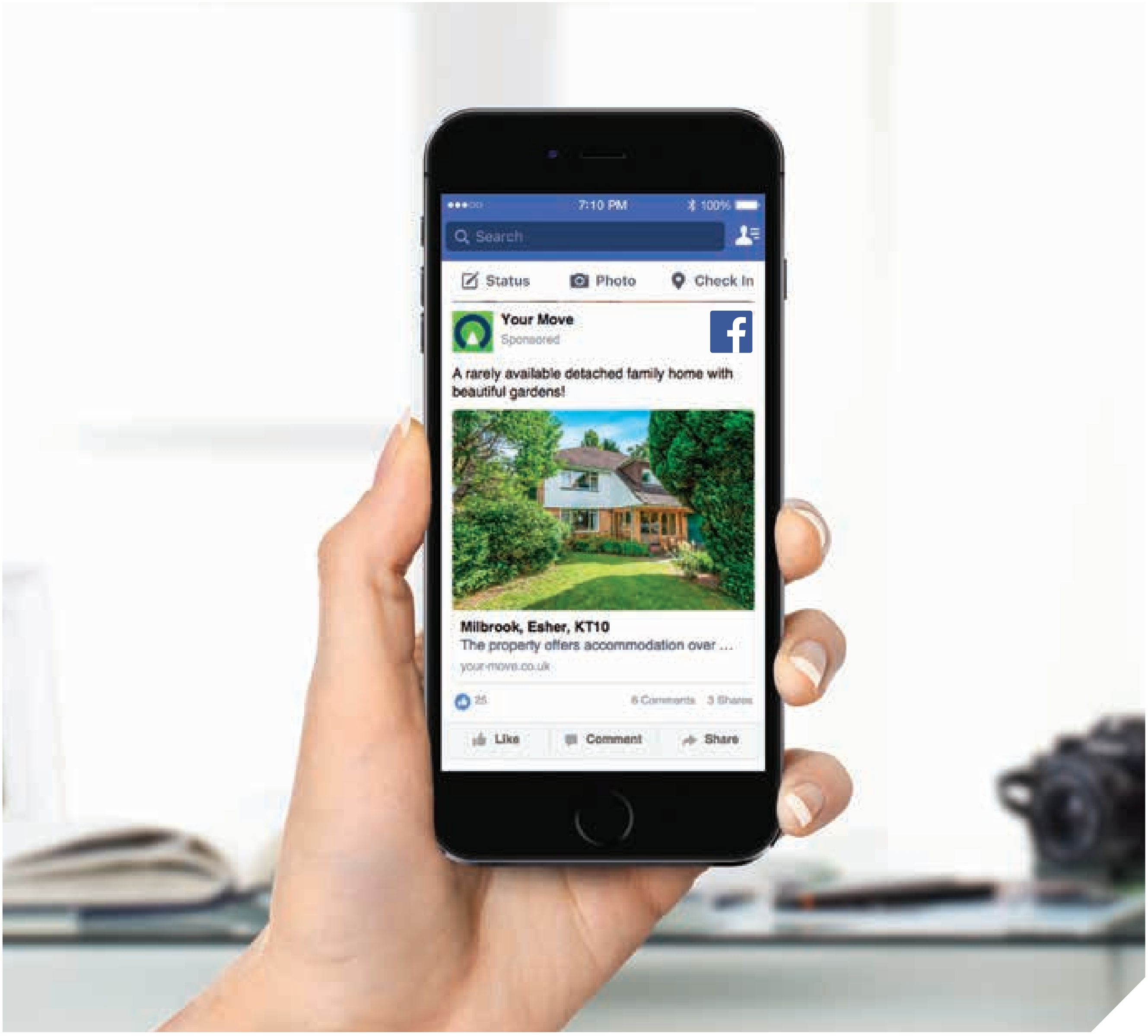
The Strategic Report (including the Strategy, the Business Model, the Business Reviews, the Financial Review, the Principal Risks and Uncertainties, the Corporate Social Responsibility Report and the Board) is approved by and signed on behalf of the Board of Directors.

Ian Crabb
Group Chief Executive Officer
6th March 2018

Adam Castleton
Group Chief Financial Officer
6th March 2018

Report of the Directors and Corporate Governance Reports

In this section



Your Move advertises properties on Facebook.

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 International Financial Reporting Standards (IFRS) as adopted by the EU.

Under company law the Directors must not approve the Group Financial Statements unless they are satisfied that they present fairly the financial position of the Group and the financial performance and cash-flows of the Group for that period.

In preparing the Group Financial Statements, the Directors are required to:

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

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

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

Report of the Directors

Business review and development

The Strategic Report (including the Chairman's Statement and the Group Chief Executive's Report) sets 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 26th April 2018 starting at 3.30pm.

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

Financial results

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

Dividend

The Board continues to support LSL's previously communicated dividend policy, to apply a dividend pay-out ratio of between 30% to 40% of Group Underlying Operating Profit after interest and tax. The Board has reviewed the policy while considering the risks and capital management decisions facing the Group.

Adjusted Basic Earnings Per Share for 2017 was 28.3 pence, an increase of 9.3% on the prior year (2016: 25.9 pence). The Board has a positive view of the future prospects for the business whilst also being mindful of the uncertain economic and political landscape which has an impact on consumer sentiment. The proposed dividend payment is at the upper end of the range of LSL's stated policy and a final dividend of 7.3 pence per share (2016: 6.3 pence per share) will be proposed to Shareholders at the forthcoming AGM, giving a total dividend for 2017 of 11.3 pence per share (2016: 10.3 pence per share).

The ex-dividend date for the final dividend is 22nd March 2018 with a record date of 23rd March 2018 and a payment date of 5th May 2018. The last date for election is 10th April 2018.

Shareholders have the opportunity to elect to reinvest their cash dividend and purchase existing Shares in LSL through a dividend reinvestment plan.

Employees

LSL recognises that its employees are a valuable asset and the Group's businesses are committed to providing working environments in which employees are supported in their professional and personal development. By creating such an environment, the Group believes that this results in the retention and recruitment of the right people to work at every level throughout the Group. An essential part of this strategy is to encourage and promote effective communication with all employees, which also ensures that LSL, in its decision making, takes into account its employees views.

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

Financial instruments

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

The Greenhouse Gas Emissions (Directors' Reports) Regulations 2013 and Part 7 of The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013

In accordance with Part 7 of The Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013, each year LSL reports on targets and KPIs approved by the Board within the Report of the Directors. The 2017 results are included within the CSR statement of this Report.

Directors

The current Directors are listed with their biographies in The Board at pages 38 and 39 of this Report. During the year Adrian Gill was also a Director and he stepped down from The Board on 4th January 2017. Further, Helen Buck became Executive Director – Estate Agency on 2nd February 2017, and ceased to be a Non Executive Director and member of the Remuneration Committee and Nominations Committee at the same time.

Full details of the Directors' service contracts, letters of appointment and interests in LSL Shares 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 re-election. LSL's articles provide that the Board may appoint an individual to act as a Director, but anyone so appointed will retire from office at the next AGM and seek election. All of the

Directors (who were elected at the 2017 AGM) will stand for re-election at the 2018 AGM. Shareholders may by ordinary resolution elect or re-elect any individual as a Director.

In addition, by an amendment to the Nominations Committee's Terms of Reference, LSL has confirmed its commitment to annual elections of its Directors. Accordingly all of the Directors will stand for re-election at the AGM.

The biographical details for all the Directors are set out on pages 38 and 39 of this Report.

During the 2017 Board and Committees effectiveness review, the performance of the Directors, who are all standing for re-election, was specifically evaluated and the Board confirmed that it values the experience and commitment to the business demonstrated by each of these individuals.

Directors' interests

The interests of the current Directors in LSL are contained within the Directors' Remuneration Report included in this Report. During the period between 31st December 2017 and the date of this Report, there were no changes in the Directors' interests other than the purchases of Shares by Ian Crabb (164 Shares), Adam Castleton (163 Shares) and Helen Buck (164 shares) as participants of LSL's SIP/BAYE scheme. These Shares were purchased by the Trust at the prevailing market rate.

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

Further, during the year, no Director was materially interested in any contract that is or was significant to the business of the Group or any subsidiary undertaking. In July 2017 the Group invested in Global Property Ventures of which Simon Embley (LSL's Chairman) is the chairman. Simon did not participate in the Board's decision in relation to the investment.

Directors' service contracts

Details of the Executive Directors' service agreements and the current Non Executive Directors' letters of appointment (including any extensions to appointments) are set out in the Directors' Remuneration Report and are available for inspection at the Registered Office during normal business hours and at each AGM.

Auditor

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

Details of LSL's policy designed to safeguard the independence and objectivity of the external auditors is included in the Audit & Risk Committee Report together with details of how the Audit & Risk Committee undertakes this assessment.

Share capital

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

Rights and obligations attached to Shares

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

Details of Share capital are set out in Note 24 to the Financial Statements. There have been no changes to the Share capital during 2017. LSL will seek Shareholder approval for the renewal of authority for the Directors to allot unissued Ordinary Shares and for the power to disapply statutory pre-emption rights at the 2018 AGM. LSL obtained Shareholder approval to disapply pre-emption rights at the 2017 AGM.

Full details of the deadline for exercising voting rights in respect of the resolutions to be considered at the 2018 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 Link Market Services Trusts (formerly Capita Trustees Limited) (Trustees) to operate the LSL Property Services plc Employee Share Scheme (Trust). The Trustees of this Trust operate both the LSL Property Services plc Employee Share Incentive Plan (Buy As You Earn or BAYE) and the Save As You Earn (SAYE) Plans. The Trust is able to acquire and to hold Shares to satisfy options or awards granted under any discretionary share option scheme or long-term incentive arrangement operated by LSL. Details of the Shares acquired by the Trust are set out in Note 13 to the Financial Statements. The Trustees have waived the right to any dividend payment in respect of each Share held by them in 2017 and to all future payments.

The second Employee Benefit Trust was established in November 2011 (the 2011 EBT), as part of the acquisition of Marsh & Parsons. While the beneficiaries of the 2011 EBT were LSL employees, the 2011 EBT acquired the Growth Shares as part of the transaction and some of these shares were acquired by members of the current Management Team of Marsh & Parsons in 2012, 2013 and 2015. The Growth Shares were all acquired by LSL during 2017. The 2011 EBT does not currently hold any LSL Shares.

Viability statement

In accordance with provision C.2.2 of the Code (April 2016), the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years. This assessment was considered against the Group's expected financial position, existing banking facilities and potential management actions.

A three year viability period, ending 31st December 2020, has been selected which corresponds to the Board's three year planning horizon. In light of the further guidance issued on the appropriateness of the viability period this has been reassessed and is still considered appropriate given this aligns with the Group's planning and budget cycle and is supported by the Group's funding arrangements, which expire in May 2022. The term was extended from May 2020 in January 2018.

The Directors' assessment has been made with reference to the Group's current position and prospects, the current three year strategy and the Group's Principal Risks and Uncertainties and how these are managed as detailed in pages 22 to 27 of the Strategic Report.

The strategic plan has been stress tested using sensitivity analysis which reflects plausible but severe combinations of the principal risks of the business, primarily through reducing revenues and cash-flows.

The process by which LSL developed its viability statement is set out on page 22 of the Principal Risks and Uncertainties section of this Report.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Business Review sections of the Strategic Report. The financial position of the Group, its cash-flows, liquidity position and the Group's policy for treasury and risk management are described in the Financial Review sections of the Strategic Report. Details of the Group's borrowing facilities are set out in Note 21 to the Financial Statements. Note 29 to the Financial Statements describes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk. A description of the Group's principal risks and uncertainties and arrangements to manage these risks are detailed within the Strategic Report on pages 24 to 27.

As explained in Note 29 to the Financial Statements, the Group meets its day to day working capital requirements through cash generated from operations as well as utilising its RCF, which was renewed in January 2018. The Group currently has a £100m facility which is committed for a period up to May 2022. As stated in Note 29 to the Financial Statements as at 31st December 2017 the Group had available £70m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the terms of its current facility.

The Directors have considered the future profitability of the Group, forecast of future cash-flows, banking covenants, liquidity of investments and joint ventures and the ability of the Group to re-finance any loans due to mature in the next 12 months (including the Group's facility which is due to mature in May 2022) where necessary. Further the Directors considered the key judgments, assumptions and estimates underpinning the review.

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

Disclosure of information to the auditor

Having made enquiries of fellow Directors and of the external auditor, each of the 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.
- He/she has taken all the steps a Director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the external auditors are aware of that information.

Directors' qualifying third party indemnity provisions

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

Additional information for Shareholders

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

Share capital

At 31st December 2017, LSL's issued Share capital comprised 104,158,950 0.2 pence Ordinary Shares. The authorised Share capital is 500,000,000 Ordinary Shares of 0.2 pence each.

Ordinary Shares

On a show of hands at a general meeting of LSL every holder of Ordinary Shares present in person and entitled to vote shall have one vote and on a poll, every member present in person or by proxy and entitled to vote shall have one vote for every Ordinary Share held. The Notice of Meeting 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 (lslps.co.uk).

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

- certain restrictions which may from time to time apply under applicable laws and regulations (for example, insider trading laws and market requirements relating to closed periods); and
- pursuant to the Listing Rules of the FCA/UKLA and LSL's Share Dealing Policy, whereby certain employees of LSL require the approval of LSL to deal in LSL's securities.

LSL's Articles of Association may only be amended by way of a special resolution at a general meeting of the Shareholders. LSL has the authority under section 701 of the Companies Act 2006 to make market purchases of the Ordinary Shares of the Group on such terms and in such manner that the Directors determine. The maximum Shares to buy back is capped at 10% of the Ordinary Share capital of the Group being 10,415,895 Ordinary Shares.

Company Share schemes

As at 31st December 2017, the Trust held 1.45% (2016: 1.46%) of the issued Share capital of LSL in trust for the benefit of employees of the Group and their dependents. The voting rights in relation to these Shares are exercised by the Trustees.

Significant agreements – change of control

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

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

Compensation for loss of office – change of control

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

Post balance sheet events

In January 2018, LSL acquired the entire issued share capital of Personal Touch Financial Services and its subsidiary company, Personal Touch Administration Services. Personal Touch Financial Services is a financial services business specialising in the provision of mortgage and other financial services products via its network of intermediaries.

In January 2018, LSL extended its bank facility until May 2022. The facility includes a £100m RCF (2016: £100m).

Directors' responsibility statement

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

- The Financial Statements, prepared in accordance with IFRS as adopted by the EU, give a true and fair review of the assets, liabilities, financial position and results of LSL and its subsidiaries included in the consolidation taken as a whole; the Strategic Report (including the Strategy, the Business Model, the Business Reviews, the Financial Review, the Principal Risks and Uncertainties, Corporate Social Responsibility Report and The Board) and the Directors' Report (including the Corporate Governance Reports) include a fair review of the development and performance of the business and the position of LSL and its subsidiaries included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.
- The Report (including the Financial Statements), taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess LSL's performance, business model and strategy.

Substantial shareholdings

As at 31st December 2017 and as at 5th March 2018, the Shareholders set out below have notified LSL of their interest under DTR 5:

Institutional Shareholders:

		31st December 2017		5th March 2018	
Institution	Nature of shareholding	Number of Ordinary Shares	% of Ordinary Shares	Number of Ordinary Shares	% of Ordinary Shares
Brandes Investment Partners L.P	Beneficial	14,329,898	13.98	13,254,206	12.94
Harris L.P	Beneficial	11,585,233	11.12	11,585,233	11.12
Setanta Asset Management Ltd	Beneficial	10,158,227	9.75	10,158,227	9.75
Kinney Asset Management, LLC	Beneficial	7,694,643	7.39	7,113,643	6.83
GLG Partners LP	Beneficial	4,280,869	4.18	4,280,869	4.18
First Pacific Advisers, LLC	Beneficial	5,267,163	5.06	5,267,163	5.06
The Capital Group of Companies, Inc	Beneficial	4,658,270	4.47	4,658,270	4.47
Henderson	Beneficial	4,182,818	4.01	4,182,818	4.01
FMR, LLC	Beneficial	Below DTR 5 threshold	Below DTR 5 threshold	5,302,440	5.09
Franklin Templeton Institutional, LLC	Beneficial	Below DTR 5 threshold	Below DTR 5 threshold	5,224,560	5.02

Individual Shareholders (excluding Directors)					
David Newnes	Registered	3,479,910	3.34	3,479,910	3.34

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

Sapna B FitzGerald
Company Secretary
6th March 2018

Corporate Governance Report

UK Corporate Governance Code (April 2016) (the Code)

The Board is committed to the highest standards of corporate governance and the Directors recognise the value and importance of meeting the principles of good corporate governance as set out in the Code. This part of the Report describes how LSL has complied with the Code during 2017 and the corporate governance arrangements that are in place for 2018.

This Report assesses LSL's compliance against the 2016 edition of the Code and during 2017, LSL complied with the relevant provisions of the Code in all respects. The Code is available on the Financial Reporting Council's website (frc.org.uk).

Further, during 2017 the Board also reviewed and updated its governance arrangements to reflect best practice introduced by the joint guidance issued by the Investment Association and ICSA in relation to stakeholder engagement.

Corporate governance reviews

The Board has also during 2017 been monitoring the findings of the House of Commons Business, Energy and Industrial Strategy Select Committee's review of corporate governance and the Government's proposals for reform; in addition to the FRC's proposed amendments to the Code (published in December 2017) in response to the Government's Green Paper (published in November 2016).

Further to the 2016 Board evaluation exercise, during 2017 the Board commenced a review of the Group's cultures, values and ethics, taking into consideration the FRC's guidance published in 2016 (*Corporate Culture and the Role of Boards*) and the draft *Guidance on Board Effectiveness* which was published in December 2017, alongside the draft Code.

The guidance, whilst in draft, provides a useful indication of how the FRC intend to implement the findings from its own review in 2016, and the Government's response to the Green Paper consultation on Corporate Governance Reform (published in August 2017). The FRC has also taken into account issues raised by the House of Commons Business, Energy and Industrial Strategy Select Committee (April 2017).

During 2018, the Board will continue to prepare for implementation of a new Code and to monitor the development of the draft guidance and the new Code in addition to progressing the Group's culture, values and ethics review.

The Board

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

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

All of the Directors are listed with their biographies in The Board at pages 38 and 39 of this Report.

2017 Board changes

Adrian Gill (Executive Director – Estate Agency), stepped down from the Board on 4th January 2017.

Helen Buck (as a Non Executive Director) was a member of the Nominations Committee and Remuneration Committee until her appointment as Executive Director – Estate Agency on 2nd February 2017. Helen Buck did not participate in any Nominations Committee or Remuneration Committee discussions regarding her appointment into this role. In relation to the appointment into the role of Executive Director – Estate Agency, the Nominations Committee was assisted in its search by executive search agencies, The MBS Group (trading name of Moira Benigson Executive Search LLP) and The Zygos Partnership (trading name of Zygos LLP which is part of Russell Reynolds Associates). Both agencies are considered to be independent of, and neither agency has any connection with, LSL.

Board composition

During 2017 the Non Executive Directors (excluding the Chairman) were determined to be independent in accordance with B.1.1 of the Code and the Board composition continued to comply with B.1.2 of the Code, namely that at least half of the Board (excluding the Chairman) comprised independent Non Executive Directors. The current Non Executive Directors together have a range of experiences which are described in more detail overleaf in the Nominations Committee section of this Corporate Governance Report. All of the Non Executive Directors (excluding the Chairman) are considered by the Directors (and for the purposes of the Code) to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgment.

Director search

During 2017, the Nominations Committee on behalf of the Board considered at length a number of aspects regarding the Board's composition and following this review commenced a search for the recruitment of an additional director with skills and expertise in technology and innovation, to be appointed as an additional independent Non Executive Director. The Nominations Committee has been assisted in its search by The Zygos Partnership (trading name of Zygos LLP which is part of Russell Reynolds Associates), which is an executive search agency. The Zygos Agency is considered to be independent of and does not have any connection with, LSL.

Roles of the Chairman and Group Chief Executive Officer

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 in 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. The Chairman also promotes a culture of openness and debate by facilitating the effective contribution of the Non Executive Directors in particular, and ensuring constructive relations between the Executive and Non Executive Directors.

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

Chairman's other appointments

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

Board and Committees evaluation

During the year the Directors continuously review, and are encouraged to provide feedback on, the effectiveness of the Board. Further, the Directors assisted by the Company Secretary, undertake an annual evaluation of the performance of the Board which includes an evaluation of the Board, its Committees and of individual Directors (including relevant skills, experience and diversity) to ensure that the Directors remain individually and collectively effective.

The actions agreed during the 2016 evaluation process were completed in 2017.

The evaluation process relating to 2017 involved discussions between each Director and the Chairman, meetings of the Board and discussions between the Non Executive Directors. As in previous years the Non Executive Directors have also evaluated the Chairman's performance, after taking into account the views of the Executive Directors.

No significant issues requiring action arose from the 2017 evaluations and the outcomes of the exercise were reported to the Board. The appraisal confirmed that the Board and its Committees were discharging their responsibilities effectively and produced a number of recommendations to further improve the effectiveness of the Board. As a result, during 2018 the Board will:

a. Continue to develop succession planning arrangements for Executive and senior management.

b. Recruit additional independent non executive director with skills and expertise to enhance existing Board and Committee composition (including diversity) and to support Group business and markets developments.

c. Building on 2017 activities, continue to review meeting arrangements and the provision of information to the Board and its Committees to ensure that the Board/Committees prioritise supporting the Group's strategy.

d. All Directors to complete a self-assessment exercise to identify any development/training needs and to agree training plans as appropriate with Chairman/CEO with support from Company Secretary and Group HR Director.

e. Implement the culture, value and ethics and stakeholder engagement Board feedback and plans, taking into account the Code and FRC guidance review (including employee engagement matters).

Diversity

LSL continues to recognise the benefits of diversity on the Board (including relevant professional skills, experience, gender and race) and the current Board composition includes two female Directors, Helen Buck (Executive Director – Estate Agency) and Kumsal Bayazit Besson (independent Non Executive Director).

LSL has not adopted a diversity policy and whilst the Directors remain of the view that the setting of targets for the number of female directors on the Board is not necessary and that they will continue to appoint on merit, both the Chairman of the Board and the Chairman of the Nominations Committee ensure that all searches for directors and senior managers (including those undertaken in 2017 and being undertaken in 2018) continue to take into account the benefits of diversity, including professional skills, experience, gender, social and ethnic backgrounds.

Further, LSL has also considered the FRC's views on diversity which are included in the Code consultation document (published in December 2017). In particular, the Board notes that diversity on the Board and within the senior management teams has a positive impact on the Group's performance and the Board will during 2018 take into consideration the adoption of a diversity policy.

For further information on how the Nominations Committee ensures the promotion of diversity within the Group, see below (Nomination Committee section).

Directors' service agreement and letters of appointment

Copies of the Executive Directors' service agreements and of the Non Executive Directors' letters of appointment are available for inspection at the Registered Office during normal business hours and at each AGM. Further details of Director service agreements and letters of appointment are contained in the Directors' Remuneration Report.

Director support

All Directors have access to 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 and its Committees on all matters of corporate governance, ensuring that all Board and Committee procedures are followed and facilitating Director induction and training.

Director induction and training

Each newly appointed Director receives an induction on a range of topics, including as appropriate, the responsibilities of a listed public company director and the LSL businesses. Thereafter, LSL provides the necessary resources for developing this understanding and knowledge. Further, the Chairman regularly reviews and agrees any training and development needs with each of the Directors and any training needs are also discussed as part of the annual evaluation exercise.

The Company Secretary ensures that the Director induction and training arrangements are reviewed regularly with updates provided to the Board.

During 2017, and following on from the 2016 Board evaluation exercise, the Board agreed that as part of its training it would receive a specific training session during 2017 on FCA Regulation which was delivered by Grant Thornton (trading name of Grant Thornton UK LLP).

Board and Committee meetings

During 2017 the Board held nine scheduled meetings (including a three year planning meeting and a strategy meeting). Each of the Directors was able to allocate sufficient time to LSL to discharge their responsibilities effectively and the attendance of each of the Directors at the Board meetings (as a Director or a Committee member) is set out in this Report.

During 2018 the Board is scheduled to meet eight times (including a three year planning meeting and a strategy meeting). Additional meetings will be held as required.

During 2017 the Non Executive Directors collectively scheduled to meet nine times without the Executive Directors being present and it is the intention that the Non Executive Directors will meet eight times during 2018. These meetings are scheduled before or after a Board or Committee meeting.

In addition, the Non Executive Directors are scheduled to meet at least once in the year without the Chairman being present.

Board and Committee attendance 2017

Director	Position	Committee memberships	Board Meetings (including three year planning meeting and strategy meeting)	Audit & Risk Committee	Remuneration Committee	Nomination Committee	Notes
Kumsal Bayazit Besson	NED	Audit & Risk, Remuneration and Nomination	8	3	4	2	2
Helen Buck	Executive Director – Estate Agency	Remuneration and Nomination	9	-	-	0	1
Adam Castleton	Group CFO	-	9	-	-	-	-
Ian Crabb	Group CEO	-	9	-	-	-	-
Simon Embley	Chairman	-	9	-	-	-	-
Adrian Gill	Executive Director – Estate Agency	-	-	-	-	-	3
Bill Shannon	Deputy Chairman, SID	Audit & Risk, Remuneration and Nomination	9	3	4	3	-
David Stewart	NED	Audit & Risk, Remuneration and Nomination	9	3	4	3	-

Board and Committee attendance Notes:

1 Helen Buck was appointed as Executive Director – Estate Agency on 2nd February 2017 and she did not participate in any Board, Nominations Committee or Remuneration Committee discussions in relation to her appointment. As a result, during 2017 and whilst she was a Non Executive Director and member of the Nominations Committee, Helen Buck did not attend any scheduled Nominations Committee meeting. There was no scheduled meeting of the Remuneration Committee during the period prior to Helen Buck's appointment as Executive Director – Estate Agency.

2 Kumsal Bayazit Besson was not present at one of the scheduled Board meetings and one Nominations Committee meeting during 2017. She received the papers in advance of the meetings and provided her comments and queries to the Chairman and the Group Chief Executive Officer to raise at the meeting.

3 Adrian Gill stepped down from the Board on 4th January 2017 and there were no Board meetings scheduled before this date.

Director elections

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

Board role and responsibilities

The Board is primarily responsible for the overall management of the Group and for decisions on Group strategy, including approval of the Group's strategy, its annual business plans and budgets, the interim and full year financial statements and reports, any dividend proposals, the accounting policies, any major capital projects, any investments and disposals, its succession plans and the monitoring of financial performance against budget and forecast and the formulation of the Group's risk appetite framework, including the identification, assessment and monitoring of LSL's principal risks and uncertainties. In accordance with best practice, LSL has adopted a policy of Matters Reserved for the Board which is reviewed annually by the Board.

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

There is also a programme of regular reviews by the Board of LSL performance and developing best practice in matters such as employment, health and safety, environmental and social and community interests (including human rights and ethical issues). During 2017, the Board considered the joint guidance on best practice issued by the Investment Association and ICSA in relation to stakeholder engagement and also commenced a review of the Group's cultures, values and ethics, taking into account FRC commentary.

LSL believes that Corporate Social Responsibility (CSR) is necessary to support responsible business decisions that consider the broad impact of corporate actions on people, communities, and the environment. Accordingly, the Board takes account of the significance of environmental, social and governance matters (ESG) when making decisions. Further details of LSL's CSR objectives including the steps being taken to ensure compliance with the requirements of the Modern Slavery Act 2015 can be found in the CSR Statement included in this Report.

During 2017, the Board also received updates on how LSL is implementing new legislation including Reporting on Payment Practices Regulations 2017, the Modern Slavery Act 2015, General Data Protection Regulation and the Criminal Finances Act 2017 (which created a new offence of tax evasion).

Director conflicts of interest

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

Board Committees

The Board has delegated specific responsibilities to three standing Committees of the Board:

a. Nominations Committee;

b. Remuneration Committee; and

c. Audit & Risk Committee.

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 (lslps.co.uk). During 2017, the Board reviewed the Terms of Reference for each of the Committees and updated each to reflect the guidance on best practice included in the joint guidance issued by the Investment Association and ICSA in relation to stakeholder engagement. In addition, in February 2018 the Terms of Reference of the Audit & Risk Committee was updated to reflect the work it has undertaken in relation to risk and during 2018, the Board will continue to review the Committees' Terms of Reference in response to amendments to FRC guidance and the Code.

It is also the intention that Bill Shannon, as Chairman of the Nominations Committee and Remuneration Committee and David Stewart, as Chairman of the Audit & Risk Committee, will both attend the 2018 AGM to answer any questions.

Nominations Committee

Bill Shannon is the Chairman of the Nominations Committee and, its other members are Kumsal Bayazit Besson and David Stewart.

During 2017, Helen Buck was (as a Non Executive Director) a member of the Nominations Committee until her appointment as Executive Director – Estate Agency on 2nd February 2017. Helen Buck did not participate in any Nominations Committee discussions regarding her appointment into this role.

Director searches

In relation to the appointment into the role of Executive Director – Estate Agency, the Nominations Committee was assisted in its search by executive search agencies, The MBS Group (trading name of Moira Benigson Executive Search LLP) and The Zygos Partnership (trading name of Zygos LLP which is part of Russell Reynolds Associates).

During the second half of 2017, the Nominations Committee considered at length a number of aspects regarding the Board's composition and as a result of the review, commenced a search for the recruitment of an additional independent Non Executive Director with expertise and skills in relation to technology and innovation. The Nominations Committee has been assisted in its search by executive search agency The Zygos Partnership.

The MBS Group and The Zygos Partnership are considered to be independent of, and neither has any connection with, LSL.

Roles and responsibilities of the Nominations Committee

The duties of the Nominations Committee are governed by its Terms of Reference, which was reviewed in 2017 to ensure continued compliance with the Code. The Terms of Reference was also updated to take into account the joint guidance on best practice issued by the Investment Association and ICSA relating to stakeholder engagement.

The Nominations Committee's roles and responsibilities are contained in its Terms of Reference and includes the following:

a. taking into account LSL's strategy and the Board's knowledge and understanding of the Group's key stakeholders, regularly reviewing the structure, size and composition (including skills, knowledge and experience) required of the Board and its Committees; and making recommendations to the Board with regard to any changes;

b. recommending appointments after the evaluation of the balance of skills, experience, independence and knowledge on the Board, taking into account diversity (including gender and race). The Nominations Committee will also prepare a description of the role and capabilities required for a particular appointment;

c. giving full consideration to succession planning in the course of its work, taking into account the challenges and opportunities facing LSL, and what skills and expertise are therefore needed on the Board in the future. The Nominations Committee will also satisfy itself that plans are in place for orderly succession for appointments to the Board and to senior management, so as to maintain an appropriate balance of skills and experience within the Group and on the Board, to ensure progressive refreshing of the Board;

d. recommend to the Board as a whole the selection and appointment of new Executive and Non Executive Directors in accordance with the Code; ensuring that any search is conducted, and appointments are made, on merit, against objective criteria, with due regard for (a) the benefits of diversity, including gender and race; and (b) the Group's key stakeholders;

e. reporting on the nomination of all new Board appointments and undertaking an annual performance evaluation to ensure that all members of the Board have devoted sufficient time to LSL to discharge their duties effectively;

f. keeping under review the leadership needs of the Group at varying levels with a view to ensuring the continued ability to compete effectively in LSL's marketplaces;

g. ensuring that on appointment to the Board, Non Executive Directors receive a formal letter of appointment which sets out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings;

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

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

The Nominations Committee make recommendations to the Board as set out in its Terms of Reference, which includes the following matters:

a. succession plans and Board appointments; and

b. reporting on its activities in the Annual Report and Accounts.

What the Nominations Committee did in 2017

The Nominations Committee met three times in 2017 and the Group Chief Executive Officer, the Chairman, the Group HR Director and the Company Secretary were all invited to attend these meetings and assisted the Nominations Committee in its deliberations during this period.

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

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

b. the role and responsibilities profiles in relation to the Chairman and Group Chief Executive Officer;

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

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

e. a review of the Nomination Committee's performance and its Terms of Reference to ensure continued compliance with the Code, FRC guidance and updated the Terms of Reference to take into account the joint guidance on best practice issued by the Investment Association and ICSA relating to stakeholder engagement;

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

g. the Committee commenced a search for the recruitment of an additional Non Executive Director. LSL is being assisted by executive search agency The Zygos Partnership in its selection.

As part of its discussions in 2017 the Nominations Committee considered FRC guidance and other publications relevant to the roles and responsibilities of the Nominations Committee.

Governance

In carrying out its duties, the Nominations Committee also takes into account the requirements of the Listing Rules (together with requirements issued by the FCA), the Code and guidance for Nominations Committees issued by the FRC (including its feedback statement on *UK Board Succession Planning* published in May 2016) and other bodies (including the joint report published by ICSA and Ernst & Young titled *The Nomination Committee – coming out of the shadows* published in May 2016), together with the requirements of the Board, and any other relevant ethical guidance.

During 2017, the Nominations Committee has also monitored both the Government's review of corporate governance, including the Green Paper published by the Department for Business, Energy and Industrial Strategy and the review conducted by the Business, Energy and Industrial Strategy Select Committee. Further, the Nominations Committee is reviewing the proposals to amend the Code as published by the FRC in December 2017.

Board composition and diversity

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

Whilst LSL has not adopted a formal policy on diversity, including professional skills, experience, gender, social and ethnic backgrounds, the Chairman of the Board and the Chairman of the Nominations Committee ensures that diversity is taken into consideration in the recruitment of new Directors. The Board will (supported by the Nominations Committee) during 2018 take into consideration the adoption of a diversity policy.

Further, during 2018 the Nominations Committee will ensure that Board recruitment and succession planning practices identify and consider a diverse pool of candidates to improve diversity over time. The Nominations Committee recognises the benefits of diversity and notes that whilst the draft Code continues to emphasise the importance of diversity in its broadest sense, LSL welcomes initiatives which seek to broaden perceptions of diversity and to ensure practices are designed to promote diversity, including gender, social and ethnic backgrounds.

Gender pay reporting

LSL has during 2017 been preparing for the introduction of gender pay reporting and will ensure the publication of gender pay reports for all LSL Group companies with more than 250 employees in April 2018.

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

Remuneration Committee

The Remuneration Committee is chaired by Bill Shannon and its other members are Kumsal Bayazit Besson and David Stewart.

During 2017, Helen Buck was also a member of the Nominations Committee (as a Non Executive Director) until 2nd February 2017 when she commenced her role as Executive Director – Estate Agency. Helen Buck did not participate in any discussions relating to her remuneration as Executive Director – Estate Agency.

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

Role and responsibilities of the Remuneration Committee

The duties of the Remuneration Committee are governed by its Terms of Reference, which were reviewed in 2017 to ensure continued compliance with the Code. The Terms of Reference were also updated with effect from 1st January 2018 to reflect the joint guidance on best practice issued by the Investment Association and ICSA relating to stakeholder engagement. The Terms of Reference will also be reviewed during 2018 to reflect any changes to the Code arising from the FRC review which commenced in December 2017.

The Remuneration Committee's role and responsibilities are contained in its Terms of Reference, and it includes being responsible for determining LSL's policy on the remuneration of Executive Directors and selected senior managers, including pension rights and any compensation payments. It is also responsible for making recommendations for grants of Shares under the employee Share schemes. The Directors' Remuneration Report provides details of how the Remuneration Committee has discharged these duties and this can be found from page 66 of this Report.

In addition, the duties of the Remuneration Committee includes the following:

a. ensure that the levels of remuneration are sufficient to attract, retain and motivate directors of the quality required to run LSL successfully and to ensure that LSL avoids paying more than is necessary for this purpose. The Remuneration Committee also ensures that a significant proportion of the Executive Director's remuneration is structured, so as to link rewards to corporate and individual performance and is sensitive to pay and employment conditions elsewhere in the Group, especially when determining annual salary increases;

b. designing performance related pay schemes which take into account the requirements of the Code;

c. review and design all share incentive plans for approval by the Board and Shareholders and determine each year the grants of awards (including setting targets) pursuant to such plans; and

d. where instructed by the Board, ensure the levels of remuneration for Non Executive Directors reflect the time commitment and responsibilities of the role.

The Terms of Reference of the Remuneration Committee are available from the Company Secretary or LSL's website (lslps.co.uk).

What the Remuneration Committee did in 2017

During 2017, the Remuneration Committee met four times and considered the following matters:

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

b. implemented the revised Remuneration Policy which was approved by Shareholders at the 2017 AGM;

c. reviewed the Group's all employee share plans (SAYE and BAYE/SIP);

d. reviewed the Group's bonus arrangements;

e. reviewed LTIP award levels for the Executive Directors, which included significant Shareholder consultations;

f. reviewed and made recommendations to the Board on remuneration arrangements or other payments payable to Executive Directors and senior management;

g. reviewed the Executive Directors shareholding guidelines and Executive Director shareholdings;

h. reviewed the Remuneration Committee's performance and its Terms of Reference to ensure continued compliance with the Code, FRC guidance and updated the Terms of Reference to take into account the joint guidance on best practice issued by the Investment Association and ICSA relating to stakeholder engagement;

i. as part of the annual Board and Committee evaluation programme, the Committee evaluated its composition and performance; and

j. the Committee also reviewed the external remuneration advisors and following a formal tender process appointed Korn Ferry to replace NBS.

As part of its discussions in 2017, the Remuneration Committee considered FRC guidance and other publications relevant to the roles and responsibilities of the Remuneration Committee including reports and guidance issued by Institutional Shareholder Services and the Investment Association.

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

None of the current Remuneration Committee members, and nor did the 2017 Remuneration Committee members, have any personal financial interest (other than as Shareholders), any conflicts of interest arising from cross directorship, or any day to day involvement in running the business. The Remuneration Committee recognises and manages conflicts of interest when receiving views from the Executive Directors or senior managers about any proposals. The Remuneration Committee makes recommendations to the Board and no Director is permitted to participate in any discussion about their remuneration.

The Remuneration Committee may, in exercising its discretion in relation to the remuneration of Executive Directors and selected senior managers, take into account LSL's performance on governance (including regulatory compliance) and CSR related issues and it ensures that the incentive schemes put in place do not raise any ESG issues by inadvertently motivating irresponsible behaviour.

2018 remuneration

In relation to Executive Director remuneration for 2018, the Remuneration Committee has recommended performance-related elements which are transparent, stretching and rigorously applied.

The Remuneration Committee is aware of the developing regulatory environment on pay in the UK and internationally – it will continue to monitor this in 2018. Specifically, in response to the consultations on corporate governance reform, the Committee will also consider how it can support the facilitation of greater employee engagement and consultation on remuneration matters.

Audit & Risk Committee

The Audit & Risk Committee is chaired by David Stewart and its other members are Bill Shannon and Kumsal Bayzit Besson. During the 2017 Board and Committee evaluation process the Board also confirmed that the Audit & Risk Committee as a whole has the competence relevant to the sectors in which LSL operates and that it includes at least one member who has recent and relevant financial experience.

The Audit & Risk Committee met on three occasions in 2017. LSL's Head of Risk and Internal Audit, the external auditors, the Chairman, the Executive Directors, the Group Financial Controller and the Company Secretary were invited to attend all or parts of these meetings to assist the Audit & Risk Committee in its deliberations during this period. The Audit & Risk Committee met with the Head of Risk and Internal Audit and the external auditors without the Executive Directors being present, three times during 2017.

Further details of the duties and responsibilities of the Audit & Risk Committee are shown on page 56 of this Report.

Shareholder relations

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

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

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

In addition each year all of the Non Executive Directors, including Simon Embley (Chairman) and Bill Shannon (Deputy Chairman and Senior Independent Director), are offered the opportunity to attend meetings with all Shareholders as they require. If any Shareholder or Shareholder representative groups would like to discuss any issues or concerns with the Non Executive Directors, they can be contacted through the Company Secretary's office (see Shareholder Information at page 169 of this Report for details).

With regard to individual Shareholders, the Board considers that the main forum for communication is at the AGM and all of the current Directors will be available at the 2018 AGM to meet with Shareholders.

During 2017 LSL consulted with significant Shareholders in relation to an increase in the LTIP award levels for the Executive Directors. Further details of this consultation are contained in the Directors' Remuneration Report.

During 2018, LSL will continue to engage with significant Shareholders and their representative bodies, as appropriate, in respect of any proposed changes to the Remuneration Policy and on the implementation of the Remuneration Policy.

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

Sharedealing Code

LSL has in place a Sharedealing Policy and Code to ensure compliance with the Market Abuse Regulation. This Sharedealing Policy and Code applies to the Directors, PDMRs and other relevant employees of LSL.

Takeover Directive

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

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

Sapna B FitzGerald
Company Secretary
6th March 2018

Audit & Risk Committee Report

Dear Shareholder

I am pleased to report on the activities of the Audit & Risk Committee during 2017.

The Audit & Risk Committee, on behalf of the Board, has taken steps to ensure that the Annual Report and Accounts 2017, when taken as a whole, is fair, balanced and understandable.

In this report, we have detailed how the Audit & Risk Committee has discharged its responsibilities during 2017, including details of the further development of the Group's Finance, Risk and other control functions.

I would like to thank members of the Audit & Risk Committee for their support in 2017 and the active role each member played in understanding the Group and the risks and challenges it faces.

I will be available at the 2018 AGM to answer Shareholder questions relating to the Audit & Risk Committee and how it discharged its roles and responsibilities during 2017.

David Stewart
Chairman of the Audit & Risk Committee
6th March 2018

LSL's Audit & Risk Committee

David Stewart is Chairman of the Audit & Risk Committee and its other members during the year were Bill Shannon and Kumsal Bayazit Besson. All members of the Audit & Risk Committee are independent Non Executive Directors.

David Stewart was appointed Chairman in April 2016, the Board and Nominations Committee having determined that he has the requisite recent and relevant financial experience as is required by the Code.

During the 2017 annual Board and Committees evaluation process, the Board confirmed that the Audit & Risk Committee as a whole has the competence relevant to the sectors in which LSL operates and that it includes at least one member who has recent and relevant financial experience.

Further during the year, in reviewing the composition of the Board and its Committees, the Nominations Committee has evaluated the range of skills, experience, knowledge and professional qualifications of the Audit & Risk Committee to ensure LSL's continued compliance with the Code.

Details of the members of the Audit & Risk Committee are detailed in the Corporate Governance Report and in the Director profiles included in The Board section of this Report.

Roles and responsibilities of the Audit & Risk Committee

The main roles and responsibilities of the Audit & Risk Committee are detailed below. In carrying out its duties, the Audit & Risk Committee has considered the requirements of the Listing Rules (together with the requirements of the FCA, the Code and Guidance on Audit Committees issued by the FRC), together with any requirements of the Board, which are all incorporated into the Audit & Risk Committee's Terms of Reference.

During 2017, the Audit & Risk Committee established a programme of work to ensure that each of its roles and responsibilities was covered adequately during the year.

The duties of the Audit & Risk Committee, included:

1. Internal controls and risk management

In relation to LSL's internal controls and risk management arrangements, the Audit & Risk Committee shall:

a. ensure that the Group's accounting and financial policies and controls, are proper, effective and adequate;

b. ensure that internal and external auditing processes are properly co-ordinated and work effectively;

c. monitor the integrity of LSL's financial statements and any formal announcements relating to its financial performance, reviewing significant financial reporting issues and judgments contained in them;

d. review the Group's internal control and risk management systems, which includes the overall risk management framework (which have been established to identify, assess, manage and monitor risks) and all material controls (including financial, operational and compliance related controls);

e. on behalf of the Board, provide oversight of LSL's risk management and internal controls systems (including reviewing LSL's capability to identify and manage new risk types) and in relation to the same, receive reports from the Management Team on material breaches of risk limits and the adequacy of proposed actions; and the effectiveness of the systems and the conclusions of any testing carried out by the Risk and Internal Audit Team or the external auditors;

f. consider the level of assurance the Audit & Risk Committee is getting on the risk management and internal control systems, including financial controls, and whether there is enough to help the Board in satisfying itself that they are operating effectively;

g. review and approve the Group Risk Framework Policy, including a regular assessment and update of the Group risk appetite statement. This latter process involves frequent re-assessment by the Audit & Risk Committee of the Group's principal risks and uncertainties, underpinned by defined metrics which articulate the status and tolerance levels for key business risks. The framework ensures sufficient focus is placed on threats to Group objectives, with responsive action plans put in place for areas considered outside appetite. The process is underpinned by the capture of outputs from risk appetite measures maintained at subsidiary level, regular review of risk status by the Executive Committee and independent challenge of results by the Risk and Internal Audit function, prior to the tabling of overall conclusions for discussion at Audit & Risk Committee;

h. advise the Board on LSL's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic and financial environment and drawing on financial stability assessments such as those published by relevant industry and regulatory authorities including the Bank of England, the FCA and other authoritative sources that may be relevant for LSL's risk policies; and

i. monitor LSL's risk management and internal control systems and, at least annually, carry out a review to enable LSL to report on that review in the Annual Report and Accounts. The monitoring and review will cover all material controls, including financial, operation and compliance controls.

2. Reporting to the Board

The Audit & Risk Committee reports to the Board on how it has discharged its responsibilities, including:

a. the significant issues that it considered in relation to the financial statements and how these were addressed;

b. its assessment of the effectiveness of the external audit process and its recommendation on the appointment/reappointment of the external auditor; and

c. reporting on any other issues on which the Board has requested the Audit & Risk Committee's opinion. In doing so the Audit & Risk Committee identifies any matters in respect of which it considers that action or improvement is needed, whether the subject of a specific request by the Board or not, and make recommendations as to the steps to be taken.

3. External auditor

In relation to the external auditor, the Audit & Risk Committee's duties include:

a. to have primary responsibility for making annual recommendations to the Board on the appointment, reappointment or removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor at the start of each audit;

b. to satisfy itself that the audit fee is appropriate and that an effective, high quality, audit can be conducted for such a fee;

c. to be responsible for the selection procedure for the appointment of the external auditor (including ensuring that all tendering firms have such access as is necessary to information and individuals during the tendering process);

d. to meet with the external auditors before the start of each annual audit to consider the nature and scope of the audit and post-audit at the reporting stage;

e. to meet with the external auditors without the presence of the Executive Directors at least once a year;

f. to annually assess, and report to the Board on, the qualification, expertise, ethical standards (including compliance with the same), resources, and independence of the external auditor and the effectiveness of the audit process;

g. in the event of a resignation by the external auditor, to investigate the issues giving rise to such resignation and consider whether any action is required;

h. to evaluate the risks to the quality and effectiveness of the financial reporting process, especially in light of the external auditor's communications with the Audit & Risk Committee;

i. to develop and implement LSL's policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance, and to report to the Board in relation to the same;

j. to review and monitor the Management Team's responsiveness to the external auditor's findings and recommendations and review the audit representation letters;

k. to meet the Board formally at least twice a year to discuss matters such as the Annual Report and Accounts, the relationship with the external auditors and any other matters included within its duties and responsibilities;
l. to review at least annually for recommendation to the Board, LSL's Auditor Independence Policy;
m. to keep under review the nature and extent of non-audit services provided by the external auditor, taking into account LSL's Auditor Independence Policy; and
n. to receive and consider the findings of the external auditor (including any management letters).

4. Annual Report and Accounts

Each year, the Audit & Risk Committee will prepare a report to Shareholders for inclusion in LSL's Annual Report and Account. For details of how the Audit & Risk Committee discharged its obligations in relation to this Report, see below.

5. Financial reporting

The Audit & Risk Committee reviews and reports to the Board on significant financial reporting issues and judgments made in connection with the preparation of LSL's financial statements (having regard to matters communicated to it by the external auditor) including the annual and half yearly statements, and where requested by the Board, and interim reports, preliminary results announcements, summary financial statements, significant financial returns to any regulators and any financial information contained in other documents prior to their submission to the Board, with a particular focus on:

a. significant accounting policies and practices;
b. the appropriateness of LSL's accounting policies, estimates and judgments;
c. the clarity and completeness of disclosures in the financial statements and consider whether the disclosures are set properly in context;
d. major judgmental areas;
e. any significant adjustments arising from an audit;
f. the appropriateness of the adoption of the going concern basis of accounting and identify any material uncertainties to the Group's ability to continue to do so for a period of at least 12 months;
g. compliance with accounting standards;
h. the impact of any unusual transactions; and
i. compliance with legal and regulatory requirements (including FCA/LSE requirements).

6. Risk and Internal Audit

In relation to LSL's Risk and Internal Audit Team, the Audit & Risk Committee will:

a. review and approve the role and mandate of the Risk and Internal Audit Team (ensuring that the function has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, and is equipped to perform in accordance with relevant professional standards);
b. approve the internal audit plan and annually review and approve the Risk and Internal Audit Team's Terms of Reference to ensure that it is appropriate to the needs of the Group;
c. monitor and review the effectiveness of LSL's Risk and Internal Audit Team and activities, including approving the appointment and termination of the Group's Head of Risk and Internal Audit;
d. undertake a review of the effectiveness of the Risk & Internal Audit Team and confirm to the Board that it is satisfied that the quality, experience and expertise of the function is appropriate for the Group; and
e. receive and consider the major findings of the Risk and Internal Audit Team.

7. Whistleblowing, fraud and anti-bribery arrangements

The Audit & Risk Committee will:

a. review the arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters with the objective of ensuring that arrangements are in place for proportionate and independent investigation of such matters and appropriate follow-up action; and
b. review LSL's procedures for detecting fraud and the prevention of bribery and corruption. The Audit & Risk Committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and that appropriate follow-up action is taken.

Governance arrangements

In carrying out its duties, the Audit & Risk Committee takes into account the requirements of the Listing Rules (together with requirements issued by the FCA), the Code and the Guidance on Audit Committees issued by the FRC, together with the requirements of the Board, and any other relevant ethical guidance; each of which are incorporated in the Audit & Risk Committee's Terms of Reference by reference to them.

Further, the Audit & Risk Committee completes a review of its Terms of Reference annually and in response to any regulatory or Code changes to ensure continued compliance. In November 2017, the Audit & Risk Committee updated its Terms of Reference to reflect the joint guidance published by Investment Association and ICSA regarding stakeholder engagement and in February 2018 the Terms of Reference was updated to reflect the work undertaken by the Committee in relation to risk management.

The Audit & Risk Committee has during 2017 been monitoring both the Government's review of corporate governance, including the Green Paper published by the Department for Business, Energy and Industrial Strategy and the review conducted by the Business, Energy and Industrial Strategy Select Committee. Further, the Audit & Risk Committee is reviewing the proposals to amend the Code as published by the FRC in December 2017.

Anti-corruption and bribery

The Group has in place arrangements to ensure compliance with the Bribery Act 2010 and its arrangements are based on the results of a bribery risk assessment. A review of the Group's anti-corruption and bribery risks will be undertaken and reported to the Audit & Risk Committee in 2018 and this will be followed by a review of the Group's policies and procedures with a view to implementing any changes identified as a result of the review.

What the Audit & Risk Committee did in 2017

The Audit & Risk Committee met three times in 2017. Amongst other matters, during these meetings the Audit & Risk Committee discharged its roles and responsibilities in the following ways:

1. Internal controls and risk management

Group matters

a. considered the review of material business risks, including reviewing internal control processes used to identify and monitor principal risks and uncertainties. An update of the Group's principal risks and uncertainties was presented at each meeting. During the year the Audit & Risk Committee supported the Board in its robust assessment of LSL's principal risks and uncertainties and the continued application of the Group's risk appetite terms of reference, framework, and statement, including the development of subsidiary risk appetite measures;

b. evaluated areas for the continued development of the Group's financial control structures, including documentation of Group accounting policies and procedures, enhancement of financial review procedures and ensuring the continual professional development of the internal finance community;

c. reviewed the Group's compliance with regulatory requirements relevant to the Group's businesses including the Group's project relating to the implementation of the new General Data Protection Regulation;

d. reviewed the Group's data and information security governance and controls arrangements, including receiving reports from the Information Security Governance Group (ISGG) and reviewing the effectiveness of the ISGG. The Audit & Risk Committee also reviewed the Group's penetration testing arrangements;

e. reviewed the Group's Board and Executive committee arrangements including ensuring that all committees have in place terms of references;

Surveying Division

f. continued to develop the systems and controls in place with regard to valuations carried out by the Surveying Division, including the use of data mining techniques to identify key risk factors and the development of 'real-time' audit checks driven by these characteristics;

Estate Agency Division

g. in relation to the Financial Services business, the Committee received reports from the Group Financial Services Director, the Financial Services Compliance Director, the Financial Services Management Committee (FSMC) and the Financial Services Risk Committee (FSRC) and considered the development of management information and KPIs to support oversight of conduct risk related matters across Financial Services operations of LSL; and

h. reviewed the Estate Agency compliance arrangements including anti-money laundering compliance systems and controls and the development of the Estate Agency Compliance Team.

2. External auditor

a. reviewed the external auditor's terms of engagement and considered the quality, effectiveness and independence of the external auditor and the external audit. The results of this review were taken into account in recommending the re-appointment of Ernst & Young as external auditor at the 2018 AGM; and

Auditor effectiveness, independence and objectivity

b. reviewed the auditor's effectiveness, independence and objectivity. In making its assessment of the effectiveness of the external audit, the Audit & Risk Committee reviewed the external audit findings and the Management Team's responses to these findings. Discussions were also held with the Risk and Internal Audit Team and the Management Team with regard to the effectiveness of the external audit process.

3. Financial reporting (including 2016 Annual Report and Accounts)

a. reviewed the annual financial results and the preliminary results announcement for 2016 and the interim results for 2017, including evaluating the going concern and viability statements;

b. received and considered, as part of the review of the annual financial statements and interim results;

   i. feedback from the FRC in relation to a thematic review of alternative performance measures. This only covered the specific disclosures relating to this thematic review and no substantive questions were raised; and

   ii. reports from the external auditor in respect of their review of the annual financial statements and interim results, the audit plan for the year and the results of the annual audit.

c. the external audit reports included the scope of the interim review and annual audit, the approach to be adopted by the external auditor to address and conclude upon key estimates and other key audit areas, the basis on which the auditor assesses materiality, the terms of engagement for the external auditor and an on-going assessment of the impact of future accounting developments on the Group; and

d. oversaw the continued development of the Group's viability statement taking into account the Group's three year plan and the principal risks and uncertainties impacting the Group.

4. Risk and Internal Audit

a. considered the effectiveness and independence of the internal audit arrangements and agreed the annual Risk and Internal Audit plan. Consideration included compliance with both internal standards and external regulatory requirements, plus engagement with external consultants on specialist areas as appropriate. This exercise included a review of linkages to the Group's principal risks and uncertainties and the results of a benchmarking exercise versus best practice professional guidelines; and

b. received and considered regular reports from the Risk and Internal Audit Team with regard to the control environment of the Group and evaluated the resourcing, role and independence of the Risk and Internal Audit Team.

5. Governance (including whistleblowing arrangements and tax strategy)

a. reviewed the effectiveness of the Group's whistleblowing and fraud policy arrangements, including logs to track actions associated with any fraud related suspicions or incidents;

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

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

d. reviewed and approved the Group's tax strategy for recommendation to the Board for adoption.

Annual Report and Accounts 2017

The Audit & Risk Committee has considered this Report, including the Financial Statements in the context of fairness, balance and understandability. Following its evaluation, the Audit & Risk Committee has reported to the Board that the Annual Report and Accounts 2017 when taken as a whole is fair, balanced and understandable and provides the information necessary for Shareholders to assess LSL's position and the Group's business performance, model and strategy.

The Audit & Risk Committee also ensured that the Report provides an explanation of the basis on which LSL generates or preserves value over the longer term (the business model) and the strategy for delivering the objectives of LSL.

The Audit & Risk Committee's assessment of this Report was on the basis that:

a. the description of the business is consistent with the Audit & Risk Committee's own understanding;

b. the risks reflect the issues that concerned the Audit & Risk Committee;

c. appropriate weight has been given to the 'good and bad' news;

d. the discussion of performance properly reflects the 'story' of the year; and

e. that there is a clear and well-articulated link between all areas of disclosure.

The review also considered the Group's CSR Statement (including the environmental disclosures).

Significant issues considered in relation to the Financial Statements

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

Significant issues in financial reporting for 2017	How the Audit & Risk Committee addressed these issues
Provision for PI Costs relating to valuation services	Misstatements that occur in relation to the PI Costs provision would affect the PI Costs provision balance sheet account as well as exceptional costs and administrative costs accounts. This is an area of significant judgment and estimation and provides scope for management bias. The Group has historically experienced a high level of claims relating to the 2004 to 2008 high risk lending period, and valuations work undertaken during this period continues to result in claims being made against the Group, albeit at a reduced level. There is a risk that the provision for these claims is significantly different as a result of variations from key assumptions, in particular the incidence of claims, the propensity for claims to result in financial loss and the resultant loss per claim. During 2017, the Management Team continued to undertake detailed reviews on a case-by-case basis of all notifications and claims relating to this period, in addition to any developments arising from cases received in previous years. The review has also included an assessment of the claims and notifications on a selective case-by-case basis by specialist external legal counsel. Given the materiality of the PI Costs provision, the Board receives details of these reviews at each meeting, including the status of existing claims and the number and nature of any new claims. In addition to this, the Audit & Risk Committee reviewed the accounting policies relating to the PI Costs provisions to ensure that they were consistent on a fair and reasonable basis. The Audit & Risk Committee received reports from the Risk and Internal Audit Team following the completion of its reviews of underlying PI claims records during the year.
Revenue recognition (including lapse provision)	Misstatements that occur in relation to revenue recognition would affect the revenue accounts and also potentially the lapse provision. Revenue recognition is an area of judgment and a misstatement could be material to the Group although the nature of the revenue recognised in the Group is not considered complex. The Group sells a number of different products and services and operates in multiple locations throughout the UK. Certain Financial Services businesses sell pure protection products which are cancellable without a notice period, and if cancelled within a set period require that a portion of the commission earned must be repaid. The lapse provision is recognised as a reduction in revenue and includes estimation uncertainty. As such it is possible that management bias could be used to influence the amount of revenue that is reported. LSL's Risk and Internal Audit Team performed financial control audits on all key subsidiaries in 2017 which included focus on the revenue cycle with findings reported to the Audit & Risk Committee. Balance sheet reviews, which included carrying amounts driven by the revenue cycle, are also conducted by the Group Finance function.
Acquisition accounting (including contingent and deferred consideration liabilities)	Misstatements that occur in relation to this risk would affect the deferred and contingent consideration provisions. The Audit & Risk Committee has reviewed the treatment of earn-out and other contingent consideration. The Group is acquisitive, and these acquisitions frequently include earn-out arrangements in respect of key management as well as bespoke purchase contracts. There is a risk that the valuation of contingent consideration liabilities is not performed in accordance with accounting standards. These balances are calculated with reference to specific management judgments. These include expected exit date and future cash-flows which have a degree of estimation uncertainty.
Impairment of goodwill and intangible assets	Misstatements that occur in relation to impairment of investments and intangibles would affect goodwill and intangibles balance sheet accounts. On an annual basis, the Management Team undertake reviews of goodwill to determine whether impairment is required. The Management Team will assess the net assets, current profitability, discount factor and value in use of each cash generating unit in order to do this. There is a level of estimation uncertainty inherent in the impairment review, including the Group forecasts used and the discount rate applied. The Management Team provided the Audit & Risk Committee with a paper supporting the review of goodwill to assess whether any impairment is required. Based on the work performed, the Audit & Risk Committee was able to conclude that no impairment was necessary to the goodwill or intangible assets as at 31st December 2017. Further information is provided in the Notes to the Financial Statements.

Other Financial Statement matters considered by the Audit & Risk Committee	How the Audit & Risk Committee addressed these matters
Client monies with regard to the Lettings businesses	The Group holds client monies in its Lettings businesses. Neither the client monies, nor the matching liabilities to such clients are included in the Group balance sheet, as the Group is not entitled to the benefit from the use of the amounts held in these accounts. The Group does have a responsibility to ensure that the money held in the client accounts is accounted for accurately and, if required, the Group would make good any shortfall. The client accounts are reconciled at regular intervals (including daily exercises for the larger businesses). Finance teams provide oversight of the integrity of client account operations and the Risk and Internal Audit Team perform regular client account audits, the findings of which are reported to the Audit & Risk Committee.
Available-for-sale assets	The Group holds minority shareholdings in VEM and has acquired other minority holdings in eProp Services plc; NBC Property Master; and Yopa during 2017. The Group also owns a number of warrants for shares in ZPG plc. The Audit & Risk Committee has considered the fair value of these holdings for inclusion in the Group's balance sheet.
Treatment of exceptional items	The Group has historically categorised a number of items as exceptional, which are excluded from the underlying profit measure included in the Financial Statements. Exceptional items are an area of focus for the FRC who considered these in their thematic reviews of alternative performance measures on 2016 financial reports. The classification of items presented as exceptional has an impact on KPIs within the Financial Statements. The Audit & Risk Committee has, in line with FRC guidance, continued to review the Group's accounting policy with regard to the classification of items as exceptional.
Misstatement due to fraud and error	The Management Team has primary responsibility to prevent and detect fraud. The Management Team has put in place and has oversight of a culture of ethical behavior and a strong control environment that both deters and prevents fraud. There are also whistleblowing arrangements to enable staff to, in confidence, raise concerns about possible improprieties in matters of financial reporting, or other matters, with the objective of ensuring that arrangements are in place for proportionate and independent investigation of such matters, and appropriate follow up action. The Management Team submit regular reports and updates to the Audit & Risk Committee on the Group's fraud prevention and whistleblowing arrangements, including details of any instances of any actual or suspected fraud related circumstances.
Going concern	The Management Team prepared detailed papers for consideration by the Audit & Risk Committee on the ability of the Group to continue as a going concern. This considered the likely future profitability of the Group, a forecast of future cash-flows, the impact of banking covenants, liquidity of investments and joint ventures and the ability of the Group to re-finance any loans (in addition to the Group's facility which was renewed and extended in 2018 and is now due to mature in May 2022) where necessary. The key judgments, assumptions and estimates underpinning this review were discussed and considered. Following the review, the Audit & Risk Committee was able to conclude that the adoption of the going concern principle was justified for the foreseeable future.
Viability statement	The Management Team also provided the Audit & Risk Committee with a paper on the financial viability of the Group, which was determined over a three year period, using assumptions consistent with the period of the Group's strategic plan. This paper included a review of the principal risks and uncertainties, and considered which of these risks might threaten the Group's viability. It also considered and modelled a number of severe but plausible scenarios. The scenario modelling included a significant downturn in the residential property market, a data breach and the potential change to regulations, and also took into account the Group's ability to re-finance its facility, which was extended in January 2018 and is now due to mature in May 2022. The key judgments, assumptions and modelling underpinning the review were discussed and considered. Following the review, the Audit & Risk Committee was able to approve the statement and recommend its adoption by the Board.
Taxation	The Audit & Risk Committee has received reports from the Management Team on the tax provisions recorded in the Financial Statements and assessed the appropriateness of the balances held. LSL's tax strategy, which was published in 2017, has also been reviewed by the Audit & Risk Committee.

Auditor appointment

Taking into consideration the audit effectiveness review (described above in the External Auditor section), the Audit & Risk Committee, acting on behalf of the Board, has concluded that Ernst & Young is effective, independent and objective, and based on this conclusion, the Board has resolved to recommend to Shareholders the re-appointment of Ernst & Young as external auditor at the 2018 AGM and to seek authority for the Directors to agree the external auditor's remuneration.

Auditor Independence Policy

To guard against the objectivity and independence of the external auditors being compromised, the Audit & Risk Committee has adopted a policy under which any non-audit related services provided by the external auditors must be approved by the Audit & Risk Committee or be within a pre-approved category and a pre-approved fee limit (this is contained in the Auditor Independence Policy).

The Audit & Risk Committee is kept regularly informed of the fees paid to the auditor in all capacities. The Auditor Independence Policy, which takes into account relevant ethical guidance regarding the provision of non-audit services by external audit firms, was reviewed during 2017. This policy complies with the Code and the FRC's Guidance on Audit Committees (April 2016).

The Auditor Independence Policy, which was in place during 2017 provided that the following categories of fee need pre-approval from the Audit & Risk Committee:

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

b. any fee which has a contingent element.

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

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

A copy of the Auditor Independence Policy is available from the Company Secretary and LSL's website (lslps.co.uk).

Auditor fees

The split between audit and non-audit fees for 2017 appears at Note 9 to the Financial Statements. Non-audit fees of £8,000 (2016: £59,000) were incurred in the year. Audit fees of £275,600 were incurred in the year (2016: £290,600). This is in line with the provisions of the Auditor Independence Policy. The non-audit fees for the prior year relate to taxation services and services to support conversion to FRS 101. The Audit & Risk Committee concluded it was in the interests of LSL to procure these non-audit services from Ernst & Young because of their existing knowledge and understanding of the Group's structure.

Internal controls

The Board has overall responsibility for LSL's system of internal controls and for reviewing its effectiveness. The system of internal controls is subject to an ongoing process of change and improvement, and was originally designed in accordance with the guidance of the Turnbull Committee on Internal Controls and it is regularly reviewed. It was updated in 2015 and developed further in 2016 and 2017 to ensure continued compliance with the guidance set out in the September 2014 FRC *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting.*

The arrangements in place for 2017 sought to identify, evaluate and manage significant risks faced by LSL, including assessments by the Board and the Executive Committee of risk appetite levels and measures to define levels of existing risk in relation to this appetite. Identification of appetite tolerance levels has proven to be a valuable framework to support key business decisions during the course of the financial year. For areas considered outside tolerance, remedial steps are identified to bring risk areas within appetite. 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. During 2017, the framework has also been extended to the main subsidiary businesses which now maintain their own appetite measures.

Internal control facilitates the effectiveness and efficiency of LSL's operations, helps to ensure the reliability of internal and external reporting and assists compliance with laws and regulations. The internal controls are also in place to safeguard both Shareholder investment and LSL's assets.

In order to discharge this responsibility, the Board has established the procedures necessary to apply both the Code and relevant FRC guidance, including a Group risk framework policy, clear operating procedures, distinct lines of responsibility and delegated authorities. LSL's risk management and internal control procedures and framework has continually evolved since LSL was listed on the London Stock Exchange in 2006 and is regularly reviewed by the Board and the Audit & Risk Committee and continues to be in place up to the date of this Report. The risk framework continued to mature in 2017 in line with emerging best practice and will continue to develop during 2018.

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

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

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

c. the documentation and monitoring of risks are recorded and managed through risk appetite measures which are prepared in accordance with defined Group criteria, and undergo regular reviews and scrutiny by local boards and the Head of Risk and Internal Audit;

d. regular Board reviews (including the identification and evaluation) of the principal risks and uncertainties which may impact the Group as part of the planning and reporting cycle to ensure that such risks are identified, monitored and mitigated;

e. the development and application of LSL's risk appetite statement and associated framework (for further details on steps taken during the year, please see the Principal Risks and Uncertainties section on pages 22 to 27); and

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

LSL has in place a Group-wide risk appetite statement and risk framework which will continue to be developed in 2018. This risk framework includes the following:

a. risk framework policy;

b. determination of risk appetite and management or mitigation of risks in line with risk appetite tolerances, at both Group and subsidiary levels;

c. assessment of prospects and viability;

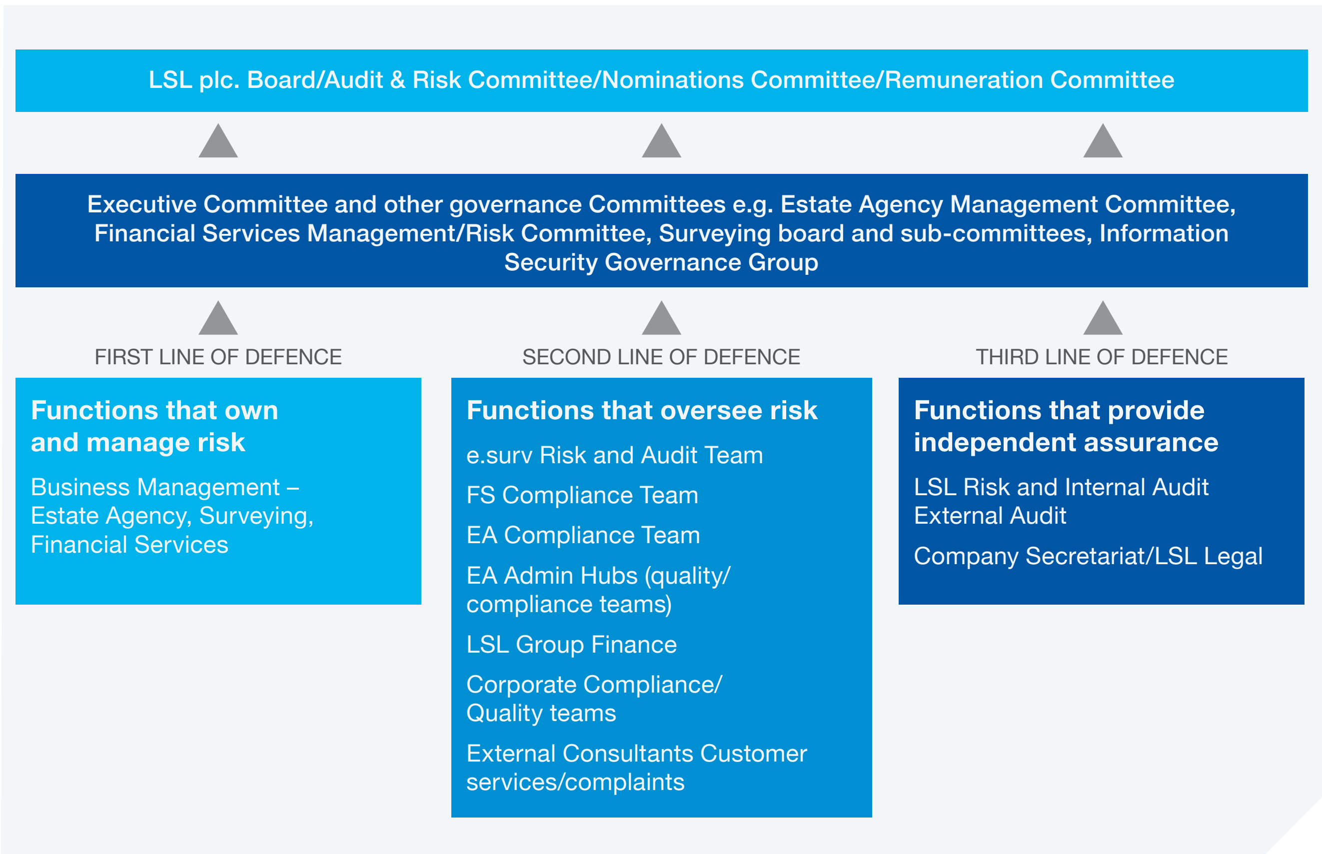
d. review of the effectiveness of the risk management and internal control systems; and

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

Further details of LSL's assessment and evaluation of principal risks and uncertainties together with details of key mitigation initiatives are set out in the Strategic Report on pages 22 to 27.

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

LSL operates a 'three lines of defence' structure (see diagram below) to facilitate effective oversight of Group operations. The risk framework includes delegated authority levels and functional reporting lines and accountability. LSL also operates a budgeting and financial reporting system to compare actual performance to latest forecast, budget and to the previous year on a monthly basis. In addition, the



Executive Directors receive daily information on sales activity and weekly information on key result areas. All capital expenditure and other purchases are subject to appropriate authorisation procedures, with centralisation of several payment functions in 2016.

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

During 2017 the Executive Directors have regularly identified, evaluated and managed the principal risks and uncertainties which could adversely affect LSL's business, operating results and financial condition. The effectiveness of the internal control system and risk management process is kept under review by the Audit & Risk Committee and has been reviewed by the Board during 2017 as part of an annual review which considered the effectiveness of the risk management arrangements and internal control systems. This review covered all material controls, including financial, operational and compliance controls. In addition, LSL's Risk and Internal Audit Team regularly submits reports to the Audit & Risk Committee and this, together with the internal controls system and risk management process in place within LSL, allows the Board to monitor financial and operational performance and compliance with controls on a continuing basis and to identify and respond to business risks as they arise.

During the year the Audit & Risk Committee influenced improvements to the control environment, in particular: steps to restructure and strengthen the Estate Agency Compliance Team, improvements to harness IT to support the automation of required compliance checks, and inception of a new senior role within the Financial Services businesses dedicated solely to conduct risk. The Audit & Risk Committee recognises the importance of the effectiveness of second-line functions and has invited relevant personnel to present how thematic risk areas are managed. Furthermore, a formal assessment of the Risk and Internal Audit Team, including linkages with Group risk areas, has renewed focus on ensuring the independence of this function and delivery of the audit cycle continues to be prioritised.

The principal risks and uncertainties facing LSL together with details of key mitigation initiatives are set out in the Strategic Report on pages 22 to 27.

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

David Stewart
Chairman of the Audit & Risk Committee
6th March 2018

Directors’ Remuneration Report

Annual Statement

Dear Shareholder

This Directors’ Remuneration Report is divided into the following three sections:

- **Annual Statement**: summarising and explaining the major decisions on, and any substantial changes to the Directors’ remuneration in the year;
- **Directors’ Remuneration Policy**: setting out the Directors’ Remuneration Policy that was approved by Shareholders at the 2017 AGM; and
- **Annual Report on Remuneration**: setting out the remuneration earned by the Directors in the year ended 31st December 2017 and how the Directors’ Remuneration Policy will be implemented in 2018.

The Directors’ Remuneration Policy (Policy) was approved by 99.78% of our Shareholders at our 2017 AGM. This Policy will remain in place for three years unless the Remuneration Committee determines that changes are required before its expiry. For 2018 no changes are considered necessary.

The Annual Statement and Annual Report on Remuneration are subject to an annual Shareholder advisory vote and will be presented to Shareholders at the 2018 AGM.

Summary of LSL’s performance in the year and incentive payments to Executive Directors
In 2017, LSL delivered a positive financial performance, particularly against the backdrop of a subdued residential property market during the year and the 2017 bonus awards for the Executive Directors reflect this. Group Underlying Operating Profit increased over the year by 8.3% and our Share price rose by 21.4%.

The bonus scheme in 2017 was based 80% on LSL’s financial performance and 20% on individually agreed non-financial measures and the bonus scheme was subject to a cap of 100% of basic salary.

Based on LSL’s performance in 2017, the Executive Directors received an annual bonus of between 65.2% and 80% of basic salary in respect of the financial performance element of the bonus scheme and 15% and 17% of the available 20% of basic salary for performance against their individual non-financial measures. These non-financial measures have been important in driving strategic initiatives.

Ian Crabb’s (Group Chief Executive Officer) and Adam Castleton’s (Group Chief Financial Officer) 2015 LTIP awards will not vest in 2018. Despite encouraging performance in 2017 neither the challenging Earnings Per Share (EPS) performance target nor the Total Shareholder Return (TSR) target (both measured over three years to 31st December 2017) have been met.

Further details of performance against the targets set for the annual bonus and LTIP awards are set out in the Annual Report on Remuneration.

Summary of key decisions in the year and implementation of the Policy in 2018
During the second half of 2017 the Remuneration Committee has carefully considered the implementation of the Policy in 2018. The Group’s financial performance during 2017 has been strong, especially taking into account the difficult market conditions, and the Remuneration Committee’s objective is to ensure that the Executive Directors are appropriately incentivised and aligned to Shareholder interests including driving and being remunerated for the delivery of long-term sustainable share price growth and financial performance for the remainder of the Policy period. With this in mind, the Remuneration Committee considered whether it should recommend an increase to the level of LTIP awards to be granted in 2018.

LSL’s Policy permits an increase in the 2018 LTIP award levels from 100% to 125% of basic salary, subject to Shareholder consultation. As Chairman of the Remuneration Committee, I have sought views from and consulted widely with LSL’s significant Shareholders and all of those who responded to the consultation indicated their support for an increase to 125% of basic salary. In making this recommendation the Remuneration Committee has sought to ensure that LSL’s Executive Directors are incentivised and rewarded appropriately to deliver sustainable returns for LSL’s Shareholders. Further, the basic salary increases are modest and in line with the pay increase for Group employees.

At the same time as increasing the 2018 LTIP awards to 125% of salary the Remuneration Committee has also introduced a two year post-vesting holding period, which means that there is a five year period between the grant of the 2018 LTIP award and the vesting of those shares. This change further increases the alignment of the Executive Directors’ interests with LSL’s Shareholders and the longer term performance of the business. It is the intention of LSL that the two year post-vesting holding period will apply to all future LTIP grants.

Following a review of the Policy, the Remuneration Committee concluded that no other changes are required in terms of the implementation of the Policy in 2018. In relation to the Executive Director remuneration in 2018, the Remuneration Committee has recommended that:

a. basic salaries will increase by 1.5% with effect from 1st January 2018. This increase is in line with the average for our non-commission based workforce;

b. the annual bonus continues to work well and will remain capped at 100% of salary. The measures for the annual bonus will remain the same as in 2017, being Group Underlying Operating Profit (80% of the award) and individually agreed non-financial measures (20% of the award); and

c. the performance measures for the LTIP award will remain the same as in 2017, being adjusted EPS (70% of the award) and relative TSR (30% of the award). The relative TSR group which is consistent with the comparison group used in 2017, comprises companies that operate in similar business sectors to LSL and as such will reflect relative performance of LSL to its peers.

As disclosed in the Annual Report and Accounts 2016, Adrian Gill stepped down from the Board on 4th January 2017 and Helen Buck was appointed into the role of Executive Director – Estate Agency on 2nd February 2017. Full details of the remuneration arrangements relating to Adrian Gill and Helen Buck were included in the Annual Report and Accounts 2016.

The Remuneration Committee has also during 2017 been monitoring corporate governance developments, including the Government's Green Paper, the discussions of the House of Commons Business, Energy and Industrial Strategy Select Committee and the FRC's response to the Government review through the draft Code which was published at the end of 2017. The Remuneration Committee notes the proposed developments to the directors' remuneration reporting regime and supports the objectives of the proposals. The Remuneration Committee awaits the outcome of the FRC consultation on the changes to the Code and will ensure that LSL complies with any new Code, when it comes into effect. Further, the Remuneration Committee has considered the joint guidance on best practice published by the Investment Association and ICSA relating to stakeholder engagement and adopted changes to its Terms of Reference as a result.

During the year the Remuneration Committee also undertook a review of LSL's external remuneration advisors and following a formal tender process appointed Korn Ferry.

Conclusion

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

The Remuneration Committee trusts that Shareholders will support the resolution to approve LSL's remuneration arrangements at the 2018 AGM. In the event that Shareholders have any questions or observations then I will be pleased to hear from you and will be available at the 2018 AGM or I can be contacted via the Company Secretary's office (please see details on page 169).

Bill Shannon
Chairman of the Remuneration Committee
6th March 2018

Directors' Remuneration Policy (Policy)

Introduction and overview

A small number of amendments have been made to the summary of the Policy set out below which reflects changes in how the Policy was implemented during the year.

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

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

Consideration of Shareholder views

The Remuneration Committee considers Shareholder feedback received in relation to LSL's Annual Report and Accounts, including the Directors' Remuneration Report, each year at a meeting following publication of the Annual Report and Accounts and the AGM Notice. This feedback, plus any additional feedback received during any meetings with Shareholders from time to time, is then considered as part of LSL's annual review of the Policy and implementation. In addition, the Remuneration Committee engages directly with significant Shareholders and their representative bodies in respect of any proposed changes to the Policy and, as appropriate, to implementation of the Policy. Details of votes cast for and against the resolution to approve the previous year's Directors' Remuneration Report and any matters discussed with Shareholders during the year are set out in the Annual Report on Remuneration. For further details of the way in which LSL communicates with its Shareholders, please see the Shareholder Relations section of the Corporate Governance Report.

Consideration of employment conditions elsewhere in the Group

The Remuneration Committee considers the general basic salary increase for the broader UK employee population when determining any annual basic salary increases for the Executive Directors and is cognisant of the Group's overall employment arrangements when reviewing and implementing the Policy. Whilst the Remuneration Committee did not in 2017 consult with other employees with regard to Executive Director remuneration arrangements, the Remuneration Committee is monitoring the proposals for wider engagement with employees on Directors' pay which is included in the FRC's Code review consultation.

Element of remuneration arrangements	How this component supports LSL strategies	Operation	Maximum	Performance metrics and period
Basic salary	• Reflects the value of the individual and their role. • Reflects skills and experience over time. • Provides an appropriate level of basic fixed income avoiding excessive risk arising from over reliance on variable income.	• Reviewed annually, normally effective 1st January. • Takes periodic comparison against companies with similar characteristics and sector comparators.	• There is no prescribed maximum annual basic salary increase. • The Remuneration Committee is guided by the general increase for the broader employee population but may decide to award a lower increase for Executive Directors or indeed exceed this to recognise, for example, an increase in the scale, scope or responsibility of the role and/or to take account of relevant market movements. • Current basic salary levels are set out in the Annual Report on Remuneration.	• Not applicable.

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

Element of remuneration arrangements	How this component supports LSL strategies	Operation	Maximum	Performance metrics and period
LTIP awards **(approved by Shareholders at the 2017 AGM)**	• Aligned to key performance indicators of the Group that drive the strategies and performance of the businesses.	• Awards of nil-cost or conditional shares are made annually with vesting dependent on the achievement of performance conditions over the subsequent three years. • The Remuneration Committee reviews the quantum of awards annually and monitors the continuing suitability of the performance measures. • The Remuneration Committee will have the discretion to adjust the LTIP vesting outcome if it considers that it is not reflective of the underlying performance of LSL. • Discretion for the Remuneration Committee to provide for dividend equivalents to accrue from the date of award to the vesting date or, if applicable, to the end of any post-vesting holding period. • LTIP awards are subject to clawback and malus applicable for six years from vesting in circumstances of: material misstatement of financial results, error, inaccurate or misleading information in determining a performance condition or any other matter determining the vesting of an award, breach of relevant regulations, act or omission during vesting period to the significant detriment of customers, act or omission leading to gross misconduct. Recovery can be made through scaling back of existing awards, reduction of future awards including under the annual bonus and deferred annual bonus plan and requesting repayment as cash sum.	• Normal maximum limit of 125% of basic salary with grants of up to 200% of basic salary being made in exceptional circumstances.* *Award value will not be increased above 100% of basic salary without significant Shareholder consultation. Note: Award levels increased to 125% of salary for 2018 awards and subsequent years following significant Shareholder consultation which was completed during 2017 (see Annual Report on Remuneration).	• Performance period: normally three years. • As and when LTIP awards are made in excess of 100% of basic salary then two year post-vesting holding periods will apply to those awards in their entirety. • At least 30% of the award will be determined by TSR performance with the remainder by other financial metrics. • 25% vests at threshold for all parts of the LTIP.

Element of remuneration arrangements	How this component supports LSL strategies	Operation	Maximum	Performance metrics and period
All-employee Share schemes: **SAYE, SIP/BAYE and CSOP**	• Encourages long-term shareholding in LSL.	• Invitations made by the Remuneration Committee under the approved SAYE, SIP/BAYE and CSOP.	• As per HMRC limits.	None.
Executive Share ownership guidelines	• To provide alignment between Executive Directors and Shareholders.	• Executive Directors are required to build and maintain a minimum shareholding equivalent to 150% of basic salary over a period of five years from the date of appointment through the retention of vested share award and/or through open market purchases. Executive Directors are expected to retain all vested long-term incentive awards (subject to any sales necessary to meet tax liability on vesting or exercise) until the guideline is met.	• Minimum of 150% of basic salary – no maximum.	None.
Benefits	• Provides insured benefits to support the Executive Directors and their family during periods of ill health, accident or death. • Access to car allowance to facilitate travel.	• Includes car allowance, life assurance and private medical insurance. Other benefits may be provided where appropriate. • Any reasonable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	• At cost.	None.
Pension	• Provides modest retirement benefits. • Opportunity for Executive Directors to contribute to their own retirement plan.	• Defined contribution. • HMRC approved arrangement.	• New employees are offered a pension in accordance with auto enrolment minimums. The Remuneration Committee may use its discretion on the appointment of a new Executive Director to recommend a 5% match of basic salary.	None.
Chairman and Non Executive Directors	• To provide fees reflecting time commitments and responsibilities of each role, in line with those provided by similarly sized companies.	• Cash fee paid on a monthly basis. • Fees are normally reviewed from time to time. • Any reasonable business related expenses (including tax thereon) can be reimbursed if determined to be a taxable benefit.	• There is no prescribed maximum annual fee increase, although there is a total fee cap of £750,000 which is contained in LSL's Articles of Association. • Decisions on fee levels are guided by the general increase for the broader employee population, scale, scope or responsibility of the role and/or to take account of relevant market movements. Current fee levels are set out in the Annual Report on Remuneration.	None.

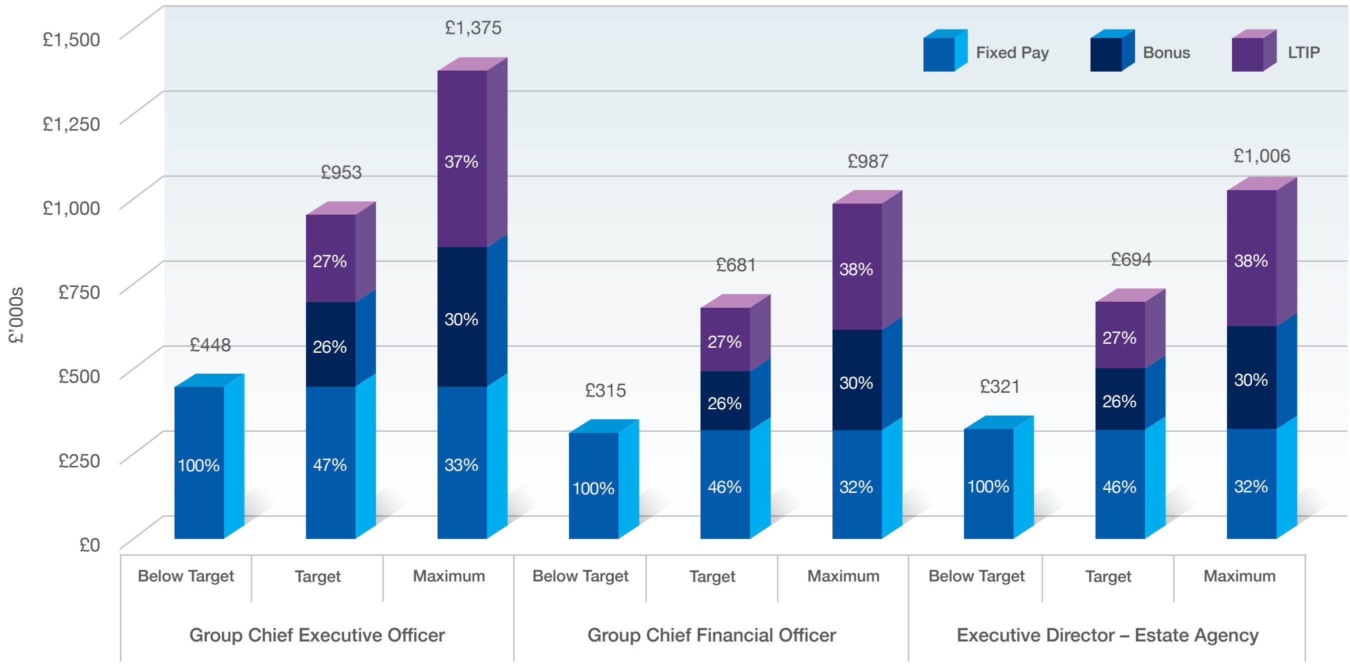
Notes to the Remuneration Policy summary:

1. A description of how LSL will operate the Policy in the year ahead is detailed in the Annual Report on Remuneration.
2. The following differences exist between LSL's Policy for the remuneration of Executive Directors as set out in the table and its approach to the payment of LSL employees generally:
   a. a lower level of maximum annual bonus (or no bonus) opportunity may apply to employees;
   b. participation in the LTIP scheme is limited to the Executive Directors and certain selected senior managers. All employees are eligible to participate in LSL's employee Share schemes: save as you earn (SAYE), self-invested plan/buy as you earn (SIP/BAYE); and company Share ownership plan (CSOP) upon invitation;
   c. benefits (including benefits in kind and salary sacrifice arrangements) that are offered to other employees generally comprise of paid holidays and voluntary benefits such as childcare vouchers, a health cash plan, life assurance and, for more senior managers, private medical insurance; and
   d. LSL offers a stakeholder pension scheme with employee and employer contributions for new members calculated at a level which is compliant with automatic enrolment minimums (increasing over time as required by legislation) and based on a band of qualifying earnings which may vary month by month as variable pay fluctuates. Senior employees are offered the opportunity to join the enhanced scheme after one years' service; this enables a 5% match of basic salary. The Remuneration Committee may use its discretion to recommend a 5% match of basic salary on appointment and where the individual has reached his/her annual or life time allowances a cash equivalent may be offered.

   In general, the above listed differences arise from the development of remuneration arrangements that are market competitive for the various categories of individuals, together with the fact that remuneration of the Executive Directors and selected senior managers typically has a greater emphasis on performance-related pay.
3. The choice of the performance metrics applicable to the annual bonus scheme reflect the Remuneration Committee's belief that any incentive compensation should be appropriately challenging and tied to both the delivery of profit and non-financial measures.
4. The TSR and adjusted EPS performance conditions applicable to the LTIP were selected by the Remuneration Committee on the basis that they reward the delivery of long-term returns to Shareholders and the Group's financial growth, and they are consistent with LSL's objective of delivering superior levels of long-term value to Shareholders. The TSR performance condition is monitored on the Remuneration Committee's behalf by an independent advisor whilst LSL's EPS growth is derived from the audited Financial Statements.
5. The Remuneration Committee operates the LTIP scheme in accordance with the plan rules and the Listing Rules of the UKLA and the Remuneration Committee Terms of Reference are consistent with market practice; this retains discretion over a number of areas relating to the operation and administration of the plan. The Remuneration Committee has the discretion under the plan rules, in certain circumstances, to grant and/or settle an award in cash. In practice this will only be used in exceptional circumstances for individuals.
6. The LTIP awards vest after three years and for grants made in 2018 and subsequent years a two year post-vesting holding period applies.
7. The employee Share schemes (SAYE, SIP/BAYE and CSOP) do not include any performance conditions.
8. For the avoidance of doubt, in approving the Policy, authority is given to LSL to honour any commitments entered into with current or former Executive Directors (such as the payment of a pension, payment of last year's annual bonus or the vesting/exercise of Share awards granted in the past) that have been disclosed in this and previous Directors' Remuneration Reports. Details of any payments to former Directors will be set out in the Annual Report on Remuneration as they arise.

Reward scenarios (illustration of application of remuneration policy for financial year 2018)

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



Notes to the reward scenarios:

1. The 'below target' performance scenario comprises the fixed elements of remuneration only, including:
   a. basic salary is as applicable from 1st January 2018, or on appointment;
   b. pension is as per the Policy; and
   c. estimated benefits use the value reported for the previous financial year.
2. The target level of bonus is assumed to be 60% of the maximum bonus opportunity (100% of basic salary), and the on-target level of LTIP vesting is assumed to be 50% of the face value, assuming a normal grant level (125% of basic salary). These values are included in addition to the components/values of minimum remuneration.
3. The maximum remuneration assumes full bonus pay-out (100% of basic salary) and the full face value of the LTIP (125% of basic salary), in addition to fixed components of remuneration.
4. No share price growth has been factored into the calculations.
5. The assumptions noted for 'on-target' performance in the graph above are provided for illustration purposes only.

Approach to recruitment and promotions

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

Basic salary will be provided at such a level as required to attract the most appropriate candidate and may be set initially at a below mid-market level on the basis that it may progress towards the mid-market level once expertise and performance has been proven and sustained. The annual bonus potential will be limited to 125% of basic salary for the Group Chief Executive Officer and 100% of basic salary for other Executive Directors and grants under the LTIP will be limited to 125% of basic salary or 200% of basic salary in exceptional circumstances. Depending on the timing of the appointment, the Remuneration Committee may deem it appropriate to set different annual bonus performance metrics to the existing Executive Directors for the first performance year of appointment. Further, in exceptional circumstances the Remuneration Committee may offer additional cash and/or share-based elements to replace deferred or incentive pay forfeited by an individual leaving a previous employer. It will seek to ensure, where possible, that these awards are consistent with any awards forfeited in terms of vesting periods, expected value and performance conditions.

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

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

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

Service contracts for Executive Directors

The service contracts for each of the Executive Directors in place at the date of this Report are not fixed term and are terminable by either LSL or the Executive Director as detailed below:

Director	Commencement of service contract	Notice period (from Executive Director/LSL)
Ian Crabb Group Chief Executive Officer	9th September 2013	Nine months
Adam Castleton Group Chief Financial Officer	2nd November 2015	Nine months
Helen Buck Executive Director – Estate Agency	2nd February 2017	Nine months

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

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

At the Remuneration Committee's recommendation and at the Board's discretion, early termination of a service contract can be undertaken by way of payment of nine months' basic salary and benefits.

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

Subject to the performance conditions being met, an annual bonus may be payable with respect to the period of the financial year served, although it will be pro-rated for time and paid at the normal payment date.

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

In exceptional circumstances for good leavers, all or part of unvested LTIP awards may vest at the date of cessation of employment. In all other circumstances the awards for good leavers will vest at the original specified vesting date, unless specifically determined by the Remuneration Committee that the award(s) for an individual will lapse. Awards to Executive Directors, who are not good leavers, lapse immediately on cessation. In exercising its discretion to the extent to which and when, an award shall vest the Remuneration Committee will, under the LTIP rules, take into account:

a. the progress made towards meeting the performance conditions;

b. the extent to which it considers the performance condition would have been satisfied by the end of the vesting period;

c. the proportion of the vesting period elapsed; and

d. any other factors which it considers to be relevant.

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

Non Executive Directors

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

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

Director	Date original term commenced	Date current term commenced	Expected expiry date of current term
Kumsal Bayazit Besson Non Executive Director	1st September 2015	–	31st August 2018
Simon Embley Chairman	1st January 2015	1st January 2018	31st December 2020
Bill Shannon Deputy Chairman and Senior Independent Director	7th January 2014	7th January 2017	6th January 2020
David Stewart Non Executive Director	1st May 2015	–	30th April 2018

Annual report on remuneration

Implementation of the policy for the year ending 31st December 2018 (unaudited information)

This section of the Directors' Remuneration Report sets out how the Policy will be implemented for the financial year ending 31st December 2018.

Basic salary

Basic salary levels as at 1st January 2018 for the Executive Directors are set out below:

Director	Role	2018 (£)	% increase from 1st January 2017	2017 (£)
Ian Crabb	Group Chief Executive Officer	412,000	1.5%	406,000
Adam Castleton	Group Chief Financial Officer	298,500	1.5%	294,000
Helen Buck	Executive Director – Estate Agency	304,500	1.5%	300,000

2018 basic salary increases for the Executive Directors are in line with the average increase of non-commission earning Group employees.

Annual bonus for 2018

The Remuneration Committee will operate an annual bonus plan for Executive Directors during 2018 that is broadly similar to that operated in 2017. The maximum bonus continues to be capped at 100% of basic salary. There will be a sliding scale of performance targets based on LSL's budgeted Group Underlying Operating Profit (after the payment of bonuses) for 80% of the potential with the remaining 20% of the potential based on challenging non-financial performance measures.

The Remuneration Committee has determined that LSL will not disclose the non-financial measures or targets in advance, as they contain items that are commercially sensitive. However, 2018 targets will be summarised in the Annual Report and Accounts 2018, which will be published in 2019. The Remuneration Committee is satisfied that the non-financial targets are challenging and demanding, reflect LSL's on-going business expectations and have a clear link to LSL's strategy. The Group Underlying Operating Profit targets require LSL's performance to be significantly better than budget for full pay-out.

Long-Term Incentive Plan (LTIP) 2018 awards

As outlined in the Remuneration Committee Chairman's Annual Statement, the Remuneration Committee considered carefully implementation of the Policy in 2018 and consulted widely with significant Shareholders in relation to increasing the maximum level of LTIP awards to be granted in 2018 and in future years.

The Group's financial performance during 2017 has been strong, especially taking into account the difficult market conditions, and the Remuneration Committee's objective is to ensure that the Executive Directors are appropriately incentivised and aligned to Shareholder interests including driving and being remunerated for delivering long-term sustainable Share price growth and financial performance for the remainder of the Policy period. The majority of those responding to the consultation indicated their support for an increase to 125% of basic salary for 2018 and subsequent years. Awards will continue to be subject to stretching performance targets. The 2018 and future awards will also be subject to a two year post-vesting holding period further increasing alignment with investors and the longer term performance of the business.

Awards to be granted in 2018 to the Executive Directors will therefore be made over Shares with a value at the date of grant of 125% of basic salary. The awards will be subject to Adjusted Basic EPS growth targets (70% of an award) and a relative TSR condition (30% of an award), and measured over a period of three financial years commencing 1st January 2018 as follows:

1. 25% of the EPS part of the award will vest for threshold Adjusted Basic EPS growth. The Remuneration Committee will finalise the EPS targets closer to the date the awards are made, thereby having the opportunity to review the outlook for the business and market challenges over the next three years as close as possible to the date awards are made. It is not therefore possible to include the targets in this Report and they will be disclosed in full at the same time as announcing the grants of the awards.
2. 25% of the TSR part of the award will vest if LSL's TSR is equal to the TSR of the median peer group company increasing pro-rata to full vesting of this part of the award for upper quartile performance or above, as measured against the constituents of the comparator group (as listed below). For any of the TSR part of the award to vest, the Remuneration Committee must also be satisfied that there has been an improvement in LSL's underlying financial performance.

TSR comparator group

The peer group comprises the following 22 companies that are operating in similar or related sectors and is the same as that applied to the 2017 awards except for the removal of Shawbrook which delisted from the London Stock Exchange during 2017:

- Barratt Developments plc
- Bellway plc
- Belvoir Lettings plc
- Bovis Homes Group plc
- Countryside Properties plc
- Countrywide plc
- Crest Nicholson Holdings plc
- Foxtons Group plc
- Grainger plc
- Howden Joinery Group plc
- Hunters Property plc
- M Winkworth plc
- McCarthy & Stone plc
- Mortgage Advice Bureau (Holdings) plc
- Paragon Banking Group plc
- Purplebricks Group plc
- Redrow plc
- Rightmove plc
- St Modwen Properties plc
- The Property Franchise Group plc
- Travis Perkins plc
- ZPG plc

Benefits

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

Pension

Ian Crabb will continue to receive a 5% of basic salary pension contribution. This may be paid in cash to the extent that he has reached his lifetime and annual pension allowances. The other Executive Directors do not receive pension contributions.

Non Executive Directors

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

Director	Notes	2018 (£)	2017 (£)
Kumsal Bayazit Besson Non Executive Director		40,000	40,000
Simon Embley Chairman		130,000	130,000
Bill Shannon Deputy Chairman and Senior Independent Director	1	70,000	70,000
David Stewart Non Executive Director	2	45,000	45,000

Notes to summary of fees for the Non Executive Directors:

1. Bill Shannon's fee is paid for his role as a Non Executive Director and his additional responsibilities as Deputy Chairman, Senior Independent Director and Chairman of the Nominations Committee and the Remuneration Committee.
2. David Stewart's fee is paid for his role as a Non Executive Director and his additional responsibility as Chairman of the Audit & Risk Committee.

Directors' remuneration payable in 2017 audited information

Directors' Remuneration

The Remuneration of the Directors for 2017 was as follows:

	Notes		Basic Salary or Fees £	Benefits[4] £	Annual Bonus[5] £	Gain on Share Awards[6] £	Pension Contributions[7] £	Total £
Chairman								
Simon Embley		2017	130,000	-	-	-	-	130,000
		2016	130,000	-	-	-	-	130,000
Executive Directors								
Helen Buck	1	2017	273,846	15,132	220,550	-	-	509,528
		2016	-	-	-	-	-	-
Adam Castleton		2017	294,000	16,701	279,300	-	-	590,001
		2016	290,000	16,676	40,600	-	-	347,276
Ian Crabb		2017	406,000	15,000	393,820	-	20,300	835,120
		2016	400,000	15,000	64,000	-	20,000	499,000
Adrian Gill	2	2017	3,288	541	-	-	-	3,829
		2016	285,000	16,676	-	-	-	301,676
Non Executive Directors								
Kumsal Bayazit Besson		2017	40,000	-	-	-	-	40,000
		2016	40,000	-	-	-	-	40,000
Helen Buck	1	2017	15,833	-	-	-	-	15,833
		2016	87,500	-	-	-	-	87,500
Mark Morris	3	2017	-	-	-	-	-	-
		2016	15,667	-	-	-	-	15,667
Bill Shannon		2017	70,000	-	-	-	-	70,000
		2016	70,000	-	-	-	-	70,000
David Stewart		2017	45,000	-	-	-	-	45,000
		2016	43,365	-	-	-	-	43,365
Total		2017	1,277,967	47,374	893,670	-	20,300	2,239,311
		2016	1,361,532	48,352	104,600	-	20,000	1,534,484

Notes to Directors Remuneration table:

1. Helen Buck was appointed to the Board as Executive Director – Estate Agency on 2nd February 2017, prior to this date she was a Non Executive Director. Helen Buck's remuneration includes £12,500 in respect of consultancy services to the Estate Agency Division in 2017 and £47,500 in 2016. These services were provided whilst Helen was a Non Executive Director.
2. Adrian Gill stepped down from the Board on 4th January 2017. The payments received by Adrian in 2017 related to basic salary and benefits for the period from 1st January 2017 to 4th January 2017.
3. Mark Morris retired from the Board on 28th April 2016.
4. Benefits comprise private medical cover and company car or car allowance.
5. LSL's performance in 2017 results in the Executive Directors earning an annual bonus of between 80.2% and 97% of their basic salary in relation to the financial and non-financial performance element of the scheme. LSL's performance in 2016 resulted in the Executive Directors at the time, earning an annual bonus of between 14% and 16% of their basic salary. See page 79 for further details.
6. The Adjusted EPS and TSR performance conditions for the 2015 LTIP have not been met and there is therefore no vesting of these awards.
7. Ian Crabb receives a 5% of basic salary pension contribution.

Annual bonus

Annual bonus payments 2017 – audited information

Set out in the table below is a summary of the Executive Directors' bonus scheme for 2017:

Financial performance measures

	Group Underlying Operating Profit Scale from threshold (8.33% to 100%)				Estate Agency Underlying Operating Profit Scale from threshold (8.33% to 100%)				Total payment under financial element % of base salary
Director	Weighting	Threshold	Maximum	Achievement	Weighting	Threshold	Maximum	Achievement	
Ian Crabb	80%	£33.672m	£38.064m	£38.902m (100% achievement)	Specific to Helen Buck only				80%
Adam Castleton	80%	£33.672m	£38.064m						80%
Helen Buck	20%	£33.672m	£38.064m		60%	£14.195m	£20.408m	£18.574m (75.3% achievement)	65.2%

The Remuneration Committee set targets for the 2017 annual bonus based on budgeted Group Underlying Operating Profit before deduction of certain costs and expenses, which were anticipated at the beginning of the year but unquantifiable at that time and could not therefore be factored into the budget and target setting process. These items included the costs and expenses relating to LSL's investment during the year in Yopa, due diligence in respect of other potential new business opportunities going forward and the strategic review of the Estate Agency business. The published Group Underlying Operating Profit for 2017 is £37.497m and the Group Underlying Operating Profit after the costs and expenses detailed above are removed and against which the bonus targets are determined is £38.902m. No adjustment was required to the Estate Agency Underlying Operating Profit targets, as the costs and expenses referred to above were not attributable to this measure.

Helen Buck's bonus payment was pro-rated to reflect the proportion of the year in which she was employed as Executive Director.

Non-financial measures/strategic goals

Detailed below is a summary of the non-financial measures which were in place for Ian Crabb (Group Chief Executive Officer), Adam Castleton (Group Chief Financial Officer) and Helen Buck (Executive Director – Estate Agency) in respect of their 2017 annual bonus. The Remuneration Committee applies its judgment and discretion to determine the extent of any pay-out where goals are partially achieved during the year.

Executive Director	Weighting	Specific measures	Achievement	Total payment under the non-financial element % of base salary
Ian Crabb Group Chief Executive Officer	20% – Each measure is equally weighted.	a. define and gain support for LSL Group strategy from Board and investors measured through Share price improvement and analyst ratings; b. define LSL Estate Agency operating model, including branch footprint, brand strategy and scale; c. maintain Estate Agency market share without major impact on fees; d. delivery of business specific key contract renewals; and e. identification of structural opportunities for cost savings.	Fully achieved a, d and e 4% of salary for each. Partially achieved b 2% of salary and c 3% of salary.	17%
Adam Castleton Group Chief Financial Officer	25% – Each measure is equally weighted.	a. define and gain support for LSL Group strategy from Board and investors, measured through Share price improvement and analyst ratings; b. define LSL Estate Agency operating model, including branch footprint, brand strategy and scale; c. identification of structural opportunities for cost savings; and d. identification of robust risk management and regulatory controls for LSL.	Fully achieved a and c 5% of salary for each. Partially achieved b and d 2.5% of salary for each.	15%
Helen Buck Executive Director – Estate Agency	25% for measures a and b. 20% for measures c and d. 10% for measure e.	a. define and gain support for LSL Group strategy from Board and investors, measured through Share price improvement and analyst ratings; b. define LSL Estate Agency operating model, including branch footprint, brand strategy and scale; c. maintain Estate Agency market share without major impact on fees; d. identification of structural opportunities for cost savings; and e. identification of robust customer and consumer KPI metrics and benchmarks.	Fully achieved a 5% and d 4% of salary. Partially achieved b 2.5%, c 3% and e 0.5% of salary.	15%

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

Share awards vesting

Details of LTIP awards vesting in relation to the period ending 2017 are as follows:

2015 LTIP awards (nil cost options)

Executive Director	Date of grant (three year vesting)	Number of Shares under award	Face value at grant date[1] (100% of salary)	Earnings per Share (EPS) target	Total Shareholder return (TSR) target	Actual adjusted EPS growth (70% of the award)[2]	Actual relative TSR (30% of the award)[2]	Expected vesting % in 2017	Expected total vesting value
Ian Crabb Group Chief Executive Officer	16th April 2015	101,648	£373,048	25% of EPS part vesting for adjusted EPS growth of 7.5% p.a. increasing in a straight line to 100% vesting for adjusted EPS growth of 17.5% p.a.	35% of TSR part vesting for median ranking increasing to 100% vesting for upper quartile or above ranking	-2.35% p.a.	Position 140 out of 183	0.0%	£0.00
Adam Castleton Group Financial Officer	1st December 2015	94,771	£303,267					0.0%	£0.00

Notes to 2015 LTIP awards:

1. Based on the number of Shares granted multiplied by the three day average Share price immediately prior to the grant date (367 pence for grants made on 16th April 2015 and 320 pence for grants on 1st December 2015).
2. Three year performance period ending 31st December 2017.

Share awards granted during 2017

Details of 2017 LTIP (nil cost option) awards granted in 2017 are as follows:

Executive Director	Date of grant (three year vesting)	Number of Shares under award	Face value at grant date[1] (100% of base salary)	Percentage of award vesting at threshold performance	Maximum percentage of face value that could vest	Adjusted EPS growth (70% of the award)	Relative TSR (30% of the award) against bespoke group of 23 companies[2]	Performance period
Ian Crabb Group Chief Executive Officer	30th March 2017	193,794	£405,998	25%	100%	Threshold vesting: 7.5% p.a. growth Maximum vesting: 12.5% p.a. growth Straight line vesting in between.	Threshold vesting: median TSR Maximum vesting: upper quartile TSR Straight line vesting in between.	Three years to 31st December 2019
Adam Castleton Group Chief Financial Officer	30th March 2017	140,334	£294,000					
Helen Buck Executive Director – Estate Agency	30th March 2017	143,198	£300,000					

Notes to 2017 LTIP awards:

1. Face value is calculated using the three day average Share price (209.5 pence) prior to the grant date.
2. TSR peer group is detailed in the section on implementation of policy for 2018.

External appointments

None of the Executive Directors hold any other non-executive directorships of any other companies other than to represent the majority or minority interests of the Group or to participate in representative trade bodies.

Payments to past directors

No payments have been made to past directors.

Payments for loss of office

Adrian Gill stepped down from the Board on 4th January 2017 and was paid salary and benefits to that date. No annual bonus was paid in respect of 2017 and all unvested long-term incentive awards lapsed.

Outstanding Share awards

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

Director	Award type	Date of grant	Share price on grant	Exercise price	As at 1st January 2017	Awards granted during year	Awards lapsed during year	Awards exercised during year	Awards vested during year	As at 31st December 2017	Exercise period
Ian Crabb Group Chief Executive Officer	LTIP	23rd September 2013	479.00p	Nil	49,228	-	-	-	-	49,228*	23rd September 2016 to 23rd September 2023
	LTIP	10th April 2014	430.00p	Nil	81,395	-	81,395	-	-	0	10th April 2017 to 10th April 2024
	SAYE	1st June 2014	414.00p	416.00p	4,326	-	4,326	-	-	0	1st June 2017 to 1st December 2017
	LTIP	16th April 2015	364.00p	Nil	101,648	-	-	-	-	101,648	16th April 2018 to 16th April 2025
	LTIP	31st March 2016	285.50p	Nil	140,105	-	-	-	-	140,105	31st March 2019 to 31st March 2026
	LTIP	30th March 2017	209.50p	Nil	-	193,794	-	-	-	193,794	30th March 2020 to 30th March 2027
	SAYE	1st June 2017	232.75p	215.00p	-	2,511	-	-	-	2,511	1st June 2020 to 30th November 2020
Simon Embley Chairman	JSOP	1st June 2010	271.00p	280.00p	83,928	-	-	-	-	83,928*	1st June 2013 to 1st June 2020
	CSOP	11th June 2010	240.00p	240.00p	12,500	-	-	-	-	12,500*	11th June 2013 to 11th June 2020
	LTIP	2nd April 2012	275.00p	Nil	58,333	-	-	-	-	58,333*	2nd April 2015 to 2nd April 2022
Adam Castleton Group Chief Financial Officer	LTIP	1st December 2015	306.00p	Nil	94,771	-	-	-	-	94,771	1st December 2018 to 1st December 2025
	LTIP	31st March 2016	285.50p	Nil	101,576	-	-	-	-	101,576	31st March 2019 to 31st March 2026
	LTIP	30th March 2017	209.50p	Nil	-	140,334	-	-	-	140,334	30th March 2020 to 30th March 2027
	SAYE	1st June 2017	232.75p	215.00p	-	2,511	-	-	-	2,511	1st June 2020 to 30th November 2020
Adrian Gill Executive Director – Estate Agency (until 4th Jan 2017)	LTIP	16th April 2015	364.00p	Nil	76,923	-	76,923	-	-	0	16th April 2018 to 16th April 2025
	LTIP	31st March 2016	285.50p	Nil	99,824	-	99,824	-	-	0	31st March 2019 to 31st March 2026
Helen Buck Executive Director – Estate Agency (from 2nd Feb 2017)	LTIP	30th March 2017	209.50p	Nil	-	143,198	-	-	-	143,198	30th March 2020 to 30th March 2027
	SAYE	1st June 2017	232.75p	215.00p	-	2,511	-	-	-	2,511	1st June 2020 to 30th November 2020

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

Notes to outstanding Share awards:

1. All of the above are scheme interests. Details of long-term incentive awards granted in 2017 are presented in a separate paragraph while details of previous outstanding awards are presented in the previous year's Directors' Remuneration Report and are included in Note 13 to the Financial Statements.
2. The Ordinary Share mid-market price ranged from 193.5 pence to 295 pence and averaged 227 pence during 2017. The Share price on 31^{st} December 2017 was 279.75 pence compared to 230.50 pence on 1^{st} January 2017.
3. Simon Embley's Share awards have been pro-rated to reflect his change of role to Non Executive Chairman on 1^{st} January 2015.

Directors' interests in Shares

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

	Shareholdings (Number of Shares)		Share awards (Number of Shares)		Total (Number of Shares)	Shareholding guideline	Executive Director shareholding[1]
Director	31^{st} December 2017	31^{st} December 2016	Unvested Number of Shares	Vested but unexercised Number of Shares	31^{st} December 2017	(% of basic salary)	(% of basic salary)
Kumsal Bayazit Besson Non Executive Director	-	-	-	-	-	-	N/A
Helen Buck[2] Executive Director – Estate Agency	371	-	145,709	-	371	150%	0.3%
Adam Castleton[3] Group Chief Financial Officer	1,285	458	339,192	-	1,285	150%	1.2%
Ian Crabb[4] Group Chief Executive Officer	58,774	1,878	438,058	49,228	108,002	150%	74.4%
Simon Embley Chairman	6,101,367	6,101,367	-	154,761	6,256,128	-	N/A
Adrian Gill Executive Director – Estate Agency	-	925	-	-	-	-	N/A
Bill Shannon Deputy Chairman and Senior Independent Director	23,274	22,234	-	-	23,274	-	N/A
David Stewart Non Executive Director	-	-	-	-	-	-	N/A

Notes on Directors' interest in Shares:

1. Under the Policy, Executive Directors are required to build and maintain a shareholding equivalent to 150% of annual basic salary over a period of five years from appointment through the retention of vested Share awards and/or through open market purchases. The shareholding is calculated based on Shares owned and vested awards at 31^{st} December 2017, Share price at 31^{st} December 2017 of 279.75 pence per Share and the Executive Director's basic salary at 31^{st} December 2017. As at the year-end none of the Executive Directors had completed five years' service and compliance with the Policy guideline will continue to be monitored by the Remuneration Committee during 2018.
2. Helen Buck was appointed as Executive Director – Estate Agency on 2^{nd} February 2017 and she has purchased Shares as a participant in LSL's SIP/BAYE since 4^{th} July 2017. The Shares specified in the table were purchased by the Trust at the prevailing market value.
3. Adam Castleton was appointed to the Board on 2^{nd} November 2015 and he has purchased Shares as a participant in LSL's SIP/BAYE since 1^{st} June 2016. The Shares specified in the table were purchased by the Trust at the prevailing market value.
4. Ian Crabb was appointed to the Board on 9^{th} September 2013 and he has purchased Shares as a participant in LSL's SIP/BAYE since 1^{st} November 2013. The Shares were purchased by the Trust at the prevailing market value. Ian Crabb also purchased 56,000 Ordinary Shares at a price of 285 pence per Share on 5^{th} December 2017.

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

There have been no changes in the interests of any Director between 31st December 2017 and the date of this Report other than the purchases of Shares by Ian Crabb (164 Shares) Adam Castleton (163 Shares) and Helen Buck (164 Shares) as participants of LSL's BAYE/SIP scheme. These Shares were purchased by the Trust at the prevailing market rate.

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

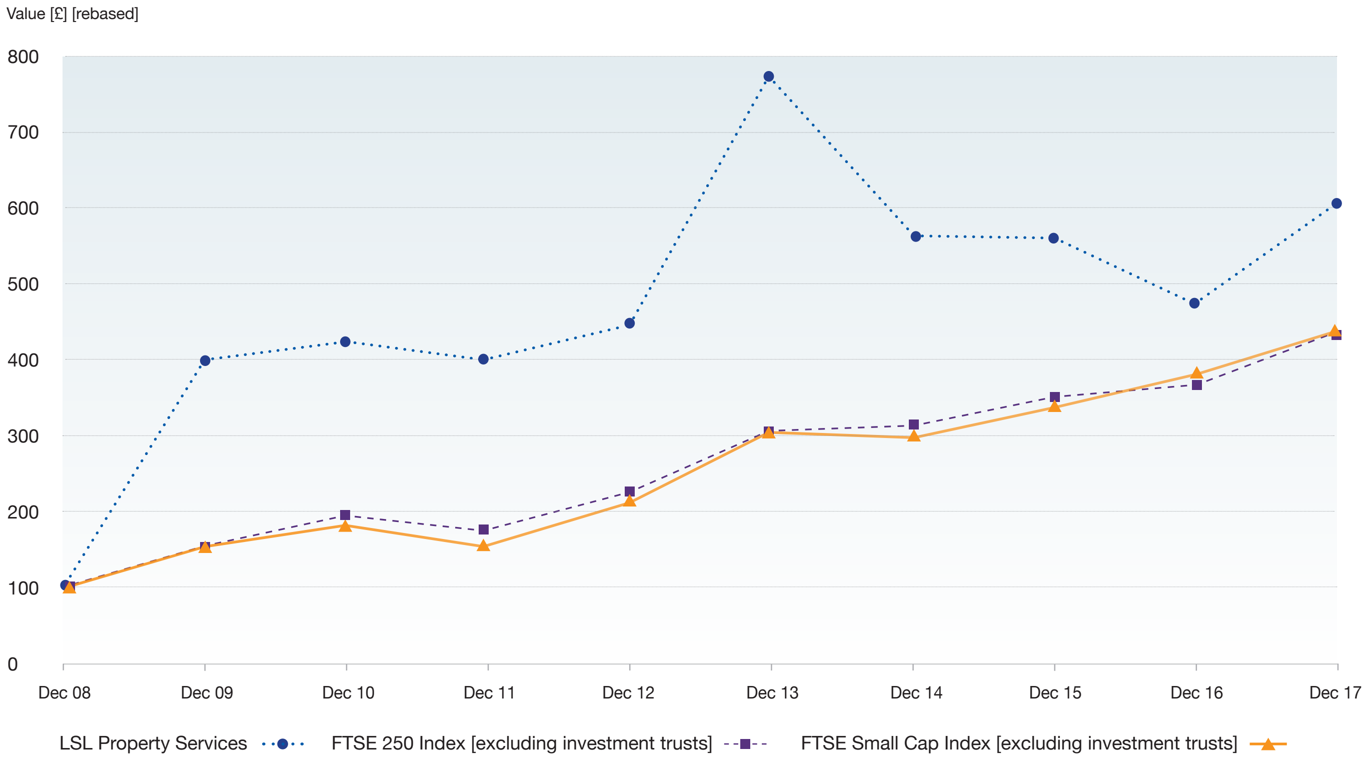
Unaudited information

Performance graph and table

The following graph shows the value, up to the 31st December 2017, of £100 invested in LSL compared with the value of £100 invested in both the FTSE Small Cap (excluding investment trusts) Index and the FTSE 250 (excluding investment trusts) Index on 31st December 2008. The FTSE 250 Index has been chosen for consistency with prior years and the FTSE Small Cap Index because LSL is a constituent of the FTSE Small Cap Index. During the period LSL has outperformed both indices.

Total Shareholder return

Source: Datastream (Thomson Reuters)



Group Chief Executive Officer's total remuneration

The total remuneration figures for the role of Group Chief Executive Officer during each of the last nine financial years are shown in the table below. The total remuneration figure includes the annual bonus based on that year's performance and Share awards based on three year performance periods ending in/just after the relevant year. The annual bonus pay-out and Share vesting level as a percentage of the maximum opportunity are also shown for each of these years.

	Year ending in									
	Simon Embley (to 9th September 2013)					Ian Crabb (from 9th September 2013)				
	2009	2010	2011	2012	2013	2013	2014	2015	2016	2017
Total remuneration	£373,754	£517,716	£308,747	£525,018	£500,862[1]	£119,522	£571,500	£852,869	£499,000	£835,120
Annual bonus	100%	97.5%	9.6%	60%	91.7%	N/A	54%	93.3%	16%	97%
LTIP vesting	N/A	N/A	N/A	55%	0%	N/A	N/A	66.81%	0%	0%

Notes to Group Chief Executive Officer's total remuneration:

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

Percentage change in Group Chief Executive Officer's remuneration

The table below shows the percentage change in the Group Chief Executive Officer's salary, benefits and annual bonus between the financial year ending 31st December 2016 and 2017, compared to that of the total remuneration for all employees of the Group for each of these elements of pay.

	Basic salary change	Benefits change	Bonus change[2] %
Group Chief Executive Officer	+1.5%	Nil	+515.3%
All employees[1]	+1.5%	Nil	+281.4%
Average number of employees[1]	153		

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

1. Refers to a subset of employees outside the commission structure.
2. The bonus change for Ian Crabb represents an increase from £64,000 (16% of salary) in 2017 to £393,820 (97% of salary) in 2018, reflecting the strong performance of the Group in 2017.

Relative importance of spend on pay

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

	2017 (£m)	2016 (£m)	Change (%)
Staff costs[1]	186.3	182.7	2.0
Dividends (excluding any special dividend)	11.6	10.6	9.7
Profit after tax	33.4	50.5	-33.9
Adjusted profit after tax[2]	29.1	26.6	9.4

1. See Note 13 to the Financial Statements for calculation of staff costs.
2. See Note 11 to the Financial Statements.

Statement of Shareholder voting

The Directors' Annual Statement and Report on Remuneration for the financial year ending 31st December 2016 and the Directors' Remuneration Policy, effective from 1st January 2017, were presented to Shareholders at the 2017 AGM which was held on 27th April 2017. The voting outcomes were as follows:

	Annual Statement and Annual Report on Remuneration		Directors' Remuneration Policy, effective from 1st January 2017	
Votes cast in favour	81,200,295	99.93%	81,542,452	99.78%
Votes cast against	53,774	0.07%	181,004	0.22%
Total votes cast	81,254,069	100%	81,723,456	100%
Total votes withheld	477,421	-	8,034	-

Remuneration Committee

Role and membership

Details of the Remuneration Committee's composition and responsibilities are set out in the Corporate Governance Report at page 47 of this Report. During 2017 the Remuneration Committee was chaired by Bill Shannon and its other members were Kumsal Bayazit Besson and David Stewart. The Terms of Reference of the Committee are available from the Company Secretary or LSL's website at: **lslps.co.uk**

Committee's advisers

Following a tender process during 2017, the Remuneration Committee appointed Korn Ferry Hay Group (Korn Ferry) as adviser to the Remuneration Committee. The Remuneration Committee took independent advice during the year from NBS and Korn Ferry on matters relating to senior executive remuneration. No other services are provided to LSL by the Aon group (of which NBS is a part) or Korn Ferry. NBS provided advice to the Remuneration Committee in relation to the assessment of TSR performance for the LTIP and benchmarking of the Executive Director roles. Korn Ferry also provided advice to the Remuneration Committee in relation to the Shareholder consultation regarding the LTIP awards and the disclosures required in the Annual Report. Their fees, charged (which are based on an hourly rate) for 2017 were £21,846 (ex VAT) and £1,900 (ex VAT) respectively. Both NBS and Korn Ferry are signatories to the Remuneration Consultants' Code of Conduct and have confirmed to the Remuneration Committee that it adheres in all respects to the terms of the Code. The Remuneration Committee considers their advice to be independent and objective.

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

Bill Shannon
Chairman of the Remuneration Committee
6th March 2018

Financial Statements

In this section

Independent Auditor's Report

for the year ended 31st December 2017

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

Opinion

In our opinion:

- LSL Property Services plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31st December 2017 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of LSL Property Services plc for the year ended 31st December 2017 which comprise:

Group	Parent Company
Group Balance Sheet as at 31st December 2017	Parent Company Balance Sheet as at 31st December 2017
Group Income Statement	Parent Company Statement of Changes in Equity
Group Statement of Comprehensive Income	Parent Company Statement of Cash flow
Group Statement of Changes in Equity	Related notes 1 to 19 to the Parent Company financial statements including a summary of significant accounting policies
Group Statement of Cash-Flows	
Related notes 1 to 34 to the group Financial Statements, including a summary of significant accounting policies	

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 and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

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.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report as set out on pages 22 to 27, that describe the principal risks and explain how they are being managed or mitigated;

- the directors' confirmation as set out on pages 22 to 27, in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement as set out on page 103, in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the directors' explanation as set out on pages 22 and 23, in the annual report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Revenue recognition (including lapse provision) • Valuation of professional indemnity provision • Valuation of Goodwill – New in 2017 • Valuation of contingent consideration liabilities
Audit scope	• We performed an audit of the complete financial information of six components and audit procedures on specific balances for a further five components. • The components where we performed full or specific audit procedures accounted for 87.9% of adjusted profit before tax, 97% of revenue and 95% of total assets.
Materiality	• Overall group materiality of £1.7m which represents 5% of adjusted profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit & Risk Committee
Revenue recognition *Refer to the Audit & Risk Committee Report (page 56); Accounting policies (page 103); and Note 3 of the group financial statements.* The group has reported revenues of £311.5m (2016: £307.8m). We focused on revenue recognition because there could be bias or error in the timing of transactions. There is also judgement in the assessment of lapsing revenue. We identified the following specific risk of fraud and error in respect of improper revenue recognition given the nature of the group's services as follows: • Inappropriate cut-off of revenue at period end; • Inappropriate measurement of the reduction to revenue recorded for expected clawback of commissions on lapsed insurance policies. There is no change in risk profile in the current year.	At each full and specific scope audit location with significant revenue streams: • We performed walkthroughs of each significant class of revenue transactions and assessed the designed effectiveness of key controls; • We performed cut off testing, using our testing threshold, for each stream of revenue for transactions either side of the Balance Sheet date; • Furthermore at each full scope audit location we performed other substantive, transactional testing and data analysis procedures to validate the recognition of revenue throughout the year. We performed testing over full populations of transactions using data analysis. Data analysis includes the assessment of the revenue transaction flow. We confirm our understanding of the process and obtain third party evidence for those items that are considered higher risk because they do not correlate to items we would expect them to, in the process. For the estimate of lapsed commissions we performed the following: • We tested the underlying calculations for arithmetical accuracy; • We tested the integrity of the data which underpinned management's assumptions; • We reviewed key contractual terms, confirming management's assessment of the point of recognition of revenue; • We also considered the adequacy of the group's disclosure of the accounting policies for revenue recognition in notes 2 and 3 respectively.	Based on the work performed, we did not identify any evidence of material misstatement in the revenue recognised in the year ended 31st December 2017 nor in the valuation of the provision for lapsed policies at 31st December 2017.

Risk	Our response to the risk	Key observations communicated to the Audit & Risk Committee
	At each full and specific scope audit location, that has a significant revenue stream (8 components), we performed the audit procedures set out above which covered 97% of the group's revenue. We also performed review procedures in seven locations which covered a further 3% of the group's revenue. This consisted of analytical procedures over material movements in the Income Statement and Balance Sheet.	
Valuation of professional indemnity provision *Refer to the Audit & Risk Committee Report (page 56); Accounting policies (page 103); and Note 22 of the group financial statements.* We focused on this area due to the size of the balance, being £15.9m (2016: £20.7m) and the sensitivity of the valuation to judgements and estimation made by management. In particular the group has historically experienced a high level of claims relating to survey valuation work performed during the 2004 to 2008 period, this work continues to result in claims being made against the group. In the current year, a release of the provision has generated a £2.7m gain recognised in the Income Statement as an exceptional item. There is no change in risk profile in the current year.	We performed the following procedures across one full scope and two specific locations providing full coverage of the professional indemnity provision: • We re-performed and validated management's calculations, with reference to source documentation. This includes testing the completeness of the database used to track claims as well as the accuracy of the data included; • We compared these calculations to our expectations which are based on changes in the profile of claims and the settlements in the year, investigating and corroborating any variances above our testing threshold; • We corroborated to third party evidence, material assumptions in relation to the incidence of claims, the propensity for claims to result in financial loss and the resultant loss per claim used by management and verified that these were appropriate; • We considered the current level of claims and the historic profile of claims to corroborate management's assumptions relating to how the level of claims will change over time, thereby assessing if the range of possible outcomes is within acceptable limits; • We traced a sample of payments for settling claims to bank statements and compared the post year end settlements against management's estimates in order to assess management's accuracy in estimating claim costs;	Based on our procedures we believe that the estimate for professional indemnity liabilities is in accordance with IAS 37 and the estimate is within an acceptable range. We concluded that the exceptional provision release of £2.7m was appropriate. We concluded that the disclosures were compliant with IAS 37 and IAS 1.

Risk	Our response to the risk	Key observations communicated to the Audit & Risk Committee
	• We inquired with legal counsel regarding material claims, to understand the current legal assessment of each case; • We reviewed the disclosures in respect of the nature and movements of the provision included within the Financial Statements for completeness and compliance with IAS 37. In addition, we reviewed the disclosure required by IAS 1 of the sensitivity of the carrying amount of the provision to changes in key estimates.	
Valuation of Goodwill (new in 2017) *Refer to the Audit & Risk Committee Report (page 56); Accounting policies (page 103); and Note 15 of the group financial statements.* The carrying value of Goodwill on the group balance sheet is £151.9m (2016: £151.9m). The Director's assessment of the 'value in use' of the group's Cash Generating Units ("CGUs") involves judgement about the future performance of the business and the discount rates applied to future cash flow forecasts. We focused on this area in 2017 due to the increase in estimation uncertainty in forecasts due to the present condition of the housing market.	We challenged management's assumptions used in its models for assessing the recoverability of the carrying value of Goodwill. We focused on the appropriateness of the CGU identification, the methodology applied to estimate the value in use, discount rates and forecast cash flows. Specifically: • We have validated that the CGUs identified are the lowest level at which management monitors Goodwill; • We tested the methodology applied in the value in use calculation as compared to the requirements of IAS 36, Impairment of Assets, and the mathematical accuracy of management's model; • We obtained an understanding of, and assessed the basis for key underlying assumptions for the three year forecast; • We confirmed that the cash flow forecasts used in the valuation are consistent with information approved by the Board and have evaluated the appropriateness of the use of these forecasts in light of the historical accuracy of management's forecasts; • For the seven CGUs with the largest Goodwill balances or the lowest headroom, we challenged management on its cash flow forecasts and the implied growth rates for 2018 and beyond by considering evidence available that supported or contradicted these assumptions;	Based on the results of our work, we agree with management's conclusion that no impairment of goodwill is require in the current year. We agree with management that no reasonably possible change in assumptions would result in a material impairment in any Cash Generating Unit and hence no additional sensitivity disclosures are required in note 15 of the group financial statements.

Risk	Our response to the risk	Key observations communicated to the Audit & Risk Committee
	• The discount rates and long-term growth rates applied within the model were assessed by an EY business valuation specialist, including comparison to economic and industry forecasts where appropriate; • For all CGUs, we performed sensitivity analyses by stress testing key assumptions in the model with downside scenarios to understand the parameters that, should they arise, could lead to a different conclusion in respect of the carrying value of goodwill. We considered the appropriateness of the related disclosures provided in note 15 of the group financial statements.	
Valuation of contingent consideration liabilities *Refer to the Audit & Risk Committee Report (page 56); Accounting policies (page 120); and Note 21 of the group financial statements.* The group balance sheet reports a £9.1m (2016: £15.0m) provision for deferred or contingent consideration that arose from acquisitions in previous periods. £9.1m (2016: £10.1m) of this value relates to contingent consideration specifically, which is subject to estimation uncertainty. There is no change in the risk profile of contingent consideration in the current year, however we have removed reference to 'acquisition accounting' from the risk description in light of no acquisitions of subsidiaries occurring in the year.	We have performed the following procedures across the four full scope locations that have contingent consideration balances that are significant in size: • We have confirmed that the cash flow forecasts used in the measurement of the liability are consistent with information approved by the Board and have evaluated the appropriateness of the use of these forecasts in light of the historical accuracy of management's forecasts; • We tested the methodology applied in the calculations and the mathematical accuracy of management's model; • We traced a sample of settlement payments made in the year to bank statements, to confirm that the relevant earn out obligations had been extinguished; • We confirm the appropriateness of the discount rate used in calculating the liability, by considering the risks associated to the liability and management's application of IAS 37.	We conclude that financial liabilities held in relation to earn out arrangements have been appropriately valued.

In the prior year, our auditor's report included a key audit matter in relation to existence of client money balances. In the current year, we have assessed that the likelihood of this matter leading to a material error in the group financial statements has reduced. Therefore we no longer regard the risk as a significant risk or a key audit matter.

An overview of the scope of our audit

Tailoring the scope

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

In assessing the risk of material misstatement to the group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 18 reporting components of the group, we selected 11 components which represent the principal business units within the group.

Of the 11 components selected, we performed an audit of the complete financial information of six components ("full scope components") which were selected based on their size or risk characteristics. For the remaining five components ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

Of the remaining seven reporting components, audit procedures were undertaken as set out in note 2 below to respond to any potential risks of material misstatement to the group financial statements.

	2017				2016		
Reporting components	Number	% Group adjusted Profit before tax*	% Group Revenue	See note	Number	% Group adjusted Profit before tax*	% Group Revenue
Full scope	6	70.6	90		9	93	91
Specific scope	5	17.3	7	1	4	7	8
Full and specific scope coverage	11	87.9	97		13	100	99
Remaining components	7	12.1	3	2	4	0	1
Total reporting components	18	100	100		17	100	100

*Profit before tax adjusted for certain non-recurring items as defined in the 'Our application of materiality' section of this report.

Notes:

1 The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant risks tested for the group audit.

2 The remaining seven reporting components that together represent 12.1% of the group's adjusted profit before tax, none are individually greater than 4% of the group's adjusted profit before tax. For these components, we performed other procedures, including analytical review and testing of consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the group financial statements.

Changes from the prior year

Two components, each of which contain a portion of the professional indemnity provision, but otherwise have no revenues and minimal activity in the year, have been designated as specific scope in 2017 (2016: full scope).

One component, acquired in 2016, has been designated as specific scope in 2017 (2016: full scope) on the basis that the risk profile has reduced following a full year of ownership and integration into the group.

Involvement with component teams

All work performed for the purposes of the audit was undertaken by the group audit team.

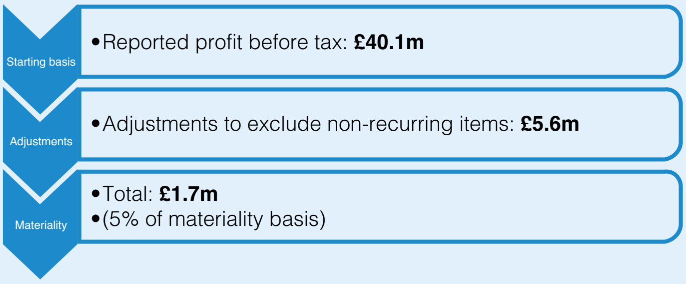
Our application of materiality

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

Materiality

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

We determined materiality for the group to be £1.7 million (2016: £1.6 million), which is 5% (2016: 5%) of adjusted profit before tax. We believe that profit before tax, excluding the gain disposal of available for sale financial assets, provides us with the most relevant measure of recurring group profitability. We include the release of the professional indemnity provision in our materiality basis, as claims continue to be received against the group relating to the 2004 to 2008 period, and therefore we consider the movements of the provision to be a recurring item.



We determined materiality for the Parent company to be £1.2m (2016: £1.2m), which is 1% (2016: 1%) of total equity.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the group's overall control environment, and the number and monetary amounts of individual uncorrected misstatements in the prior period, our judgement was that performance materiality was 50% (2016: 50%) of our financial statement materiality, namely £0.9m (2016: £0.8m). We have set performance materiality at this percentage to ensure that total uncorrected and undetected audit differences in all accounts did not exceed our materiality level of £1.7m (2016: £1.6m).

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £0.1m to £0.4m (2016: £0.2m to £0.5m).

Reporting threshold

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

We agreed with the Audit & Risk Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2016: £0.1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report as set out on the Financial Highlights page 1, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable** set out on page 41 – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit & Risk Committee reporting** set out on page 56 – the section describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the Audit & Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 47 the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions 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.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 41, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud
The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant frameworks which are directly relevant to specific assertions in the financial statements are those than relate to the reporting framework (IFRS, the Companies Act 2006 and UK Corporate Governance Code) and the relevant tax compliance regulations in the UK.
- We understood how the group is complying with those frameworks by making enquiries of management, Internal Audit, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of board minutes and papers provided to the Audit & Risk Committee.
- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur, by meeting with management from various parts of the business to understand where it considered there was a susceptibility to fraud. We also considered performance targets and their propensity to influence efforts made by management to manage earnings. We considered the programmes and controls that the group has established to address risks identified, or that otherwise prevent, deter and detect fraud; and how senior management monitors those programmes and controls. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free from fraud and error.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures involved journal entry testing, with a focus on manual consolidation journals, and journals indicating large or unusual transactions based on our understanding of the business; enquiries of Legal Counsel, group management, Internal Audit, subsidiary Management at all full and specific scope components; and focused testing, as referred to in the key audit matters section above. In addition, we completed procedures to conclude on the compliance of the disclosures in the Annual Report and Accounts with the requirements of the relevant accounting standards, UK legislation and the UK Corporate Governance Code 2016.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address
We were appointed by the company on 27th April 2017 to audit the financial statements for the year ending 31st December 2017 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 17 years, covering the years ending 31st December 2001 to 31st December 2017.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting the audit.

The audit opinion is consistent with the additional report to the Audit & Risk Committee

Mark Morritt (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

Date 6th March 2018

Notes:

1 The maintenance and integrity of the LSL Property Services plc website is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Group Income Statement

for the year ended 31st December 2017

	Note	2017 £'000	2016 £'000
Group Revenue	3	**311,540**	307,750
Employee and subcontractor costs	13	**(186,307)**	(182,687)
Establishment costs		**(19,057)**	(19,888)
Depreciation on property, plant and equipment	16	**(5,216)**	(5,475)
Other operating costs		**(66,269)**	(67,282)
Total operating expenses		**(276,849)**	(275,332)
Other operating income	3	**555**	1,165
Gain/(loss) on sale of property, plant and equipment		**668**	(9)
Income from joint ventures	18	**1,583**	1,049
Group Underlying Operating Profit	5	**37,497**	34,623
Share-based payments	13	**(47)**	(1,263)
Amortisation of intangible assets	15	**(4,083)**	(3,914)
Exceptional gains	7	**9,337**	34,531
Exceptional costs	7	**–**	(2,341)
Contingent consideration	21	**(654)**	3,785
Group operating profit	4	**42,050**	65,421
Finance costs	6	**(1,952)**	(1,896)
Net financial costs		**(1,952)**	(1,896)
Profit before tax	8	**40,098**	63,525
Taxation charge	14	**(6,686)**	(13,033)
Profit for the year		**33,412**	50,492
Attributable to			
– Owners of the parent		**33,414**	50,493
– Non-controlling interest		**(2)**	(1)
Earnings per share expressed in pence per share:			
Basic	10	**32.6**	49.2
Diluted	10	**32.4**	49.0

Group Statement of Comprehensive Income

for the year ended 31st December 2017

	Note	2017 £'000	2016 £'000
Profit for the year		**33,412**	50,492
Items to be reclassified to profit and loss in subsequent periods:			
Reclassification adjustments for disposal of financial assets	17	**(5,593)**	(33,022)
Income tax effect	14	**951**	5,914
Revaluation of financial assets	17	**1,885**	11,816
Income tax effect	14	**(320)**	(2,015)
Net other comprehensive (loss) to be reclassified to profit and loss in subsequent periods:		**(3,077)**	(17,307)
Total other comprehensive (loss) for the year, net of tax		**(3,077)**	(17,307)
Total comprehensive income for the year, net of tax		**30,335**	33,185
Attributable to			
– Owners of the parent		**30,337**	33,186
– Non-controlling interest		**(2)**	(1)

Group Balance Sheet

as at 31st December 2017

Company No. 05114014

	Note	**2017 £'000**	2016 £'000
Non-current assets			
Goodwill	15	**151,901**	151,901
Other intangible assets	15	**29,729**	33,249
Property, plant and equipment	16	**17,763**	18,842
Financial assets	17	**25,282**	4,603
Investments in joint ventures	18	**9,556**	8,762
Total non-current assets		**234,231**	217,357
Current assets			
Trade and other receivables	19	**31,357**	32,263
Total current assets		**31,357**	32,263
Total assets		**265,588**	249,620
Current liabilities			
Financial liabilities	21	**(6,454)**	(10,739)
Trade and other payables	20	**(53,418)**	(50,900)
Current tax liabilities	14	**(3,662)**	(7,581)
Provisions for liabilities	22	**(2,850)**	(5,742)
Total current liabilities		**(66,384)**	(74,962)
Non-current liabilities			
Financial liabilities	21	**(34,654)**	(26,469)
Deferred tax liability	14	**(2,698)**	(3,801)
Provisions for liabilities	22	**(13,276)**	(15,622)
Total non-current liabilities		**(50,628)**	(45,892)
Total Liabilities		**(117,012)**	(120,854)
Net assets		**148,576**	128,766
Equity			
Share capital	24	**208**	208
Share premium account	25	**5,629**	5,629
Share-based payment reserve	25	**3,802**	4,303
Treasury shares	2, 25	**(5,317)**	(5,368)
Fair value reserve	25	**494**	3,571
Retained earnings		**143,578**	120,239
Equity attributable to owners of parent		**148,394**	128,582
Non-controlling interests		**182**	184
Total equity		**148,576**	128,766

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

Ian Crabb
Group Chief Executive Officer
6th March 2018

Adam Castleton
Group Chief Financial Officer
6th March 2018

Group Statement of Cash-Flows

for the year ended 31st December 2017

	Note	2017 £'000	2016 £'000
Profit before tax		**40,098**	63,525
Adjustments for:			
Exceptional operating items and contingent consideration	7	**(7,640)**	(35,975)
Depreciation of tangible assets	16	**5,216**	5,475
Amortisation of intangible assets	15	**4,083**	3,914
Share-based payments	13	**47**	1,263
(Profit)/loss on disposal of fixed assets	8	**(668)**	9
Profit from joint ventures		**(1,583)**	(1,049)
Finance costs	6	**1,952**	1,896
Dividend income/rebates received via non-cash consideration		**(1,503)**	(492)
Operating cash-flows before movements in working capital		**40,002**	38,566
Movements in working capital			
Decrease in trade and other receivables		**1,695**	3,265
Increase / (decrease) in trade and other payables		**5,261**	(614)
Decrease in provisions		**(5,440)**	(8,561)
		1,516	(5,910)
Cash generated from operations		**41,518**	32,656
Interest paid		**(1,268)**	(1,948)
Income taxes paid		**(11,113)**	(8,861)
Net cash generated from operating activities		**29,137**	21,847
Cash-flows used in investing activities			
Cash acquired on purchase of subsidiary undertaking	27	**–**	1,593
Acquisitions of subsidiaries and other businesses	27	**–**	(8,451)
Payment of contingent consideration		**(2,175)**	(3,537)
Investment in financial assets	18	**(20,315)**	(2)
Cash received on sale of financial assets		**3,024**	35,991
Dividends received from financial assets		**–**	778
Purchase of property, plant and equipment and intangible assets	15,16	**(5,489)**	(6,064)
Proceeds from sale of property, plant and equipment	16	**1,457**	69
Net cash (expended)/generated on investing activities		**(23,498)**	20,377
Cash-flows used in financing activities			
Drawdown/(repayment) of loans	12	**9,723**	(25,243)
Repayment of loan notes		**–**	(7,294)
Payment of deferred consideration		**(4,790)**	(2,422)
Proceeds from exercise of share options		**–**	48
Dividends paid	11	**(10,572)**	(12,916)
Net cash expended in financing activities		**(5,639)**	(47,827)
Net increase/(decrease) in cash and cash equivalents		**–**	(5,603)
Cash and cash equivalents at the end of the year		**–**	–

Group Statement of Changes in Equity

for the year ended 31st December 2017

Year Ended 31st December 2017

	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 2017	**208**	**5,629**	**4,303**	**(5,368)**	**3,571**	**120,239**	**128,582**	**184**	**128,766**
Disposal of financial assets (net of tax)	–	–	–	–	(4,642)	–	(4,642)	–	(4,642)
Revaluation of financial assets (net of tax)	–	–	–	–	1,565	–	1,565	–	1,565
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**(3,077)**	**–**	**(3,077)**	**–**	**(3,077)**
Profit for the year	–	–	–	–	–	33,414	33,414	(2)	33,412
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(3,077)**	**33,414**	**30,337**	**(2)**	**30,335**
Exercise of options	–	–	(46)	51	–	(5)	–	–	–
Share-based payments	–	–	(455)	–	–	502	47	–	47
Dividend payment	–	–	–	–	–	(10,572)	(10,572)	–	(10,572)
At 31st December 2017	**208**	**5,629**	**3,802**	**(5,317)**	**494**	**143,578**	**148,394**	**182**	**148,576**

During the year ended 31st December 2017, the Trust acquired nil LSL Shares. During the period 14,661 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received nil on exercise of these options.

Year ended 31st December 2016

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Treasury shares £'000	Fair value Reserve £'000	Retained earnings £'000	Total equity £'000	Non-controlling interests £'000	Total £'000
At 1st January 2016	**208**	**5,629**	**3,564**	**(5,988)**	**20,878**	**82,880**	**107,171**	**185**	**107,356**
Disposal of financial assets (net of tax)	–	–	–	–	(27,108)	–	(27,108)	–	(27,108)
Revaluation of financial assets (net of tax)	–	–	–	–	9,801	–	9,801	–	9,801
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**(17,307)**	**–**	**(17,307)**	**–**	**(17,307)**
Profit for the year	–	–	–	–	–	50,493	50,493	(1)	50,492
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(17,307)**	**50,493**	**33,186**	**(1)**	**33,185**
Exercise of options	–	–	(524)	620	–	(218)	(122)	–	(122)
Share-based payments	–	–	1,263	–	–	–	1,263	–	1,263
Dividend payment	–	–	–	–	–	(12,916)	(12,916)	–	(12,916)
At 31st December 2016	**208**	**5,629**	**4,303**	**(5,368)**	**3,571**	**120,239**	**128,582**	**184**	**128,766**

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

Notes to the Group Financial Statements

for the year ended 31st December 2017

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 2017 were authorised for issue by the Board of Directors on 6th March 2018 and the balance sheet was signed on the Board's behalf by Ian Crabb, Group Chief Executive Officer and Adam Castleton, Group Chief Financial Officer. LSL is a listed company, in London, incorporated and domiciled in England and the Group operates a network of estate agencies, surveying and valuation and other related businesses.

The Group's Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the 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 available-for-sale financial assets that have been measured at fair value.

The accounting policies which follow set out those significant policies which apply in preparing the Financial Statements for the year ended 31st December 2017. The Group's Financial Statements are presented in pound sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

New standards and interpretations

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

Judgments and estimates

The preparation of financial information in conformity with IFRS as adopted by European Union, requires the Management Team to make judgments, 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 judgments 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 on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgments

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

Revenue recognition

Revenue recognition is an area of judgment and a misstatement could be material to the Group although the nature of the revenue recognised in the Group is not considered complex. Certain subsidiaries sell life assurance products which are cancellable without a notice period, and if cancelled within a set period require that a portion of the commission earned must be repaid. The lapse provision is recognised as a reduction in revenue.

Exceptional items

The Group recognises certain items as exceptional where, in the judgment of the Directors, they are required to be disclosed separately due to them being material in size and unusual in nature. This is reviewed in accordance with IAS1.

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 judgment. Similarly there is also judgment applied when assessing that an intangible asset has an indefinite useful life. The value of the intangible asset is measured at cost and the useful life of the asset is determined by assessing the period over which the Group can benefit from the asset.

Valuation of financial assets

The Group owns non-controlling interests in four unlisted entities Yopa, eProp Services Plc, VEM and NBC Property Master, in addition to a convertible loan note which is held in Global Property Ventures. In accordance with the accounting standards, these investments are held at fair value and significant judgment is required in assessing this. Further details of the methodology used are disclosed in Note 17 to these Financial Statements. A sensitivity calculation which shows the impact of changes in assumption is shown in Note 29.

2. Accounting policies (continued)

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

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

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

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

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

Impairment of intangible assets
The Group determines whether indefinite life intangible assets (including goodwill) are impaired on an annual basis and this requires an estimation of the value in use of the cash generating units to which the intangible assets are allocated. This involves estimation of future cash-flows and choosing a suitable discount rate (see Note 15 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 put and call options to purchase the remaining interest in these businesses at some point in the future. In accordance with the accounting standards, estimates have been made with regard to the future profitability of these acquisitions and a provision for the cost of acquiring these interests has been recognised. The provisions are disclosed in Note 21 to these Financial Statements. A sensitivity calculation which shows the impact of changes in assumption is shown in Note 29 to these Financial Statements.

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

Basis of consolidation

Subsidiaries:
Subsidiaries are consolidated from the date of their acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Specifically, the Group controls an entity if, and only if, the Group has:

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

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.

2. Accounting policies (continued)

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

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

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

- Group Underlying Operating Profit (reconciled in Note 5 to these Financial Statements)
- Adjusted basic EPS (reconciled in Note 10 to these Financial Statements)
- Adjusted diluted EPS (reconciled in Note 10 to these Financial Statements)
- Group Adjusted EBITDA (reconciled in Note 5 to these Financial Statements)

The amortisation of intangible assets fluctuates due to irregular investments and unknown timing of acquisitions. These costs are not representative of the underlying costs of the business, and are therefore excluded from adjusted earnings. Group Adjusted EBITDA has been introduced as a new APM in 2017 after careful consideration by the Board. The measure has been introduced to assist shareholders and investors when reading the Financial Statements given this is an established measure used across the sector is which LSL operates.

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

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

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

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

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

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

2. Accounting policies (continued)

Business combinations

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

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

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

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

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.

Intangible assets

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.

Other intangible assets

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

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

Amortisation

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

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

2. Accounting policies (continued)

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

Brand names are not amortised as the Directors are of the opinion that they each have an indefinite useful life. This is based on the expectation of the Directors that there is no foreseeable limit to the period over which each of the assets are expected to generate net cash inflows to the businesses and the Directors are confident that trademark registration renewals will be filed at the appropriate time and sufficient investment will be made in terms of marketing and communication to maintain the value inherent in the brands, without incurring significant cost. All brands recognised have been in existence for a number of years and are not considered to be at risk of obsolescence from technical, technological nor commercial change. Whilst operating in competitive markets they have demonstrated that they can continue to operate in the face of such competition and that there is expected to remain an underlying market demand for the services offered. The lives of these brands are not dependent on the useful lives of other assets of the entity.

Impairment

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

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided to write off cost less the estimated residual value of property, plant and equipment by equal annual instalments over their estimated useful economic lives as follows:

Office equipment, fixtures and fittings	– over three to seven years
Computer equipment	– over three to four years
Motor vehicles	– over three to four years
Leasehold improvements	– over the shorter of the lease term or ten years
Freehold and long leasehold property	– over fifty years or the lease term whichever is shorter

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

Dividends

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

2. Accounting policies (continued)

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. The Management Team periodically evaluates positions taken in the tax returns with respect to the situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting period and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment. Income tax is charged or credited directly to other comprehensive income or equity, if it relates to items that are charged or credited in the current or prior periods to other comprehensive income or equity respectively. Otherwise income tax is recognised in the Income Statement.

Share-based payment transactions

Equity-settled transactions

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

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share (further details are given in Note 10 to these Financial Statements).

Treasury shares

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

2. Accounting policies (continued)

Leases

Group as a lessee

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

Group as a lessor

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

Pensions

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

Provisions

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

Financial instruments

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

The subsequent measurement of financial assets depends on their classification.

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

Available-for-sale financial assets

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

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

Cash and short term deposits

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

For the purposes of the Group cashflow 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 businesses and thirty days in the Surveying and Valuation Services business. Provision is made when there is objective evidence that the Group will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

2. Accounting policies (continued)

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

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

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

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

Borrowing costs are recognised as an expense when incurred.

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

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

Rendering of services
Revenue from the exchange fees in the Residential Sales business is recognised by reference to the legal exchange date of the housing transaction. Revenue from the supply of Surveying and Valuation Services are recognised upon the completion of the professional survey or valuation by the surveyor. Revenue from Lettings, Asset Management and conveyancing services is recognised on completion of the service being provided.

Financial Services income
Revenue from mortgage procuration fees is recognised by reference to the completion date of the mortgage/re-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 that the Directors consider relevant to the Group, have been issued but are not effective for the financial year beginning 1st January 2017 and have not been early adopted:

IFRS 15: Revenue

The IASB has issued a new standard for the recognition of revenue. This will replace IAS18 which covers contracts for goods and services and IAS 11 which covers construction contracts. It will be effective for annual periods beginning on or after 1st January 2018.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

Adoption is mandatory for financial years commencing on or after 1st January 2018. The standard permits either a full retrospective or a modified retrospective approach for the adoption, LSL intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1st January 2018 and the comparatives will not be restated.

The Management Team have assessed the effects of applying the new standard to the Group's financial statements and have identified that revenue relating to management services and rent collection will be affected.

The cumulative impact on the opening 2018 retained earnings before the impact of taxation, is an expected reduction of £585,000, due to the timing difference of revenue recognition. These amounts will be recognised fully over future periods, with the majority in 2018 and 2019.

IFRS 2: Share Based Payments

This amendment to IFRS2 is intended to eliminate diversity of classification and measurement and will be effective for annual periods beginning on or after 1st January 2018. The Management Team have assessed the impact and estimate that this will have no material impact to the Group's Financial Statements.

IFRS 9: Financial Instruments

This final version of IFRS 9 adds a new expected loss impairment model and amends the classification and measurement model for financial assets by adding a new fair value through other comprehensive income category for certain debt instruments. Amounts recognised in other comprehensive income resulting from fair value movements on available for sale financial assets, will not be transferred to profit or loss on disposal of those investments. This standard will be effective for annual periods beginning on or after 1st January 2018. The Management Team have assessed the impact and estimate that this will have no material impact to the Group's financial statements.

IFRS 16: Leases

IFRS 16 'Leases' is effective for annual periods beginning on or after 1st January 2019. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases.

IFRS 16 is expected to have a significant impact on the amounts recognised in the Group's consolidated Financial Statements (see Note 23). On adoption of IFRS 16 the Group will recognise within the balance sheet a right of use asset and lease liability for all applicable leases. Within the Income Statement, rent expense will be replaced by depreciation and interest expense. This will result in a decrease in operating expenses and an increase in finance costs. The standard will also impact a number of statutory measures such as operating profit and cash generated from operations, and APMs used by the Group.

The full impact of IFRS 16 is currently under review, including understanding the practical application of the principles of the standard. It is therefore not practical to provide a reasonable estimate of the financial effect until this review is complete.

3. Revenue

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

Revenue is analysed as follows:

	2017 £'000	2016 £'000
Revenue from services	**311,540**	307,750
Operating Revenue	**311,540**	307,750
Rental income	**555**	673
Dividend income	**–**	492
Other operating income	**555**	1,165
Total revenue	**312,095**	308,915

No dividend income was received during the year (2016: £492,000)

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 segments as follows:

- The Estate Agency and Related Services segment provides services related to the sale and letting of residential properties. It operates a network of high street branches. As part of this process, the Estate Agency Division also provides marketing and arranges conveyancing services. In addition, it provides repossession asset management services to a range of lenders. It also arranges mortgages for a number of lenders and arranges pure protection and general insurance policies for a panel of insurance companies via the estate agency branches, Advance Mortgage Funding, First Complete, Embrace Mortgage Services, Mortgages First, Insurance First, First2Protect and Linear Financial Services. The financial services revenue included within the Estate Agency Division includes two mortgage and insurance distribution networks providing products and services for sale via financial intermediaries. A significant proportion of the results of the Financial Services are inextricably linked to the Estate Agency business; they have therefore been aggregated with those of the Estate Agency and related service segment.
- The Surveying and Valuation Services segment provides a valuations and professional survey service of residential properties to various lenders and individual customers.

Each reportable segment has various products and services and the revenue from these products and services are disclosed on pages 16 to 19 under the Business Review section of the Strategic Report.

The Management Team monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the Group Financial Statements. Head office costs, Group financing (including finance costs and finance incomes) and income taxes are managed on a Group basis and are not allocated to operating segments.

Reportable segments
The following table presents revenue and profit information regarding the Group's reportable segments for the financial year ended 31st December 2017 and financial year ended 31st December 2016 respectively.

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

Year ended 31st December 2017

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Income Statement information				
Segmental revenue	247,410	64,130		**311,540**
Segmental result:				
– before exceptional costs, contingent consideration, amortisation and share-based payments	26,942	18,877	(8,322)	**37,497**
– after exceptional costs, contingent consideration, amortisation and share-based payments	22,124	22,466	(2,540)	**42,050**
Finance costs				**(1,952)**
Profit before tax				**40,098**
Taxation				**(6,686)**
Profit for the year				**33,412**

	Estate Agency and Related Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Balance sheet information				
Segment assets – intangible	169,113	12,517	–	**181,630**
Segment assets – other	75,453	7,306	1,200	**83,958**
Total segment assets	244,566	19,823	1,200	**265,588**
Total segment liabilities	(49,851)	(25,794)	(41,367)	**(117,012)**
Net assets/(liabilities)	**194,715**	**(5,972)**	**(40,167)**	**148,576**
Other segment items				
Capital expenditure including intangible assets	5,177	312	–	**5,489**
Depreciation	(5,036)	(180)	–	**(5,216)**
Amortisation of intangible assets	(4,013)	(70)	–	**(4,083)**
Share of results of joint venture	1,583	–	–	**1,583**
PI Costs provision	–	(15,916)	–	**(15,916)**
Onerous leases provision	(210)	–	–	**(210)**
Share based payment	(152)	(85)	190	**(47)**

Unallocated net liabilities comprise plant and equipment (£9,000), other assets (£1,191,000), accruals (£3,028,000), financial liabilities (£4,979,000), deferred and current tax liabilities (£6,360,000), RCF (£27,000,000).

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

Year ended 31st December 2016

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

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

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

5. APMs (Adjusted performance measures)

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

- Group Underlying Operating Profit
- Adjusted Basic EPS

5. APMs (Adjusted performance measures) (continued)

- Adjusted diluted EPS
- Group Adjusted EBITDA

Amortisation of intangibles assets not acquired in a business combination is not representative of the underlying costs of the business, and therefore is excluded from adjusted earnings.

Group Adjusted EBITDA has been introduced as a new alternative performance measurement in 2017 after careful consideration by the Board. The measure has been introduced to assist shareholders and investors when reading the Financial Statements given this is an established measure used across the sector in which LSL operates.

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

The calculations of adjusted basic and adjusted diluted EPS are given in Note 10 and a reconciliation of Group Underlying Operating Profit is shown below:

	Note	**2017 £'000**	2016 £'000
Group operating profit	3	**42,050**	65,421
Share-based payments		**47**	1,263
Amortisation of intangible assets		**4,083**	3,914
Exceptional gains	7	**(9,337)**	(34,531)
Exceptional costs	7	**–**	2,341
Contingent consideration charge / (credit)	21	**654**	(3,785)
Group Underlying Operating Profit		**37,497**	34,623
Depreciation on property, plant and equipment	16	**5,216**	5,475
Group Adjusted EBITDA		**42,713**	40,098

6. Finance costs

	2017 £'000	2016 £'000
Interest on RCF	**1,268**	1,949
Interest on loan notes	**–**	60
Gain from amendment of loan note interest rate	**–**	(799)
Unwinding of discount on professional indemnity provision	**200**	200
Unwinding of discount on contingent consideration	**484**	486
	1,952	1,896

7. Exceptional items

	2017 £'000	2016 £'000
Exceptional costs:		
Branch/centre closure and restructuring costs including redundancy costs	**–**	2,341
Exceptional gains:		
Gain on disposal of financial assets	**(5,593)**	(32,931)
Exceptional gain in relation to historic PI costs	**(3,744)**	(1,600)
	(9,337)	(34,531)

7. Exceptional items (continued)

Exceptional costs
There were no exceptional costs in the year (2016: £2,341,000).

Gain on disposal of financial assets
In July 2017 LSL sold it's holding in GPEA for £5,700,000, for cash of £3,024,000 and 2,030,296 shares in eProp Services plc.

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

Provision for professional indemnity (PI) claims and insurance claim notification
In 2017 the Group continued to make positive progress in addressing the historic PI claims and there has been a net gain of £3.7m, of which £2.7m (2016: £1.6m) was an exceptional release (see Note 22 to these Financial Statements) and £1.0m was the settlement of an insurance claim relating to PI costs that were previously charged as an exceptional item through the income statement.

8. Profit before tax

Profit before tax is stated after charging:

	2017 £'000	2016 £'000
Auditor's remuneration (see Note 9 to these Financial Statements)	**346**	450
Operating lease rentals:		
Land and buildings	**10,855**	11,029
Plant and machinery	**4,277**	4,499
(Gain)/Loss on sale of property, plant and equipment and financial assets	**(668)**	9

9. Auditor's remuneration

The remuneration of the auditor is further analysed as follows:

	2017 £'000	2016 £'000
Audit of the Financial Statements	**49**	49
Audit of subsidiaries	**227**	257
Audit of the financial statements of the prior period	**45**	68
Total Audit	**321**	374
Audit related assurance services (interim results review fee)	**17**	17
Other assurance services	**8**	26
Tax advisory services	**–**	33
	346	450

10. Earnings per share (EPS)

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

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

	Profit after tax £'000	**Weighted average number of shares**	**2017 Per share amount Pence**	Profit after tax £'000	Weighted average number of shares	2016 Per share amount Pence
Basic EPS	**33,414**	**102,640,363**	**32.6**	50,943	102,575,484	49.2
Effect of dilutive share options		**635,058**			519,565	
Diluted EPS	**33,414**	**103,275,421**	**32.4**	50,943	103,095,049	49.0

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:

	2017 £'000	2016 £'000
Group operating profit before contingent consideration, exceptional items, share-based payments and amortisation (excluding non-controlling interest):	**37,497**	34,625
Net finance costs (excluding exceptional and contingent consideration items)	**(1,468)**	(1,410)
Normalised taxation	**(6,936)**	(6,643)
Adjusted profit after tax[1] before exceptional items, share-based payments and amortisation	**29,093**	26,572

Adjusted basic and diluted EPS

	Adjusted profit after tax[1] £'000	**Weighted average number of shares**	**2017 Per share amount Pence**	Adjusted profit after tax[1] £'000	Weighted average number of shares	2016 Per share amount Pence
Adjusted Basic EPS	**29,093**	**102,640,363**	**28.3**	26,572	102,575,484	25.9
Effect of dilutive share options		**635,058**			519,565	
Adjusted Diluted EPS	**29,093**	**103,275,421**	**28.2**	26,572	103,095,049	25.8

Note:

1 This represents adjusted profit after tax attributable to equity holders of the parent. The normalised tax rate in 2017 is 19.25% (2016: 20%).

11. Dividends paid and proposed

	2017 £'000	2016 £'000
Declared and paid during the year:		
Equity dividends on ordinary shares:		
2015 Final: 8.6 pence per share		8,812
2016 Interim: 4.0 pence per share		4,104
2016 Final: 6.3 pence per share	**6,466**	
2017 Interim: 4.0 pence per share	**4,106**	
	10,572	12,916
Dividends on Ordinary Shares proposed (not recognised as a liability as at 31st December):		
Equity dividends on Ordinary Shares:		
Dividend: 7.3 pence per share (2016: 6.3 pence per share)	**7,493**	6,466

12. Cash-flow from financing activities

	At 1st January 2017 £'000	Cashflow £'000	Acquisition £'000	Foreign Exchange £'000	Fair Value £'000	**At 31st December 2017 £'000**
Long Term Liabilities	16,500	10,500	–	–	–	**27,000**
Short Term Liabilities	3,756	(777)	–	–	–	**2,979**
	20,256	**9,723**	**–**	**–**		**29,979**

Short term liabilities
The overdraft totalling £3.0m (2016: £3.8m) is secured via cross guarantees issued from all of the Group's subsidiaries excluding the following subsidiaries, Homefast, Linear (Linear Mortgage Network and Linear Financial Services), Templeton LPA and Chancellors Associates (see Note 21 to these Financial Statements).

Long term liabilities
The bank loan totalling £27.0m (2016: £16.5m) is secured via cross guarantees issued from all of the Group's subsidiaries excluding the following subsidiaries, Homefast, Linear (Linear Mortgage Network and Linear Financial Services), Templeton LPA and Chancellors Associates (see Note 21 to these Financial Statements).

13. Directors and employees

Remuneration of Directors

	2017 £'000	2016 £'000
Directors' remuneration (short-term benefits)[1]	**2,177**	1,514
Contributions to money purchase pensions schemes (post-employment benefits)	**20**	20
Share-based payments charge on current incentive schemes	**298**	311
	2,495	1,845

1 included within this amount is accrued bonuses of £852,000 (2016: £105,000).

The number of Directors who were members of Group money purchase pension schemes during the year totalled 1 (2016: 1). During the year the Directors exercised nil CSOP options (2016: nil), nil JSOP options (2016: nil), and nil SAYE options (2016: nil).

Employee numbers and costs

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

	2017 £'000	2016 £'000
Wages and salaries	**163,692**	161,692
Social security costs	**17,043**	16,534
Pension costs	**2,411**	2,435
Total employee costs	**183,146**	180,661
Subcontractor costs	**3,161**	2,026
Total employee and subcontractor costs[1]	**186,307**	182,687
Share-based payment expense (see below)	**47**	1,263

1 The total employee and subcontractor costs exclude employees redundancy costs of £nil (2016: £504,000), which have been shown under Exceptional costs (see Note 7 to these Financial Statements).

The monthly FTE staff numbers (including Directors) during the year averaged 4,515 (2016: 4,630).

	2017	2016
Estate Agency and Related Services	**3,909**	3,983
Surveying and Valuation Services	**606**	647
	4,515	4,630

13. Directors and employees (continued)

Share-based payments

The Remuneration Policy on pages 68 to 72 of the Directors Remuneration Report details the policies in relation to share based payments, which includes details on the Remuneration Committee's discretion to adjust the LTIP vesting outcomes if it considers that it is not reflective of the underlying performance of LSL.

Long-term Incentive Plan

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

LTIP 2017 vesting conditions

25% of the options vest based on the TSR of LSL as compared to a comparator group of 23 companies in similar or related sectors over the three year performance period:

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

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

- If growth is equal to or over (≥) 12.5% p.a. – 100% vest;
- If growth is 7.5% p.a. – 25% vest;
- Straight line vesting between 7.5% p.a. and 12.5% p.a.; and
- If growth is below 7.5% p.a. no options vest.

LTIP 2015 and 2016 vesting conditions

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

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

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

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

The LTIP 2015 options have lapsed.

LTIP 2014 vesting conditions

The LTIP 2014 options have lapsed.

13. Directors and employees (continued)

	2017		2016	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**–**	**1,568,744**	–	1,178,458
Granted during the year	**–**	**810,016**	–	697,279
Exercised during the year	**–**	**(14,661)**	–	(159,174)
Lapsed during the year	**–**	**(835,664)**	–	(147,819)
Outstanding at 31st December	**–**	**1,528,435**	–	1,568,744

There were 129,020 options exercisable at the end of the year (2016: 147,021). The weighted average remaining contractual life is 1.67 years (2016: 1.46 years). The weighted average fair value of options granted during the year was £1.81 (2016: £2.51). The weighted average share price of options at the date of their exercise was £2.15 (2016: £2.78).

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

There were 129,464 options (2016: 129,464) exercisable at the end of the year which relate to the 2010 scheme which vested in 2013. Given that the scheme has vested, the weighted average remaining contractual life is nil (2016: nil), participants can exercise their options up until 2020 and have therefore 3 years (2016: 4 years) remaining until their option lapses. No options were exercised or lapsed during the year (2016: nil). The average market value at the date of exercise was £nil (2016: £nil).

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.

	2017		2016	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**3.60**	**1,396,424**	3.85	1,208,717
Granted during the year	**–**	**–**	2.86	336,860
Exercised during the year	**–**	**–**	2.59	(9,808)
Lapsed during the year	**2.84**	**(127,706)**	4.07	(139,345)
Outstanding at 31st December	**3.67**	**1,268,718**	3.60	1,396,424

There were 758,106 options exercisable at the end of the year (2016: 147,287). The average market value at the date of exercise was £nil (2016: £2.71).

The weighted average fair value of options granted during the year was £nil (2016: £1.49). The weighted average remaining contractual life is 0.34 years (2016: 0.85 years).

SAYE (Save-As-You-Earn) scheme
The Group has offered options under the SAYE scheme in each of 2011 to 2014, 2016 and 2017 years. All these offers were open to all qualifying employees and provide for an exercise price equal to the daily average market price on the date of grant. The options will vest if the employee remains in service for the full duration of the option scheme (three years). There are no cash settlement alternatives.

13. Directors and employees (continued)

	2017 Weighted Average Exercise Price £	2017 Number	2016 Weighted average exercise price £	2016 Number
Outstanding at 1st January	3.17	669,696	3.83	562,341
Granted during the year	2.15	498,893	2.66	490,958
Exercised	–	–	3.03	(7,973)
Lapsed during the year due to employees withdrawal	3.54	(375,884)	3.49	(375,630)
Outstanding at 31st December	2.35	792,705	3.17	669,696

The weighted average fair value of options granted during the year was £1.05 (2016: £2.66) and the weighted average remaining contractual life was 1.84 years (2016: 1.04 years). The average market value at the date of exercise was £nil (2016: £3.00).

There were 907 (2016: nil) options exercisable at the end of the year.

Equity-settled transactions

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

	LTIP 2017	CSOP 2017
Option pricing model used	Black Scholes	Black Scholes
Weighted average share price at grant date (£)	2.10	2.09
Exercise price (£)	–	2.15
Expected life of options (years)	3	3
Expected volatility	100%	100%
Expected dividend yield	4.93%	4.93%
Risk free interest rate	0.56%	0.56%

	LTIP 2016	CSOP 2016
Option pricing model used	Black Scholes	Black Scholes
Weighted average share price at grant date (£)	2.86	2.86
Exercise price (£)	–	2.86
Expected life of options (years)	3	3
Expected volatility	100%	100%
Expected dividend yield	4.35%	4.35%
Risk free interest rate	0.84%	0.84%

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

	2017 £'000	2016 £'000
Share-based payment expensed during the year	47	1,263

A credit of £224,000 (2016: credit £501,000) relates to employees of the Company.

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

14. Taxation

(a) Tax on profit on ordinary activities

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

	2017 £'000	2016 £'000
UK corporation tax – current year	7,537	12,703
– adjustment in respect of prior years	(345)	1,009
	7,192	13,712
Deferred tax:		
Origination and reversal of temporary differences	(442)	(500)
Adjustment in respect of prior year	(64)	(179)
Total deferred tax (credit)	(506)	(679)
Total tax charge in the Income Statement	6,686	13,033

The UK corporation tax rate reduced to 20% with effect from 1st April 2015 and 19% with effect from 1st April 2017. A future UK corporation tax of 17% has been enacted and is effective from 1st April 2020, and this is the rate at which deferred tax has been provided (2016: 17%). Corporation tax is recognised at the headline UK corporation tax rate of 19.25% (2016: 20%).

The effective rate of tax for the year was 16.7% (2016: 20.5%). The effective tax rate for 2017 is lower than the headline UK tax rate for a number of reasons, but the most significant is that the gain on the disposal of GPEA in the year is not taxable due to the application of Substantial Shareholding Exemption.

Deferred tax credited directly to other comprehensive income is £0.6m (2016: £3.8m). This is comprised of a credit of £0.9m and a charge of £0.3m and relates respectively to the disposal and revaluation of financial assets. Income tax credited directly to the share based payment reserve is £0.0m (2016: £0.1m).

(b) Factors affecting tax charge for the year

The tax assessed in the profit and loss account is lower (2016: higher) than the standard UK corporation tax rate, because of the following factors:

	2017 £'000	2016 £'000
Profit on ordinary activities before tax	40,098	63,525
Tax calculated at UK standard rate of corporation tax rate of 19.25% (2016 – 20.00%)	7,719	12,705
Non-taxable income from joint ventures and dividends	(153)	(95)
Other income not taxable	(369)	(510)
Other disallowable expenses	627	577
Impact of movement in contingent consideration charged/(credited) to the Income Statement	251	(757)
Capital gains (lower than)/in excess of accounting profit	(1,053)	183
Share-based payment relief	15	251
Impact of rate change on deferred tax	58	(151)
Prior period adjustments – current tax	(345)	1,009
Prior period adjustment – deferred tax	(64)	(179)
Total taxation charge	6,686	13,033

The major component of the disallowable expenditure is a permanent disallowance of depreciation on assets which do not qualify for capital allowances. This is a recurring adjustment with the tax impact of approximately £370,000 being broadly consistent with the prior year. Also included in this figure is an adjustment relating to non-recurring items of a disallowable nature, such as client entertaining and legal and professional fees incurred in relation to capital transactions.

14. Taxation (continued)

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

	2017 £'000	2016 £'000
Unrecognised deferred tax asset relating to:		
Losses	3,083	3,365
	3,083	3,365

The deferred tax assets may be recoverable in the future and this is dependent on subsidiary companies generating taxable profits sufficient to allow the utilisation of these amounts. These deferred tax assets cannot be offset against profits elsewhere in the Group as they relate to losses brought forward which can only be offset against taxable profits arising from the same trade in which the losses arose. There is no time limit for utilisation of the above tax losses and other temporary differences.

(d) Deferred tax

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

	2017 £'000	2016 £'000
Net deferred tax liability at 1st January	3,801	6,927
Deferred tax liability recognised directly in other comprehensive income	354	2,036
Deferred tax (credit) in Income Statement for the year (Note 14a to these Financial Statements)	(506)	(679)
Deferred tax on disposals	(951)	(5,914)
Deferred tax liability arising on acquisitions and business combinations	–	1,431
Net deferred tax liability at 31st December	2,698	3,801

Analysed as:

	2017 £'000	2016 £'000
Accelerated capital allowances	(960)	(628)
Deferred tax liability on separately identifiable intangible assets on business combinations	3,865	4,267
Deferred tax on financial assets	101	731
Deferred tax on share options	(182)	(157)
Other short-term temporary differences	(126)	(318)
Trading losses recognised	–	(94)
	2,698	3,801

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

	2017 £'000	2016 £'000
Intangible assets recognised on business combinations	403	590
Accelerated capital allowance	332	100
Deferred tax on share options	58	(74)
Other temporary differences	(287)	63
	506	679

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

15. Intangible assets

Goodwill

	2017 £'000	2016 £'000
Cost		
At 1st January	151,901	136,395
Arising on acquisitions during the year	–	15,506
At 31st December	151,901	151,901

	2017 £'000	2016 £'000
Carrying amount of goodwill by cash generating unit (CGU)		
Estate Agency and Related Services companies		
Marsh & Parsons	40,307	40,307
Your Move	41,636	41,636
Group First	13,913	13,913
Reeds Rains	16,678	16,678
LSLi	22,512	22,512
Advance Mortgage Funding	2,604	2,604
First Complete	3,998	3,998
Templeton LPA	336	336
Others	348	348
	142,332	142,332
Surveying and Valuation Services company		
e.surv	9,569	9,569
	9,569	9,569
	151,901	151,901

Impairment of goodwill and other intangibles with indefinite useful lives

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

	2017 £'000	2016 £'000
Estate Agency and Related Services companies		
Marsh & Parsons	11,724	11,724
Your Move	2,510	2,510
Group First	396	396
Reeds Rains	1,241	1,241
LSLi	1,675	1,675
Advance Mortgage Funding	180	180
	17,726	17,726
Surveying and Valuation Services company		
e.surv	1,305	1,305
	1,305	1,305
	19,031	19,031

15. Intangible assets (continued)

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

- Estate Agency and Related Services companies
  - Marsh & Parsons
  - Your Move (including its share of cash-flows from LSL Corporate Client Department)
  - Group First
  - Reeds Rains
  - LSLi, which includes Intercounty, Frosts, JNP, Goodfellows, Davis Tate, Lauristons, Lawlors, Hawes & Co and Thomas Morris
  - Advance Mortgage Funding which includes BDS
  - Templeton LPA
  - St Trinity
  - First Complete
- Surveying and Valuation Services company
  - e.surv

Estate Agency and Related Services companies
The recoverable amount of the Estate Agency and Related Services companies has been determined based on a value-in-use calculation using cash-flow projections based on financial budgets approved by the Board and in the three year plan. The discount rate applied to cash-flow projections is 10.3% (2016: 9.7%) and cash-flows beyond the three year plan are extrapolated using a 1.5% growth rate (2016: 1.5%).

Surveying and Valuation Services company
The recoverable amount of the Surveying and Valuation Services companies is also determined on a value-in-use basis using cash-flow projections based on financial budgets approved by the Board and in the three year plan. The discount rate applied to the cash-flow projections is 10.3% (2016: 9.7%). The growth rate used to extrapolate the cash-flows of the Surveying and Valuation Services company beyond the three year plan is 1.5% (2016: 1.5%).

Key assumptions used in value-in-use calculations

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

- Discount rates
- Performance in the market

Discount rates reflect management's estimate of the post-tax Weighted Average Cost of Capital (WACC) of the Group and this is grossed up to arrive at a pre-tax discount rate (using a tax rate of 17.0%) of 10.3%; external advice has been sought for certain elements of the source data. This is the benchmark used by management to assess operating performance and to evaluate future acquisition proposals.

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

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

15. Intangible assets (continued)

Sensitivity to changes in assumptions

The Management Team has undertaken sensitivity analyses to determine the effect of changes in assumptions on the 2017 impairment reviews. The key assumptions driving the carrying values are the discount rate applied to the cash-flow forecasts and the underlying assumptions within the cash-flow forecast. The Management Team have considered the various scenarios and concluded that the carrying values of the CGUs are most sensitive to changes in the discount rate applied. To test the sensitivity the discount rate was increased. For increases up to 188bps the individual CGUs carrying values would still exceed the asset value.

Other intangible assets

As at 31st December 2017

	Brand Names £'000	Lettings Contracts £'000	Other [1] £'000	Total £'000
Cost				
At 1st January 2017	19,222	15,954	7,816	42,992
Additions	–	–	563	563
Arising on acquisition during the year	–	–	–	–
Disposals	–	–	–	–
At 31st December 2017	**19,222**	**15,954**	**8,379**	**43,555**
Aggregate amortisation and impairment				
At 1st January 2017	191	6,242	3,310	9,743
Charge for the year	–	2,848	1,235	4,083
Disposals	–	–	–	–
At 31st December 2017	**191**	**9,090**	**4,545**	**13,826**
Carrying amount				
At 31st December 2017	**19,031**	**6,864**	**3,834**	**29,729**

As at 31st December 2016

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

Note:

1 Other relates to in-house software and Estate Agency franchise agreements.

15. Intangible assets (continued)

The brand value relates to the following:

- Your Move, a network of residential sales and lettings agencies and e.surv, a surveying and valuation company which were both acquired by the Group in 2004;
- Reeds Rains, a network of residential sales and lettings agencies which was acquired in October 2005;
- Intercounty, a network of residential sales and lettings agencies which was acquired in February 2007;
- Frosts, a network of residential sales and lettings agencies which was acquired in July 2007;
- JNP, a network of residential sales and lettings agencies which was acquired in September 2007;
- Goodfellows, a network of residential sales and lettings agencies which was acquired in May 2010;
- Advance Mortgage Funding and BDS intermediary networks which were acquired in December 2010;
- Marsh & Parsons, a network of residential sales and lettings agencies which was acquired in November 2011;
- Davis Tate, a network of residential sales and lettings agencies which was acquired in February 2012;
- Lauristons, a network of residential sales and lettings agencies which was acquired in July 2012;
- Walker Fraser Steele, a surveying business which was acquired in June 2013;
- Lawlors, a network of residential sales and lettings agencies which was acquired in September 2013;
- Hawes & Co, a network of residential sales and lettings agencies which was acquired in March 2014;
- Thomas Morris, a network of residential sales and lettings agencies which was acquired in February 2015; and
- Group First, a financial services group which was acquired in 2016.

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

16. Property, plant and equipment

As at 31st December 2017

	Freehold land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost					
At 1st January 2017	2,497	9,196	96	27,774	**39,563**
Additions	–	493	–	4,433	**4,926**
Disposals	–	(1,364)	–	(4,766)	**(6,130)**
At 31st December 2017	**2,497**	**8,325**	**96**	**27,441**	**38,359**
Depreciation and impairment					
At 1st January 2017	300	3,094	63	17,264	**20,721**
Charge for the year	11	820	7	4,378	**5,216**
Disposals	–	(574)	–	(4,767)	**(5,341)**
At 31st December 2017	**311**	**3,340**	**70**	**16,875**	**20,596**
Carrying amount					
At 31st December 2017	**2,186**	**4,985**	**26**	**10,566**	**17,763**

In 2017 assets with a book value of £789,000 were disposed in the year. This includes leasehold property with a book value totalling £772,000 which was sold for net proceeds of £1,440,000 resulting in a profit on disposal of £668,000.

16. Property, plant and equipment (continued)

During the year the Management Team reviewed fully depreciated fixtures, fittings and computer equipment and judged that these should be derecognised.

As at 31st December 2016

	Freehold land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost					
At 1st January 2016	1,892	11,971	182	39,641	53,686
Additions	605	788	40	4,021	5,454
Disposals	–	(3,563)	(126)	(15,888)	(19,577)
At 31st December 2016	**2,497**	**9,196**	**96**	**27,774**	**39,563**
Depreciation and impairment					
At 1st January 2016	300	5,755	107	28,131	34,293
Charge for the year	–	892	14	4,569	5,475
Disposals	–	(3,553)	(58)	(15,436)	(19,047)
At 31st December 2016	**300**	**3,094**	**63**	**17,264**	**20,721**
Carrying amount					
At 31st December 2016	**2,197**	**6,102**	**33**	**10,510**	**18,842**

Assets with a book value of £530,000 were disposed of in the year. This includes assets with a book value totalling £78,000 which were sold for net proceeds of £69,000, resulting in a loss on disposal of £9,000.

17. Financial assets

Available-for-sale financial assets

	2017 £'000	2016 £'000
Unquoted shares at fair value	**23,753**	4,603
Quoted shares at fair value	**1,529**	–
	25,282	4,603
Opening balance	**4,603**	28,871
Additions	**24,534**	–
Disposals	**(5,740)**	(36,083)
Fair value adjustment recorded through reserves	**1,885**	11,815
Closing balance	**25,282**	4,603

The financial assets include unlisted equity instruments which are carried at fair value. Fair value is judgmental given the assumptions required and have been valued using level 3 valuation techniques other than the ZPG plc warrants (see Note 29 to these Financial Statements).

ZPG plc
Financial assets include warrants in ZPG plc. These warrants have been issued pursuant to terms agreed with ZPG plc and relating to the provision of portal services to LSL's Estate Agency businesses. ZPG plc's share price at 31st December 2017 was £3.31 per share. The Directors consider the best estimate of the fair value of LSL's warrants to be the share price which values the Group's stake in ZPG plc at £1,529,000. These warrants are therefore valued using level 2 valuation techniques.

Vibrant Energy Matters (VEM)
The carrying value of the Group's investment in VEM at 31st December 2017 has been assessed as £722,000 (31st December 2016: £912,000).

17. Financial assets (continued)

GPEA and eProp Services plc

During the year LSL sold its entire holding of shares in GPEA. The investment was disposed of for £5.7m (£3.0m cash and shares in eProp Services plc) in July 2017 and resulted in an exceptional gain of £5.6m.

NBC Property Master

In October 2017 LSL acquired 19,675 ordinary shares in NBC Property Master for a total consideration of £65,000.

Global Property Ventures

In July 2017 the Group entered into a convertible loan note of £250,000 with Global Property Ventures.

Yopa Property

In September 2017 LSL acquired 1.3m ordinary shares in Yopa for a total consideration of £20,000,000.

18. Investments in joint ventures

	2017 £'000	2016 £'000
Investment in joint ventures	**9,556**	8,762
Opening balance	**8,762**	8,778
Acquisitions	**–**	2
Equity accounted profit	**794**	(18)
Closing balance	**9,556**	8,762

Along with two other entities, the Group holds an equal share of 33.33% (2016: 33.33%) interest in TM, a joint venture whose principal activity is to provide searches. The principal place of business of TM is the United Kingdom.

The Group also has a 50% (2016: 50%) interest in LMS, a joint venture whose principal activity is to provide conveyancing panel management services. The principal place of business of LMS is the United Kingdom.

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

	2017 £'000	2016 £'000
Share of the joint ventures' balance sheets:		
Non-current assets	**7,098**	6,474
Current assets	**5,968**	5,408
Current liabilities	**(3,510)**	(3,120)
Share of net assets	**9,556**	8,762

	2017 £'000	2016 £'000
Share of the joint ventures' results:		
Revenue	**35,549**	29,980
Operating expenses	**(34,572)**	(30,019)
Operating profit/(loss)	**977**	(39)
Finance income	**7**	17
Profit/(loss) before tax	**984**	(22)
Taxation	**(190)**	4
Profit/(loss) after tax	**794**	(18)
Shareholder service charge	**789**	1,067
Income from joint ventures	**1,583**	1,049

Non-Current assets include £5,008,000 (2016: £5,008,000) in respect of goodwill arising on the acquisition of shares in LMS. The shareholder service charge received in 2017 was from TM.

19. Trade and other receivables

	2017 £'000	2016 £'000
Current		
Trade receivables	**19,029**	20,209
Prepayments and accrued income	**12,328**	12,054
	31,357	32,263

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

As at 31st December 2017, trade receivables with a nominal value of £2,166,000 (2016: £2,546,000) were impaired and fully provided for. Movements in the provision for impairment of receivables were as follows:

	2017 £'000	2016 £'000
At 1st January	**2,546**	2,518
Charge for the year	**468**	839
Amounts written off	**(848)**	(811)
At 31st December	**2,166**	2,546

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
2017	**19,029**	**12,770**	**5,959**	**300**
2016	20,209	12,955	6,708	546

20. Trade and other payables

	2017 £'000	2016 £'000
Current		
Trade payables	**6,009**	7,150
Other taxes and social security payable	**10,364**	10,186
Other payables	**686**	633
Accruals	**36,359**	32,931
	53,418	50,900

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

	2017 £'000	2016 £'000
Current		
Overdraft	2,978	3,756
2% unsecured loan notes	2,000	–
Deferred consideration	71	4,790
Contingent consideration	1,405	2,193
	6,454	10,739
Non-current		
Bank loans – RCF	27,000	16,500
2% unsecured loan notes	–	2,000
Deferred consideration	–	66
Contingent consideration	7,654	7,903
	34,654	26,469

Bank loans – RCF and overdraft
A £100m loan facility which was due to expire in May 2020 was extended in January 2018 and now expires in May 2022. Loan refinance costs were incurred in June 2013 which have been capitalised and are being amortised over the life of the original loan facility.

The bank loan totalling £27m (2016: £16.5m) and overdraft totalling £3m (2016: £3.8m) are secured via cross guarantees issued from all of the Group's subsidiaries excluding the following subsidiaries, Homefast, Linear (Linear Mortgage Network and Linear Financial Services), Templeton LPA and Chancellors Associates.

The utilisation of the RCF may vary each month as long as this does not exceed the maximum £100m facility (2016: £100m). The Group's overdraft is also secured on the same facility, and the combined overdraft and RCF cannot exceed £100.0m (2016: £100m). The banking facility is repayable when funds permit on or by May 2022.

Interest and fees payable on the RCF amounted to £1.3m (2016: £1.8m). The interest rate applicable to the facility is LIBOR plus a margin rate; the margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

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

Deferred consideration
Deferred consideration totalling £71,000 is payable in 2019.

	2017 £'000	2016 £'000
Deferred consideration		
Group First	–	4,550
LSLi	71	306
	71	4,856

Contingent consideration

	2017 £'000	2016 £'000
Charge/(credit) on contingent consideration	654	(3,785)

The exceptional contingent consideration charge recognised in the year relates to previous acquisitions, primarily a charge of £282,000 in LSLi and £372,000 in Mortgage First (2016: credit for LMS of £268,000, credit of £411,000 for Mortgage First, credit of £1,964,000 for Marsh & Parsons and a credit of £1,142,000 in LSLi).

21. Financial liabilities (continued)

	2017 £'000	2016 £'000
LSLi contingent consideration	**1,710**	3,419
LMS	**1**	1
Group First	**7,098**	6,339
Other	**250**	337
	9,059	10,096
Opening Balance	**10,096**	9,886
Cash paid	**(2,175)**	(3,537)
Acquisition	**–**	6,598
Amounts recorded through Income Statement	**1,138**	(2,851)
Closing Balance	**9,059**	10,096

£1,710,000 (2016: £3,419,000) of contingent consideration relates to payments to third parties in relation to the acquisition of LSLi and certain of its subsidiaries. This is payable between three and five years after the acquisition-dates depending on the profitability of those subsidiaries in the relevant years. In 2017, the contingent consideration has been recalculated using a discount rate of 6.5% (2016: 6.5%).

During 2017 £6,965,000 of deferred and contingent consideration was paid to third parties.

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

	2017 £'000	2016 £'000
Remuneration	**–**	2,076
Put options over non-controlling interests	**1**	1
Arrangement under IFRS 3	**9,058**	8,019
Closing balance	**9,059**	10,096
Contingent consideration profit and loss impact in the period relating to amounts accounted for as:		
Remuneration	**13**	(1,412)
Put options over non-controlling interests	**–**	(268)
Arrangement under IFRS 3	**641**	(1,657)
Unwinding of discount on contingent consideration	**484**	486
Debit/(credit)	**1,138**	(2,851)

22. Provisions for liabilities

	2017			2016		
	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000
Balance at 1st January	20,686	678	21,364	29,672	53	29,725
Amount utilised	(3,342)	(263)	(3,605)	(8,126)	(137)	(8,263)
Amount released	(2,714)	(229)	(2,943)	(1,600)	(6)	(1,606)
Unwinding of discount	200	–	200	200	–	200
Reallocated from accruals	290	–	290			
Provided in financial year	796	24	820	540	768	1,308
Balance at 31st December	15,916	210	16,126	20,686	678	21,364
Current	2,740	110	2,850	5,385	357	5,742
Non-current	13,176	100	13,276	15,301	321	15,622
	15,916	210	16,126	20,686	678	21,364

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

The provision is the Directors' best estimate of the likely outcome of such claims, taking account of the incidence of such claims and the size of the loss that may be borne by the claimant, after taking account of actions that can be taken to mitigate losses. The PI Cost provision will be utilised as individual claims are settled and the settlement amount may vary from the amount provided depending on the outcome of each claim. It is not possible to estimate the timing of payment of all claims and therefore a significant proportion of the provision has been classified as non-current.

As at 31st December 2017 the total provision for PI Costs was £15.9m. The Directors have considered the sensitivity analysis on the key risks and uncertainties discussed above.

Cost per claim
A substantial element of the PI Cost provision relates to specific claims where disputes are on-going. These specific cases have been separately assessed and specific provisions have been made. The average cost per claim has been used to calculate the IBNR. Should the costs to settle and resolve these claims and future claims increase by 10%, an additional £1.2m would be required.

Rate of claim
The IBNR assumes that the rate of claim for the high risk lending period in particular reduces over time. Should the rate of reduction be lower than anticipated and the duration extend, further costs may arise. An increase of 30% in notifications in excess of that assumed in the IBNR calculations would increase the required provision by £0.3m.

Notifications
The Group has received a number of notifications which have not deteriorated into claims or loss. Should the rate of deterioration increase by 50%, an additional provision of less than £0.1m would be required.

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 to these Financial Statements). Future minimum rentals payable under these operating leases are as follows:

	2017			2016		
	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	**8,267**	**2,635**	**10,902**	8,128	3,215	11,343
After one year but not more than five years	**18,443**	**2,184**	**20,627**	16,947	2,849	19,796
After five years	**8,337**	**–**	**8,337**	7,569	–	7,569
	35,047	**4,819**	**39,866**	32,644	6,064	38,708

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:

	2017 Land and buildings £'000	2016 Land and buildings £'000
Not later than one year	**351**	339
After one year but not more than five years	**505**	689
After five years	**248**	306
	1,104	1,334

24. Share capital

	2017		2016	
	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 13 gives further details of these plans.

Treasury shares

Treasury shares represent the cost of LSL Shares purchased in the market and held by the Trust to satisfy future exercise of options under the Group's employee share options schemes. At 31st December 2017 the Trust held 1,511,155 (2016: 1,530,716) LSL Shares at an average cost of £3.51 (2016: £3.51). The market value of the LSL Shares at 31st December 2017 was £4,227,456 (2016: £3,535,954). 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 available for sale. Note 17 to these Financial Statements gives further details of the movement in the current year.

26. Pension costs and commitments

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

Total contributions to the defined contribution schemes in the year were £2,411,000 (2016: £2,388,000). There was an outstanding amount of £388,000 in respect of pensions as at 31st December 2017 (2016: £390,000).

27. Acquisitions during the year

Year ended 31st December 2017

The Group made no acquisitions during the year.

The purchase price allocations for the acquisitions made in 2016 have now been finalised, with no changes made to the provisional purchase price allocations disclosed below.

Year ended 31st December 2016

The Group acquired the following businesses during the prior year

(a) Lettings books and other

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

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

	£'000
Analysis of cash flow on acquisition	
Transaction costs (included in cash flows from operating activities)	55
Net cash acquired with the subsidiaries and other businesses	(51)
Purchase consideration discharged in cash (included in cash flows from investing activities)	3,883
Net cash outflow on acquisition	**3,887**

27. Acquisitions during the year (continued)

(b) Group First

In February 2016, the Group, through a wholly owned subsidiary, acquired 65% interest in Group First, who provide mortgage and protection brokerage services to the purchasers of new homes through its subsidiaries, Mortgages First and Insurance First Brokers. The consideration for the initial investment was £9.1m cash with 50% paid on completion, and a further 50% payable in 2017. The remaining 35% is subject to put and call options which are exercisable between 2018 and 2020. The contingent consideration is the Management Team's best estimation of the probable discounted payout (using a rate of 6.5%), based upon current forecasts over the earn-out period. Due to the nature of the payment terms, the contingent consideration is considered to be a capital payment for accounting purposes. The fair value of the identifiable assets and liabilities as at the date of acquisition have been determined as below:

	Fair value recognised on acquisition £'000
Intangible assets	809
Property, plant and equipment	847
Trade and other receivables (no impairment identified)	127
Cash and cash equivalents	1,542
Trade and other payables	(1,501)
Current tax	(216)
Deferred tax liabilities	160
Total identifiable net assets acquired	**1,768**
Purchase consideration	15,681
Goodwill	**13,913**
Purchase consideration discharged by:	
Cash	4,550
Deferred consideration	4,550
Contingent consideration	6,581
	15,681

The goodwill of Group First comprises certain intangible assets that cannot be individually separated and reliably measured from the acquiree due to their nature. These items include relationships with a number of house builders, an experienced management team with a good record of delivering a quality service to customers, the expected value of synergies and the potential to significantly grow the business. None of the goodwill is expected to be deductible for tax purposes.

As defined in IFRS 3 the Group has recognised, separately from goodwill, the identifiable intangible assets acquired in the business combination. The assets identified include the Group First brand and the pipeline of work acquired. As disclosed to the market on acquisition, there are strong customer relationships between Group First and key house builders, however, these relationships do not qualify as an intangible asset given they do not fulfil either the separability criterion or the contractual-legal criterion. This has been fully explored by the Management Team and are confident that given that no economic benefit passes between the two parties in this relationship (the housebuilder and Group First) there is no asset that can be "separated or divided" and "sold, transferred, licensed, rented or exchanged".

Group First has contributed £1,924,000 profit before tax and £6,913,000 revenue in the period since acquisition. If it had been acquired at the beginning of the year then the consolidated revenue would have been £920,000 higher and the consolidated profit before tax would have been £222,000 higher. An analysis of cashflow on acquisition is given in the table below.

27. Acquisitions during the year (continued)

(c) Total acquisitions

At 31st December 2016, the acquisitions in aggregate, including Group First, have contributed £7,979,000 of revenue and £2,609,000 profit before tax to the Group, excluding the impact of movements in the contingent consideration recorded through the profit and loss. If all of these combinations had taken place at the beginning of the year, the consolidated revenue would have been higher by £1,749,000 and the consolidated profit before tax would have been higher by £593,000. Transaction costs have been expensed.

	£'000
Transaction costs	55
Net cash acquired with the subsidiaries and other businesses	(1,593)
Purchase consideration discharged	8,433
Net Cash outflow on acquisition	**6,895**

28. Client monies

As at 31st December 2017, monies held by subsidiaries in separate bank accounts on behalf of clients amounted to £104,641,000 (2016: £100,627,000). Neither this amount, nor the matching liabilities to the clients concerned are included in the Group balance sheet.

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 is exposed through its operations to the following financial risks:

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

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

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

The majority of external Group borrowings are variable interest based and this policy is managed centrally. The subsidiaries are not permitted to borrow from external sources directly without approval from the Group Finance team.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings as follows. There is no material impact on the Group's equity.

	Increase/ decrease in basis point	Effect on profit before tax £'000
2017	**+100**	**(270)**
	-100	**270**
2016	+100	(165)
	-100	165

29. Financial instruments – risk management (continued)

Liquidity risk

The Group aims to mitigate liquidity risk by managing cash generation by its operations, dividend policy and acquisition strategy. Acquisitions are carefully selected with authorisation limits operating up to Board level and cash payback periods applied as part of the investment appraisal process. In this way the Group aims to maintain a good credit rating to facilitate fundraising. The Group is also very cash generative as demonstrated by the cash from operations. The Group has net current liabilities due to the operating model where debtors are collected earlier than payments to creditors, allowing the cash to be used elsewhere in the business such as to reduce the amount drawn down on the RCF and to make acquisitions. However, the requirement to pay creditors is managed through future cash generation and, if required, from the RCF.

The Group monitors its risk of a shortage of funds using a recurring liquidity planning tool and daily cash-flow reporting. This includes consideration of the maturity of both its financial investments and financial assets (e.g. accounts receivable, and other financial assets) and projected cash-flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility for potential acquisitions through the use of its banking facilities.

Cash at the bank earns interest at floating rates based on daily bank overnight deposit rates. Short-term deposits are made for varying periods of between one day and three days depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is £nil (2016: £nil). At 31st December 2017, the Group had available £70m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2016: £83.5m).

The table below summarises the maturity profile of the Group's financial liabilities at 31st December 2017 based on contractual undiscounted payments:

Year ended 31st December 2017

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings (including overdraft)	2,979	2,184	548	27,582	–	33,293
Trade payables	–	6,009	–	–	–	6,009
Other payables	–	36,905	–	–	–	36,905
Contingent consideration	–	662	742	9,646	–	11,050
Deferred consideration	–	–	–	71	–	71
	2,979	45,760	1,290	37,299	–	87,328

Year ended 31st December 2016

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings (including overdraft)	3,756	139	425	19,863	–	24,183
Trade payables	–	7,150	–	–	–	7,150
Other payables	–	32,931	–	–	–	32,931
Contingent consideration	–	29	2,165	10,122	–	12,316
Deferred consideration	–	–	4,790	66	–	4,856
	3,756	40,249	7,380	30,051	–	81,436

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 RCF with a syndicate of major banking corporations to manage longer term borrowing requirements.

29. Financial instruments – risk management (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains appropriate capital structure to support its business objectives, including any regulatory requirements, and maximise shareholder value. Capital includes share capital and other equity attributable to the equity holders of the parent.

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 meet its dividend policy. In the short term, the Group does not have a set leverage ratio to be achieved but the Directors monitor the ratio of net debt to operating profit to ensure that the debt funding is not excessively high. Certain loan notes issued on acquisition of Marsh & Parsons are excluded from this ratio as they are unsecured and are not used in the calculation of the Group's banking covenant.

The Group has a current ratio of Net Bank Debt (excluding loan notes) to Group Adjusted EBITDA of 0.70 (2016: 0.51), based on Net Bank Debt (excluding loan notes) of £30.0m (2016: £20.3m) and operating profit before exceptional costs, amortisation and share-based payment charge of £37.6m (2016: £34.6m). The business is cash generative with a low capital expenditure requirement. The Group remains committed to its stated dividend policy of 30% to 40% of Group Underlying Operating Profit after interest and tax. The Board has reviewed the policy in line with the risks and capital management decisions facing the Group.

Net Bank Debt is defined as follows:

	2017 £'000	2016 £'000
Interest bearing loans and borrowings (including loan notes, overdraft, contingent and deferred consideration)	**41,108**	37,208
Less: 2% and 12% unsecured loan notes	**(2,000)**	(2,000)
Less: deferred and contingent consideration	**(9,129)**	(14,952)
Net Bank Debt (excluding loan notes)	**(29,979)**	(20,256)

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

LSL's 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 2017 are as follows:

	Within 1 year £'000	**1-2 years £'000**	**2-3 years £'000**	**3-4 Years £'000**	**Total £'000**
Fixed rate					
RCF					–
Interest bearing loans	(2,000)				**(2,000)**
Floating rate					
Overdraft	(2,979)				**(2,979)**
RCF				(27,000)	**(27,000)**

29. Financial instruments – risk management (continued)

The effective interest rate and the actual interest rate charged on the loans in 2017 are as follows:

	Effective rate	Actual rate
RCF	4.1%	1.5%
2% unsecured loan notes	2.0%	2.0%

The effective interest rate on the RCF during the year is higher than the actual rate due to commitment fees payable on undrawn amounts.

The interest rate profile of the financial assets and liabilities of the Group as at 31st December 2016 are as follows:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 Years £'000	Total £'000
Fixed rate					
RCF					–
Interest bearing loans		(2,000)			(2,000)
Floating rate					
Overdraft	(3,756)	–	–	–	(3,756)
RCF		–	–	(16,500)	(16,500)

The effective interest rate and the actual interest rate charged on the loans in 2016 are as follows:

	Effective rate	Actual rate
RCF	3.7%	1.3%
2% unsecured loan notes	2.0%	2.0%

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

Fair values of financial assets and financial liabilities

There are no differences between the carrying amounts and fair values of all of the Group's financial instruments that are carried in the Financial Statements.

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

2017	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	25,282		1,529	23,753
Liabilities measured at fair value				
Contingent consideration	9,059			9,059

2016	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	4,603			4,603
Liabilities measured at fair value				
Contingent consideration	10,096			10,096

The investments relating to ZPG plc (£1.5m) are valued using a level 2 valuation technique, and the remaining investments (£24.0m) are valued using level 3 valuation techniques. The Directors reviewed the fair value of the financial assets at 31st December 2017 using an independently sourced multiple times average EBITDA methodology. The underlying value of the business is driven by the profitability of these businesses. If this was to drop by 10%, the implied valuation is likely to also drop by around 10%, £2.5m.

29. Financial instruments – risk management (continued)

The contingent consideration relates to amounts payable in the future on acquisitions. The amounts payable are based on the amounts agreed in the contracts and based on the future profitability of each entity acquired. In valuing each provision, estimates have been made as to when the options are likely to be exercised and the future profitability of the entity at this date. Further details of these provisions are shown in Note 23.

If the future profitability of the entities was to decline by 10%, the size of the contingent consideration would decrease by approximately £0.5m.

Fair values of the Group's interest-bearing borrowings and loans are determined by using discounted cash-flow (DCF) methodology using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31st December 2017 was assessed to be insignificant.

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

	2017 £'000	2016 £'000
Interest bearing loans and borrowings		
– Current	**6,454**	10,739
– Non-current	**34,654**	26,469
	41,108	37,208
Less: Unsecured loan notes	**(2,000)**	(2,000)
Less: deferred and contingent consideration	**(9,129)**	(14,952)
Net Bank Debt at the end of the year	**29,979**	20,256

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

31. Related party transactions

As disclosed in Note 18 of these Financial Statements LSL has two joint ventures LMS and TM.

Transactions with LMS and its subsidiaries

	2017 £'000	2016 £'000
Sales	**30**	45

Transactions with TM and its subsidiaries

	2017 £'000	2016 £'000
Sales	**1,430**	1,273
Purchases	**(42)**	(41)
Year-end creditor balance	**(9)**	(8)

In July 2017 Group entered into a convertible loan note and introducer agreement with Global Property Ventures of which Simon Embley is chairman.

32. Capital commitments

	2017 £'000	2016 £'000
Capital expenditure contracted for but not provided	32	628

33. Subsidiary and joint venture companies

The Group owns directly or indirectly the following issued and fully paid ordinary and preference share capital of its subsidiary undertakings, all of which are incorporated in Great Britain and whose operations are conducted mainly in the United Kingdom. The results for all of the subsidiaries have been consolidated within these Financial Statements:

Name of subsidiary company	Registered office address	LSL holding	LSL shareholder	Proportion of nominal value of Shares held	Nature of business
Lending Solutions Holdings Ltd	1	Direct	LSL Property Services plc	100%	Holding Company
Lending Solutions Ltd	1	Indirect	Lending Solutions Holdings Ltd	100%	Non Trading
LSL-ONE Ltd	2	Direct	LSL Property Services plc	100%	Non Trading
Energy-Assessors.com Ltd	2	Direct	LSL Property Services plc	100%	Non Trading
Estate Agency and Related Services – Asset Management					
LSL Corporate Client Services Ltd	1	Direct	LSL Property Services plc	100%	Asset Management
St Trinity Ltd	1	Direct	LSL Property Services plc	100%	Asset Management
Templeton LPA Ltd	1	Indirect	First Complete Ltd	100%	Asset Management
Estate Agency and Related Services – Residential Sales and Lettings					
Appleton Estates & Property Management Ltd	2	Indirect	Davis Tate Ltd	100%	Non Trading
Bawtry Lettings and Sales Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
Beldhamland Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading
Charterhouse Management (UK) Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
David Frost Estate Agents Ltd	2	Indirect	Vitalhandy Enterprises Ltd	100%	Residential Sales and Lettings
Davis Tate Ltd	2	Indirect	LSLi Ltd	100%	Residential Sales, Lettings and Holding Company
EA Student Lettings Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
Eastside Property Developments Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
Elliott & Freeth Ltd	2	Indirect	Davis Tate Ltd	100%	Non Trading
Fourlet (York) Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
Front Door Property Management Ltd	2	Indirect	ICIEA Ltd	100%	Non Trading

33. Subsidiary and joint venture companies (continued)

Name of subsidiary company	Registered office address	LSL holding	LSL shareholder	Proportion of nominal value of Shares held	Nature of business
GFEA Ltd	2	Indirect	LSLi Ltd	100%	Residential Sales and Lettings and Holding Company
Guardian Property Lettings Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
Hawes & Co Ltd^	2	Indirect	LSLi Ltd	79%	Residential Sales, Lettings and Holding Company
Hawes & Co (Thames Ditton) Ltd	2	Indirect	Hawes & Co Ltd	100%	Non Trading
Headway Property Management Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
Holloways Residential Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
Home and Student Link Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
Homefast Property Services Ltd	2	Indirect	Lending Solutions Holdings Ltd	77.5%	Non Trading
ICIEA Ltd	2	Indirect	LSLi Ltd	100%	Residential Sales, Lettings and Holding Company
Inter County Lettings Ltd	2	Indirect	ICIEA Ltd	100%	Non Trading
IQ Property (Hull) Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
JNP Estate Agents Ltd	2	Indirect	LSLi Ltd	100%	Residential Sales, Lettings and Holding Company
JNP Estate Agents (Princes Risborough) Ltd	2	Indirect	JNP Estate Agents Ltd	100%	Non Trading
JNP (Residential Lettings) Ltd	2	Indirect	JNP Estate Agents Ltd	100%	Non Trading
JNP (Surveyors) Ltd	2	Indirect	LSLi Ltd	100%	Non Trading
Kent Property Solutions Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
Lauristons Ltd	2	Indirect	LSLi Ltd	100%	Residential Sales, Lettings and Holding Company
Lawlors Property Services Ltd	2	Indirect	LSLi Ltd	75%	Residential Sales and Lettings
Lets Move Property Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
LSLi Ltd	1	Direct	LSL Property Services plc	100%	Residential Sales, Lettings, Financial Services and Holding Company
Marsh & Parsons Ltd	3	Indirect	Marsh & Parsons (Holdings) Ltd	100%	Residential Sales, Lettings and Holding Company
Marsh & Parsons (Holdings) Ltd^^	2	Direct	LSL Property Services plc	96.86%	Holding Company
Marshcroft Properties Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading

33. Subsidiary and joint venture companies (continued)

Name of subsidiary company	Registered office address	LSL holding	LSL shareholder	Proportion of nominal value of Shares held	Nature of business
New Daffodil Ltd	2	Direct	LSL Property Services plc	100%	Non Trading
New Let Ltd	2	Indirect	your-move.co.uk Ltd	100%	Non Trading
NSK Management Ltd^^^	1	Indirect	your-move.co.uk Ltd	100%	Non Trading
Paul Graham Lettings & Management Ltd	2	Indirect	GFEA Ltd	100%	Non Trading
Philip Green Lettings Ltd	2	Indirect	JNP Estate Agents Ltd	100%	Non Trading
PHP Lettings Scotland Ltd	4	Indirect	your-move.co.uk Ltd	100%	Non Trading
Prestons Lettings Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
Reeds Rains Ltd	2	Direct	LSL Property Services plc	100%	Residential Sales, Lettings, Financial Services and Holding Company
Reeds Rains Cleckheaton Ltd	2	Indirect	Reeds Rains Ltd	100%	Non Trading
Thomas Morris Ltd	1	Indirect	LSLi Ltd	80%	Residential Sales and Lettings
Vanstons (Barnes) Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading
Vanstons Commercial Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading
Vanstons Lettings Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading
Vanstons Ltd	3	Indirect	Marsh & Parsons Ltd	100%	Non Trading
Vitalhandy Enterprises Ltd	2	Indirect	LSLi Ltd	100%	Holding Company
Warners Lettings Agency Ltd	2	Indirect	ICIEA Ltd	100%	Non Trading
Woollens of Wimbledon Ltd	2	Indirect	Lauristons Ltd	100%	Non Trading
Yates Lettings Ltd	2	Indirect	Davis Tate Ltd	100%	Non Trading
your-move.co.uk Ltd	1	Indirect	Lending Solutions Holdings Ltd	100%	Residential Sales, Lettings, Financial Services and Holding Company
Zenith Properties Ltd	2	Indirect	ICIEA Ltd	100%	Non Trading
Estate Agency and Related Services – Financial Services					
Advance Mortgage Funding Ltd	1	Direct	LSL Property Services plc	100%	Financial Services
BDS Mortgage Group Ltd	1	Indirect	Advance Mortgage Funding Ltd	100%	Financial Services
First Complete Ltd	1	Indirect	Lending Solutions Holdings Ltd	100%	Financial Services and Holding Company
First2Protect Ltd	2	Indirect	your-move.co.uk Ltd	100%	Financial Services

33. Subsidiary and joint venture companies (continued)

Name of subsidiary company	Registered office address	LSL holding	LSL shareholder	Proportion of nominal value of Shares held	Nature of business
Group First Ltd	2	Indirect	your-move.co.uk Ltd	65%	Holding Company
Insurance First Brokers Ltd	2	Indirect	Group First Ltd	100%	Financial Services
Linear Financial Services Ltd	2	Indirect	Linear Financial Services Holdings Ltd	100%	Non Trading
Linear Financial Services Holdings Ltd	2	Indirect	First Complete Ltd	100%	Holding Company
Linear Mortgage Network Holdings Ltd	2	Indirect	First Complete Ltd	98%	Holding Company
Linear Mortgage Network Ltd	2	Indirect	Linear Mortgage Network Holdings Ltd	100%	Financial Services
Mortgages First Ltd	2	Indirect	Group First Ltd	100%	Financial Services
Reeds Rains Financial Services Ltd	2	Indirect	Reeds Rains Ltd	100%	Financial Services
Surveying and Valuation Services					
Albany Insurance Company (Guernsey) Ltd	9	Direct	LSL Property Services plc	100%	Captive Insurer
Barnwoods Ltd	2	Direct	LSL Property Services plc	100%	Non Trading
Chancellors Associates Ltd	5	Indirect	e.surv Ltd	100%	Chartered Surveyors
e.surv Ltd	5	Direct	LSL Property Services plc	100%	Chartered Surveyors
Repartir Ltd	2	Direct	LSL Property Services plc	100%	Non Trading
Joint Ventures					
9 Kensington Church Street (Management) Ltd#^^^^	6	Indirect	Marsh & Parsons Ltd	50%	Joint Venture – Residents Property Company Management
Cybele Solutions Holdings Ltd#	7	Direct	LSL Property Services plc	50%	Joint Venture - Holding Company
Cybele Solutions Ltd#	7	Indirect	Cybele Solutions Holdings Ltd	50%	Joint Venture - Conveyancing panel manager
TM Group (UK) Ltd#	8	Direct	LSL Property Services plc	33.33%	Joint Venture - Property Searches

Registered office address:

1. Newcastle House, Albany Court, Newcastle upon Tyne, NE4 7YB
2. 2nd Floor, Gateway 2, Holgate Park Drive, York, YO26 4GB
3. 80 Hammersmith Road, London, W14 8UD
4. 25 North Bridge Street, Bathgate, West Lothian, EH48 4PJ
5. Lahnstein House, Gold Street, Kettering, Northamptonshire, NN16 8AP
6. Unit 2 Guards Avenue, The Village, Caterham on The Hill, Surrey, CR3 5XL
7. Bickerton House, Lloyd Drive, Ellesmere Port, Cheshire, CH65 9HQ

8. 1200 Delta Business Park, Swindon, Wiltshire, England, SN5 7XZ

9. The Albany, South Esplanade, St Peters Port, Guernsey, GY1 4NF

^ On 10th January 2018 LSLi acquired further shares in Hawes & Co taking LSLi's holding in Hawes to 93%

^^ LSL holds 100% of the voting and economic rights in Marsh & Parsons Holdings

^^^ NSK Management was dissolved on 31st January 2017 as part of a Group simplification exercise

^^^^ The holding in 9 Kensington Church Street (Management) was transferred outside of the Group on 25th May 2017, following the Group's disposal of the related property.

Joint Ventures

34. Post Balance Sheet events

Acquisition of Personal Touch Financial Services
In January 2018, LSL acquired the entire issued share capital of Personal Touch Financial Services and its subsidiary company, Personal Touch Administration Services. Personal Touch Financial Services is a financial services business specialising in the provision of mortgage and other financial services products via its network of intermediaries. The consideration for the acquisition is £4.8m plus an acquired intercompany debt of £0.6m and is made up of a payment of £2.8m which was paid on completion and a further payment of £2m which is deferred for 12 months.

The Group are currently in the process of allocating the purchase price in accordance with IFRS 3, Business Combinations, and as a result the initial accounting for this acquisition is incomplete.

Extension of the RCF
On 30th January 2018 announced that it extended the maturity date of its existing £100 million banking facility until May 2022; this replaces the existing maturity date of May 2020.

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

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

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

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

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

Parent Company Balance Sheet

as at 31st December 2017

	Note	2017 £'000	2016 £'000
Non-current assets			
Other intangible assets	3	**7**	–
Property, plant and equipment	4	**8**	8
Investment in subsidiaries	5	**182,144**	181,908
Financial assets	6	**24,495**	–
Investment in joint ventures	7	**7,235**	7,235
Deferred tax asset	11	**112**	105
		214,001	189,256
Current assets			
Trade and other receivables	8	**50,893**	62,700
Total Assets		**264,894**	251,956
Current Liabilities			
Trade and other payables	9	**(103,058)**	(109,414)
Financial liabilities	10	**(19,672)**	(15,095)
		(122,730)	(124,509)
Non-current Liabilities			
Financial liabilities	10	**(27,001)**	(16,501)
Deferred tax liability	11	**(4)**	–
		(27,005)	(16,501)
Total Liabilities		**(149,735)**	(141,010)
Net Assets		**115,159**	110,946
Equity			
Share capital	12	**208**	208
Share premium account	13	**5,629**	5,629
Share-based payment reserve	13	**3,802**	4,303
LSL Shares held by the EBT (Treasury shares)	13	**(5,317)**	(5,368)
Fair value reserve	13	**21**	–
Retained Earnings	14	**110,816**	106,174
Total Equity		**115,159**	110,946

The profit after tax for the year, attributable to the company, was £14.7m (2016: £87.0m).

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

Ian Crabb
Group Chief Executive Officer
6th March 2018

Adam Castleton
Group Chief Financial Officer
6th March 2018

Parent Company Statement of Cash-Flows

for the year ended 31st December 2017

	Note	2017 £'000	2016 £'000
Parent operating profit before tax and interest		**12,946**	92,458
Adjustments for:			
Exceptional gain on sale of financial assets	10	**(2,049)**	(32,931)
Fair value adjustment of contingent consideration		**–**	(2,270)
Depreciation of tangible assets	4	**1**	2
Share-based payments		**(189)**	501
Finance costs		**1,101**	1,998
Dividend income/rebates received via non-cash consideration		**(19,503)**	(66,090)
Operating cash-flows before movements in working capital		**(7,693)**	(6,332)
Movements in working capital			
Decrease/(increase) in trade and other receivables	8	**24,102**	(3,249)
Increase/(decrease) in trade and other payables	9	**5,628**	(36,283)
		29,730	(39,532)
Cash generated from operations		**22,037**	(45,864)
Interest paid		**(1,101)**	(1,998)
Income taxes paid		**(10,517)**	(8,203)
Net cash generated from operating activities		**10,419**	(56,065)
Cash-flows used in investing activities			
Investment in non-controlling interests		**–**	(2)
Investment in financial assets	6	**(23,941)**	–
Proceeds from sale of financial instruments		**3,024**	35,991
Dividends received from financial instruments		**–**	778
Dividends received from subsidiaries		**6,000**	65,598
Purchases of property, plant and equipment		**(7)**	–
Net cash (expended)/generated on investing activities		**(14,924)**	102,365
Cash-flows used in financing activities			
Proceeds from borrowings		**10,500**	(29,000)
Repayment of overdraft	2	**4,577**	(4,432)
Proceeds from exercise of share options		**–**	48
Dividends paid to equity holders of the parent		**(10,572)**	(12,916)
Net cash generated/(expended) in financing activities		**4,505**	(46,300)
Net increase/(decrease) in cash and cash equivalents		**–**	–
Cash and cash equivalents at the end of the year		**–**	–

Parent Company Statement of Changes in Equity

for the year ended 31st December 2017

For the year ended 31st December 2017

	Issued capital £'000	Share premium £'000	Share-based payment reserve £'000	Treasury shares £'000	Fair value reserve £'000	Retained earnings £'000	Total £'000
As at 1st January 2017	**208**	**5,629**	**4,303**	**(5,368)**	**–**	**106,174**	**110,946**
Disposal of financial asset (net of tax)	–	–	–	–	(1,701)	–	(1,701)
Revaluation of financial asset (net of tax)	–	–	–	–	1,722	–	1,722
Other comprehensive income for the year	–	–	–	–	21	–	21
Profit for the year	–	–	–	–	–	14,717	14,717
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**21**	**14,717**	**14,738**
Investment in Treasury Shares	–	–	–	–	–	–	–
Exercise of options	–	–	(46)	51	–	(5)	–
Share-based payment transactions	–	–	(455)	–	–	502	47
Dividends	–	–	–	–	–	(10,572)	(10,572)
As at 31st December 2017	**208**	**5,629**	**3,802**	**(5,317)**	**21**	**110,816**	**115,159**

During the year ended 31st December 2017, the Trust acquired nil LSL Shares. During the period 14,661 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received nil on exercise of these options.

For the year ended 31st December 2016

	Issued capital £'000	Share premium £'000	Share- based payment reserve £'000	Treasury shares £'000	Fair value reserve £'000	Retained earnings £'000	Total £'000
As at 1st January 2016	**208**	**5,629**	**3,564**	**(5,988)**	**19,640**	**32,272**	**55,325**
Disposal of financial asset (net of tax)	–	–	–	–	(27,078)	–	(27,078)
Revaluation of financial asset (net of tax)	–	–	–	–	7,437	–	7,437
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**(19,640)**	**–**	**(19,640)**
Profit for the year	–	–	–	–	–	87,036	87,038
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(19,640)**	**87,038**	**67,398**
Investment in Treasury Shares	–	–	–	–	–	–	–
Exercise of options	–	–	(524)	620	–	(218)	(122)
Share-based payment transactions	–	–	1,263	–	–	–	1,263
Dividends	–	–	–	–	–	(12,916)	(12,916)
As at 31st December 2016	**208**	**5,629**	**4,303**	**(5,368)**	**–**	**106,174**	**110,948**

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

Notes to the Parent Company Financial Statements

for the year ended 31st December 2017

1. Accounting policies

Basis of preparation

The Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Company Financial Statements have been prepared on a going concern basis and on a historical cost basis, except for, available-for-sale financial assets that have been measured at fair value.

The accounting policies which follow set out those significant policies which apply in preparing the Financial Statements for the year ended 31st December 2017. The Company's Financial Statements are presented in Sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Summary of significant accounting policies

Judgments and estimates

The preparation of financial information in conformity with IFRS as adopted by European Union requires the Management Team to make judgments, 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 judgments 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:

Judgments

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

Valuation of financial assets

The Company owns minority interests in a number of listed and unlisted entities. In accordance with the accounting standards, these investments are held at fair value and judgment and assumptions are required in assessing this.

Deferred tax

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

Estimates

There are no key assumptions affected by future uncertainty that have significant risks of causing material adjustment to the carrying value of assets and liabilities within the next financial year.

Investments in subsidiaries

Investments are shown at cost less provision for impairment. The cost of an investment is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value. Any contingent consideration will be recognised at fair value at the acquisition-date. Subsequent changes to the fair value of the contingent consideration are recognised through profit and loss.

Investments are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired.

Investments in joint ventures

Investments in joint ventures are accounted for at cost less any provision for impairment. Investments are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that its carrying value may be impaired. The cost of an investment is measured as the aggregate of the consideration transferred, measured at acquisition-date fair value. Any contingent consideration will be recognised at fair value at the acquisition-date. Subsequent changes to the fair value of the contingent consideration are recognised in profit and loss.

1. Accounting policies (continued)

Income taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date. The Management Team periodically evaluates positions taken in the tax returns with respect to the situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting period and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are offset, only if a legally enforceable right exists to set off current tax assets against current tax liabilities, the deferred income taxes relate to the same taxation authority and that authority permits the Group to make a single net payment. Income tax is charged or credited directly to other comprehensive income or equity, if it relates to items that are charged or credited in the current or prior periods to other comprehensive income or equity respectively. Otherwise income tax is recognised in the Income Statement.

Pensions

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

Share-based payment transactions

Equity-settled transactions

The Group equity share option programmes allow Company employees to acquire LSL Shares. The fair value of the options granted is recognised as an employee expense with a corresponding increase in equity in the case of equity-settled schemes. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black Scholes model, taking into account the terms and conditions (including market and non-vesting conditions) upon which the options were granted. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which is 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.

Treasury shares

The Company has an employee share trust (ESOT) for the granting of Company shares to Executive Directors and senior employees. LSL Shares held by the ESOT are treated as treasury shares and presented in the balance sheet as a deduction from equity. Dividends earned on LSL shares held in the ESOT have been waived.

1. Accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the Company's Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Financial assets are derecognised when the Company no longer has the rights to cash-flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

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

Interest bearing loans and borrowings

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Depreciation is provided to write off cost less the estimated residual value of property, plant and equipment by equal annual instalments over their estimated useful economic lives as follows:

Office equipment, fixtures and fittings	–	over three to seven years
Computer equipment	–	over three to four years
Leasehold improvements	–	over the shorter of the lease term or ten years

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

2. Cash-flow from Financing Activities

	At 1st January 2017 £'000	Cashflow £'000	Acquisition £'000	Foreign Exchange £'000	Fair Value £'000	At 31st December 2017 £'000
Long Term Liabilities	16,500	10,500	–	–	–	**27,000**
Short Term Liabilities	15,095	4,577	–	–	–	**19,672**
	31,595	**15,077**	**–**	**–**	**–**	**46,672**

Short Term Liabilities
In 2017 bank overdraft was £19.7m (2016: £15.1m) (see Note 10 of these Financial Statements).

Long term liabilities
In 2017 bank loan was £27.0m (2016: £16.5m) (see Note 10 of these Financial Statements).

3. Intangible assets

	Software £'000	**Total £'000**
Cost		
At 1st January 2017	–	**–**
Additions	7	**7**
As at 31st December 2017	**7**	**7**
Impairment		
At 1st January 2017	–	**–**
Amortisation	–	**–**
As at 31st December 2107	**–**	**–**
Net Book Value		
As at 31st December 2017	**7**	**7**
As at 31st December 2016	–	**–**

4. Property, plant and equipment

As at 31st December 2017

	Leasehold improvements £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
At 1st January 2017	74	106	**180**
Additions	–	1	**1**
At 31st December 2017	**74**	**107**	**181**
Depreciation			
At 1st January 2017	66	106	**172**
Charge for the year	1	–	**1**
At 31st December 2017	**67**	**106**	**173**
Carrying amount			
At 31st December 2017	**7**	**1**	**8**
At 1st January 2017	8	–	8

As at 31st December 2016

	Leasehold improvements £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
At 1st January 2016	74	106	180
Additions	–	–	–
At 31st December 2016	**74**	**106**	**180**
Depreciation			
At 1st January 2016	65	106	171
Charge for the year	1	–	1
At 31st December 2016	**66**	**106**	**172**
Carrying amount			
At 31st December 2016	**8**	**–**	**8**
At 1st January 2016	9	–	9

5. Investment in subsidiaries

Details of the subsidiaries held directly and indirectly by the Company are shown in Note 34 to the Group Financial Statements.

	2017 £'000	2016 £'000
At 1st January	181,908	181,133
Additions	–	13
Adjustments for share-based payment	236	762
At 31st December	182,144	181,908

In 2017 there was an increase of £232,000 (2016: increase of £762,000) on investment in subsidiaries for 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 £6,897,000 (2016: £7,129,000).

6. Financial assets

At cost	2017 £'000	2016 £'000
At 1st January	–	27,097
Additions	28,160	–
Disposals	(5,740)	(36,082)
Revaluation uplift	2,075	8,985
At 31st December	24,495	–

During the year LSL acquired 1.3m ordinary shares in Yopa for a total consideration of £20.0m.

GPEA was acquired for a book value of £3.7m. Subsequent to this acquisition LSL sold its entire holding of shares in GPEA. The investment was disposed of for £5.7m (£3m cash and £2.7m shares in eProp Services plc) in July 2017.

7. Investment in joint ventures

At cost	2017 £'000	2016 £'000
At 1st January	7,235	7,233
Additions	–	2
At 31st December	7,235	7,235

The Company has a 50% interest in LMS, a joint venture whose principal activity is to provide conveyancing panel management services.

8. Trade and other receivables

	2017 £'000	2016 £'000
Group relief receivable	34,756	24,449
Prepayments	544	890
Amounts owed by Group undertakings	15,593	37,361
	50,893	62,700

9. Trade and other payables

	2017 £'000	2016 £'000
Accruals	3,527	1,087
Amounts owed to Group undertakings	99,531	108,327
	103,058	109,414

10. Financial liabilities

	2017 £'000	2016 £'000
Current		
Contingent consideration	–	–
Bank overdraft	**19,672**	15,095
	19,672	15,095
Non-current		
Contingent consideration	**1**	1
Bank loans – RCF	**27,000**	16,500
	27,001	16,501

Contingent consideration

During 2017 £nil of contingent consideration was paid to third parties. During 2016, £2.8m of contingent consideration was paid to third parties in relation to the acquisition of LMS in September 2014.

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

	2017 £'000	2016 £'000
Remuneration	–	–
Put options over non-controlling interests	**1**	1
Closing balance	**1**	1

	2017 £'000	2016 £'000
LMS	**1**	1
	1	1
Opening Balance	**1**	4,611
Cash paid	–	(2,825)
Acquisition	–	1
Amounts recorded through Income Statement	–	(1,786)
Closing Balance	**1**	1

Bank loans – RCF and overdraft

The Company's bank loan totals £27.0m (2016: £16.5m) and the Company's overdraft totals £19.8m (2016: £15.1m). The bank loan is secured via a cross guarantee issued from all of the Group's subsidiaries excluding the following subsidiaries, Lending Solutions, Homefast Property Services, Financial Solutions (including Linear Mortgage Network), Templeton LPA, Advance Mortgage Funding, Barnwoods, Chancellors Associates and LSLi and its subsidiaries.

The utilisation of the RCF may vary each month as long as this does not exceed the maximum £100.0m facility (2016: £100.0m). The Group's overdraft is also secured on the same facility, and the combined overdraft and RCF cannot exceed £100.0m (2016: £100.0m). The banking facility is repayable when funds permit on or by May 2022.

The interest rate applicable to the facility is LIBOR plus a margin rate. The margin rate is linked to the leverage ratio of the Group and the margin rate is reviewed at six monthly intervals.

11. Deferred tax

	2017 £'000	2016 £'000
Deferred tax asset at 1st January	**105**	8
Deferred tax credit/(charge) in profit and loss account for the year	**(5)**	97
Deferred tax credit/(charge) to other comprehensive income	**12**	–
Deferred tax asset at 31st December	**112**	105

	2017 £'000	2016 £'000
Deferred tax liability		
Deferred tax liability at 1st January	**–**	(4,350)
Deferred tax (charge) in profit and loss account for the year	**–**	23
Deferred tax (charge)/credit to other comprehensive income	**4**	4,327
Deferred tax asset/(liability) at 31st December	**4**	–

A deferred tax asset is recognised in relation to timing differences on fixed assets of £6,000 and share based payments of £106,000. A deferred tax liability of £4,000 was recognised in respect of available for sale assets. At 2016 a deferred tax asset of £7,000 was recognised in relation to timing differences and £98,000 in respect of share based payments. No deferred tax liability was recognised on available-for-sale assets at 2016.

The 2015 Summer Budget announced that the headline rate of Corporation Tax in the UK would be reduced from 20% to 19% effective from 1st April 2017 and further reduced to 18%, effective from 1st April 2020. The Budget of March 2016 announced that from 1st April 2020, the proposed corporation tax will be lowered further still to 17%. For the year ended 31st December 2017, current tax is measured at a hybrid rate of 19.25% (2016: 20.0%).

Following the substantive enactment of Finance Bill 2016 in September 2016, the corporation tax rate of 17% was confirmed. Accordingly, this is the rate at which deferred tax has been provided (2016: 17%).

12. Called up share capital

	2017 Shares	£'000	2016 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

13. Reserves

For a description of the reserves refer to Note 26 to the Group Financial Statements.

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

Share-based payment reserve
This represents the amount provided in the year in respect of share awards. The Company has operated long-term incentive plans (including JSOP and CSOP) and a number of SAYE schemes for the employees in the Company and the Group. See Note 13 to the Group Financial Statements for details of the LTIP, JSOP, CSOP, SIP/BAYE and the SAYE schemes. The effect of share-based payment transactions on the Company's profit for the period was a charge of £189k (2016: credit of £501k).

Fair value reserve
The fair value reserve is used to record the changes in fair value of financial assets available for sale.

14. Company profit /loss for the financial year after tax

The Company has not presented its own profit and loss account as permitted by Section 408 of the Companies Act 2006. The profit after tax for the year was £14.7m (2016: £87.0m).

Remuneration paid to Directors of the Company is disclosed in Note 13 to the Group Financial Statements.

The Company paid £184,775 (2016: £212,819) to its auditors in respect of the audit of the Financial Statements of the Company.

Fees paid to the external auditors and their associates for non-audit services to the Company itself are not disclosed in the individual accounts of the Company because Group financial statements are prepared which are required to disclose such fees on a consolidated basis. These are disclosed in Note 10 to the Group Financial Statements.

15. Pensions costs and commitments

Total contributions to the defined contribution schemes in the year were £43,826 (2016: £40,128). There were £nil outstanding amounts in respect of pensions as at 31st December 2017 (2016: £nil).

The Parent Company headcount at 31st December 2017 was nil (2016: nil). This is due to employment contracts being drawn up within the subsidiaries and not within the Parent Company itself.

16. Capital commitments

The Company had no capital commitments as at 31st December 2017 (2016: none).

17. Related party transactions

During the year the transactions entered into by the Company are as follows:

	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Wholly owned subsidiaries				
2017	**–**	**–**	**29,162**	**112,839**
2016	–	–	22,969	108,323

	Sales to related parties £'000	Purchases from related parties £'000	Amounts owed by related parties £'000	Amounts owed to related parties £'000
Non-wholly owned subsidiaries				
2017	**–**	**–**	**40**	**194**
2016	–	–	14,392	–

In July 2017 Group entered into a convertible loan note and introducer agreement with Global Property Ventures of which Simon Embley is chairman.

18. Financial instruments – risk management

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

It is the Company's policy that trading in derivatives shall not be undertaken. The Group may, from time to time and as necessary, enter into interest rate swaps for risk management purposes but did not hold any such swaps during either the current or prior year.

The Company is exposed through its operations to the following financial risks:

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

18. Financial instruments – risk management (continued)

Policy for managing these risks is set up by the Board following recommendations from the Group Finance Director. The policy for each of the above risks is described in more detail below.

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

The majority of external Company borrowings are variable interest based and this policy is managed centrally.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings. With all other variables held constant, the Company's profit before tax is affected through the impact on floating rate borrowings as follows. There is no material impact on the Company's equity.

	Increase/ decrease in basis point	Effect on profit before tax £'000
2017	**+100**	**(270)**
	-100	**270**
2016	+100	(165)
	-100	165

Liquidity risk
The Company aims to mitigate liquidity risk by managing cash generation by its operations, dividend policy and acquisition strategy. Acquisitions are carefully selected with authorisation limits operating up to Group Board level and cash payback periods applied as part of the investment appraisal process.

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool and daily cash-flow reporting. This includes consideration of the maturity of both its financial investments and financial assets (e.g. accounts receivable, and other financial assets) and projected cash-flows from operations. The Company's objective is to maintain a balance between continuity of funding and flexibility for potential acquisitions through the use of its banking facilities.

The table below summarises the maturity profile of the Company's financial liabilities at 31st December 2017 based on contractual undiscounted payments:

Year ended 31st December 2017

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	**Total £'000**
Interest bearing loans and borrowings (including overdraft)	19,779	174	548	27,582	–	**48,083**
Trade payables	–	99,531	–	–	–	**99,531**
Contingent consideration	–	–	–	1	–	**1**
	19,779	**99,705**	**548**	**27,583**	**–**	**147,615**

Year ended 31st December 2016

	On demand £'000	Less than 3 months £'000	3 to 12 months £'000	1 to 5 years £'000	> 5 years £'000	Total £'000
Interest bearing loans and borrowings (including overdraft)	15,095	129	395	17,766	–	**33,385**
Trade payables	–	108,327	–	–	–	**108,327**
Contingent consideration	–	–	–	1	–	**1**
	15,095	**108,456**	**395**	**17,767**	**–**	**141,713**

18. Financial instruments – risk management (continued)

The liquidity risk of the Company entity is managed centrally by the Group Treasury Function. The Company's cash requirement is monitored closely. The Company has a RCF with a syndicate of major banking corporations to manage longer term borrowing requirements.

Capital management

The primary objective of the Company's capital management is to ensure that it maintains appropriate capital structure to support its business objectives, including any regulatory requirements, and maximise shareholder value. Capital includes share capital and other equity attributable to the equity holders of the parent.

In the medium to long-term, the Company will strive to maintain a reasonable leverage (i.e. balance between debt and equity) to help achieve the Company's business objectives of growth (through acquisitions and organic growth) and dividend policy. In the short term, the Company does not have a set leverage ratio to be achieved but the Directors monitor the ratio of net debt to operating profit to ensure that the debt funding is not excessively high.

Credit risk

There are no significant concentrations of credit risk within the Company.

Interest rate risk profile of financial assets and liabilities

Treasury policy is described in the Note above. The disclosures below exclude short term receivables and payables which are 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 2017 are as follows:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 Years £'000	Total £'000
Fixed rate					
RCF					
Floating rate					
RCF	–	–	–	(46,772)	(46,772)

The effective interest rate and the actual interest rate charged on the loans in 2017 are as follows:

	Effective rate	Actual rate
RCF	4.1%	1.5%

The effective interest rate on the RCF during the year is higher than the actual rate due to commitment fees payable on undrawn amounts.

The interest rate profile of the financial assets and liabilities of the Group as at 31st December 2016 are as follows:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 Years £'000	Total £'000
Fixed rate					
RCF	–	–	–	–	–
Floating rate					
RCF	(31,595)	–	–	–	(31,595)

The effective interest rate and the actual interest rate charged on the loans in 2016 are as follows:

	Effective rate	Actual rate
RCF	3.7%	1.3%

The effective interest rate on the RCF during the year was high due to commitment fees payable on undrawn amounts earlier in the year.

18. Financial instruments – risk management (continued)

Fair values of financial assets and financial liabilities
The fair values for the majority of the financial instruments have been calculated by discounting the expected future cash-flows at interest rates prevailing for a comparable maturity period for each instrument. There are no material differences between the book value and fair value for any of the Company's financial instruments.

Fair value hierarchy
The Group uses the following hierarchy for determining and disclosing the fair value of the financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

2017	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	**24,495**		**1,529**	**22,966**
Liabilities measured at fair value				
Contingent consideration	**1**	**–**	**–**	**1**

2016	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Liabilities measured at fair value				
Contingent consideration	1	–	–	1
Deferred consideration	–	–	–	–

During 2016, the Company sold its entire holding of 11.3m ordinary shares in ZPG plc. Previously, the holding was valued on the stake held and the share price date at the end of the period, which qualifies as a Level 1 technique.

Fair values of the Company's interest-bearing borrowings and loans are determined by using discounted cash-flow (DCF) methodology using a discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31st December 2016 was assessed to be insignificant.

19. Post Balance Sheet events

Acquisition of Personal Touch Financial Services
In January 2018, LSL acquired the entire issued share capital of Personal Touch Financial Services and its subsidiary company, Personal Touch Administration Services. Personal Touch Financial Services is a financial services business specialising in the provision of mortgage and other financial services products via its network of intermediaries. The consideration for the acquisition is £4.8m plus an acquired intercompany debt of £0.6m and is made up of a payment of £2.8m which was paid on completion and a further payment of £2.0m which is deferred for 12 months.

The Group are currently in the process of allocating the purchase price in accordance with IFRS 3 and as a result the initial accounting for this acquisition is incomplete.

Extension of RCF
On 30th January 2018 announced that it extended the maturity date of its existing £100 million banking facility until May 2022; this replaces the existing maturity date of May 2020.

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" or "**Adjusted Basic EPS**" is defined at Note 11 to the Group Financial Statements.

"Adjusted EBITDA" is Group Underlying Operating Profit (Note 4) plus depreciation on property, plant and equipment.

"AGM" Annual General Meeting.

"Advance Mortgage Funding" Advance Mortgage Funding Limited.

"Albany" refers to Albany Insurance Company (Guernsey) Limited.

"AMI" Association of Mortgage Intermediaries.

"ARLA" or **"ARLA Propertymark"** Association of Residential Lettings Agents.

"ASA" Advertising Standards Authority.

"Asset Management" refers to LSL's repossessions, asset management and property management services for multi-property landlords.

"Audit & Risk Committee" or **"Audit & Risk Committee"** LSL's Audit & Risk Committee.

"Auditor Independence Policy" LSL policy relating to non-audit services provided by the external auditor.

"Barclays" Barclays Bank PLC.

"Basic Earnings Per Share" or **"EPS"** is defined at Note 11 to the Group Financial Statements.

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

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

"BDS" BDS Mortgage Group Limited.

"CMA" Competition and Markets Authority.

"Committees" refers to LSL's Nominations Committee, the Audit & Risk Committee and the Remuneration Committee.

"Company" and **"Parent Company"** refers to LSL Property Services plc.

"Companies Act" Companies Act 2006.

"Chancellors Associates" trading name of Chancellors Associates Limited.

"Chairman" Simon Embley.

"Chairman of the Audit & Risk Committee" David Stewart.

"Chairman of the Remuneration Committee" Bill Shannon.

"CML" Council of Mortgage Lenders.

"Code" UK Code of Corporate Governance published by the Financial Reporting Council (FRC) (April 2016 edition).

"Company Secretary" Sapna B FitzGerald.

"CCAS" Consumer Codes Approval Scheme.

"CSOP" company share ownership plan.

"CSR" corporate social responsibility.

"Davis Tate" trading name of Davis Tate Limited.

"Deputy Chairman" refers to Bill Shannon.

"Director" an Executive Director or Non Executive Director of LSL.

"DMGT" trading name of Daily Mail and General Trust plc.

"EBITDA" earnings, before interest, taxes, depreciation and amortisation.

"Embrace Mortgage Services" trading name of LSLi Limited.

"EPC" energy performance certificate.

"EPS" earnings per share.

"Ernst & Young" Ernst & Young LLP.

"ESG" environmental, social and governance.

"ESOS" energy savings opportunity scheme.

"ESOT" LSL's employee share trust.

"Estate Agency Division" or **"Estate Agency"** includes LSL's Residential Sales, Lettings, Financial Services, LPA fixed charge receiver and Asset Management businesses.

"Estate Agency and Related Services" refers to LSL's Estate Agency Division.

"e.surv" or **"e.surv Chartered Surveyors"** trading names of e.surv Limited.

"Executive Committee" refers to the Executive Committee of the Group, which includes the Executive Directors.

"Executive Director(s)" refers to Ian Crabb, Adam Castleton and Helen Buck (with effect 2nd February 2017). Adrian Gill was also an Executive Director in 2017, until 4th January 2017 when he stepped down from the Board.

"EU" European Union.

"FCA" Financial Conduct Authority.

"Financial Services" refers to LSL's financial services (including mortgage, general insurance and pure protection brokerage services and the operation of LSL's intermediary networks).

"First Complete" trading name of First Complete Limited.

"Financial Statements" financial statements contained in this Report.

"FRC" Financial Reporting Council.

"Frosts" trading name of David Frost Estate Agents Limited.

"FSMA" Financial Services and Markets Act 2000.

"General Data Protection" "GDPR" General Data Protection Regulations (EU) 2016/679

"Global Property Ventures" or **"GPV"** Global Property Ventures Limited.

"Group First" or **"GFL"** Group First Limited.

"Group" LSL Property Services plc and its subsidiaries.

"Group Chief Executive Officer" Ian Crabb.

"Group Chief Financial Officer" Adam Castleton.

"Group Revenue" total revenue for the LSL Group.

"Growth Shares" the C class of ordinary shares (each £0.001) in Marsh & Parsons (Holdings) Limited.

"Goodfellows" trading name of GFEA Limited.

"GPEA" trading name of GPEA Limited.

"Hawes" or **"Hawes & Co"** trading name of Hawes & Co Limited.

"HMRC" Her Majesty's Revenue and Customs.

"Homefast" Homefast Property Services Limited.

"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.

"Insurance First Brokers" Insurance First Brokers Ltd.

"Intercounty" trading name of ICIEA Limited.

"IPO" initial public offering.

"JNP" trading name of JNP Estate Agents Limited.

"JSOP" joint share ownership plan.

"Korn Ferry" trading name of Korn Ferry Hay Group Limited.

"KPI" key performance indicators.

"Land & New Homes" trading style used by members of the Estate Agency Division.

"Lauristons" trading name of Lauristons Limited.

"Lawlors" trading name of Lawlors Property Services Limited.

"Legal Marketing Services" and **"LMS"** and "**LMS Direct Conveyancing"** and **"Cybele"** all refer to LMS Direct Conveyancing Limited and Cybele Solutions Holdings Limited.

"Lending Solutions" Lending Solutions Holdings Limited.

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

"Lexis Nexis" part of the RELX Group plc .

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

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

"LPA" the Law of Property Act 1925.

"LSE" London Stock Exchange.

"LSLi" LSLi Limited and its subsidiaries (during 2017 these included JNP, Intercounty, Frosts, Goodfellows, Davis Tate, Lauristons, Lawlors, Hawes & Co and Thomas Morris).

"LSL", **"Group" and "Parent Company"** refers to LSL Property Services plc and its subsidiaries.

"LSL Corporate Client Department" trading name of LSL Corporate Client Services Limited.

"LTIP" long-term incentive plan.

"Management Team" senior management teams within the Group including the Executive Directors.

"Marsh & Parsons" trading name of Marsh & Parsons Limited.

"Mortgages First" Mortgages First Ltd.

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

"NALS" National Association of Lettings Agents.

"NBC Property Master" NBC Property Master Limited.

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

"Net Bank Debt" see Note 31 to the Group Financial Statements.

"Non Executive Director" refers to Kumsal Bayazit Besson, Bill Shannon, David Stewart and Simon Embley. Helen Buck was also a Non Executive Director in 2017, until 2nd February 2017 when she was appointed Executive Director – Estate Agency.

"Notice of Meeting" the circular made available to Shareholders setting out details of the AGM.

"Note" refers to Notes to the Financial Statements.

"OCI" refers to other comprehensive income.

"Openwork" trading name of Openwork Limited.

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

"Palmer and Harvey" trading name of Palmer & Harvey McLane Limited.

"PDMRs" Persons Discharging Managerial Responsibility as defined in Article 3(1) (25) of the Market Abuse Regulation (MAR).

"Personal Touch Financial Services" or **"PTFS"** trading name of Personal Touch Financial Services Limited.

"Personal Touch Administration Services" or **"PTAS"** trading name of Personal Touch Administrations Services Limited.

"PI" professional indemnity.

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

"Pink Home Loans" or **"Pink"** are previous trading names for Advance Mortgage Funding Limited and BDS Mortgage Group Limited.

"PRIMIS Mortgage Network" or **"PRIMIS"** a trading name of Advance Mortgage Funding Limited and First Complete Limited.

"RCF" revolving credit facility.

"Reeds Exhibitions" part of the RELX Group plc.

"Reeds Rains" trading name of Reeds Rains Limited.

"Reeds Rains Financial Services" trading name of Reeds Rains Financial Services Limited.

"Registered Office" Newcastle House, Albany Court, Newcastle Business Park, Newcastle upon Tyne, NE4 7YB.

"Report" LSL's Annual Report and Accounts 2017.

"Residential Sales" refers to LSL's services for residential property sales.

"RICS" Royal Institution of Chartered Surveyors.

"Sainsbury's" Sainsbury's Supermarkets Limited.

"SAYE" save-as-you-earn.

"Senior Independent Non Executive Director" Bill Shannon.

"Shareholders" shareholders of LSL.

"SIP" share incentive plan (also referred to as BAYE).

"St Trinity Asset Management" trading name of St Trinity Limited.

"Surveying Division" or **"Surveying"** includes LSL's Surveying and Valuation Services businesses.

"Surveying and Valuation Services" or **"Surveying Services"** refers to LSL's Surveying Division.

"Templeton" trading name of Templeton LPA Limited.

"Thomas Morris" trading name of Thomas Morris Limited.

"The Mortgage Alliance" or **"TMA"** are trading names of First Complete Limited's mortgage club.

"TM Group" TM Group Limited.

"TPO" The Property Ombudsman.

"Trust" or **"Employee Benefit Trust"** LSL Property Services plc Employee Benefit Trust.

"Trustees" Link Market Services Trustees Limited.

"TSI" Trading Standards Institute.

"TSR" total shareholder return.

"Underlying Operating Margin" operating profit before exceptional costs, contingent consideration, amortisation and share-based payments shown as a percentage of turnover.

"Underlying Operating Profit/Loss" before exceptional costs, contingent consideration, amortisation of intangible assets and share based payments.

"VEM" Vibrant Energy Matters Limited.

"Walker Fraser Steele" a trading name and division of e.surv Limited.

"Yopa" Yopa Property Limited

"Your Move" trading name of your-move.co.uk Limited.

"Zero Deposit Scheme" or **"ZDS"** trading names of Global Property Ventures Limited.

Shareholder Information

Company details
LSL Property Services plc
Registered in England (Company Number 5114014)
LEI Number 213800T4VM5VR3C7S706

Registered office
Newcastle House, Albany Court, Newcastle Business Park, Newcastle upon Tyne, NE4 7YB

Head office
1-3 Sun Street, London, EC2A 2EP
Telephone: 0203 215 1015
Facsimile: 0207 920 9443
Email: enquiries@lslps.co.uk
Website: www.lslps.co.uk

Company Secretary's Office
2nd Floor, Gateway 2,
Holgate Park Drive
York
YO26 4GB
Telephone: 01904 698852

Share listing
LSL Property Services plc 0.2p Ordinary Shares are listed on the London Stock Exchange under ISIN GB00BIG5HX72

Registrar
Link Asset Services
The Registry
34 Beckenham Road
Beckenham, Kent
BR3 4TU
Telephone: 0871 664 0300

Calls cost 12p per minute plus your phone company's access charge. Calls outside the UK will be charged at the applicable international rate. Lines are open between 9.00 am to 5.30 pm, Monday to Friday excluding public holidays in England and Wales.

Website: www.linksharedeal.com
Email: shareholder.enquiries@linkgroup.co.uk

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

Provisional calendar of events

Preliminary results released	**6th March 2018**
AGM proxy form deadline	**3.30 pm 24th April 2018**
AGM	**3.30 pm 26th April 2018**

The AGM will be held at LSL's offices at 1-3 Sun Street, London, EC2A 2EP. The Notice of Meeting details the proposed resolutions.

In accordance with its articles of association, LSL publishes Shareholder information, including notice of AGMs and the Annual Report and Accounts on its website, www.lslps.co.uk. Reducing the number of communications sent by post not only results in cost savings to LSL, it also reduces the impact that unnecessary printing and distribution of reports has on the environment.

LSL's articles of association enable all communications between Shareholders and LSL to be made in electronic form (as permitted by the Companies Act 2006). Documents will be supplied via LSL's website to Shareholders who have not requested a hard copy, or provided an email address to which documents of information may be sent. Where a Shareholder has consented to receive information via the website, a letter will be sent to the Shareholder on release of any information directing them to the website.

If a Shareholder wishes to continue to receive hard copy documents they should contact Link Asset Services (details above).

Shareholder Notes