LSL Property Services plc

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is a leading provider of residential property services in three key markets: estate agency, financial services, and surveying and valuation services.

Annual Report and Accounts 2019

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Contents

Forward Looking Statements

This Report may contain forward looking statements with respect to certain plans and current goals and expectations relating to the future financial condition, business performance and results of LSL. Further information about forward looking statements can be found in the *Shareholder Information* section on page 206.

Segmental Reporting

To reflect the increased importance of LSL's Financial Services businesses, the LSL Board updated the Group's segmental reporting effective from 1st January 2019. From 1st January 2019 LSL reports three segments: Estate Agency; Financial Services; and Surveying and Valuation Services. The Financial Services segment incorporates all LSL's Financial Services businesses. The Estate Agency segment primarily incorporates the results from the Estate Agency networks (Your Move, Reeds Rains, LSLi and Marsh & Parsons) and Asset Management. The Surveying and Valuation Services segment did not change.

Highlights 2019

Positive Group financial performance

Group

£311.1m
Group Revenue
(2018: £324.6m)

£37.0m
Group Underlying Operating Profit
(2018: £35.9m)

11.9%
Group Underlying Operating Margin
(2018: 11.1%)

£51.9m
Group Adjusted EBITDA
(2018: £41.6m)

£19.7m
Group Operating Profit
(2018: £25.4m)

£16.0m
Profit before tax
(2018: £23.1m)

£13.2m
Net exceptional cost
(2018: cost of £3.0m)

28.0p
Adjusted Basic Earnings Per Share
(2018: 27.2p)

11.2p
Full year dividend per Share[5]
(2018: 10.9p)

Estate Agency

£14.5m
Underlying Operating Profit
(2018: £11.1m)

Financial Services

£11.6m
Underlying Operating Profit
(2018: £9.5m)

Surveying and Valuation Services

£16.3m
Underlying Operating Profit
(2018: £20.4m)

	2019	2018	% change
Group Revenue – £m	311.1	324.6	-4
Group Underlying Operating Profit[1] – £m	37.0	35.9	+3
Group Underlying Operating Margin – %	11.9	11.1	
Group Adjusted EBITDA[2] – £m	51.9	41.6	+25
Group operating profit – £m	19.7	25.4	-22
Profit before tax – £m	16.0	23.1	-31
Net exceptional cost – £m	(13.2)	(3.0)	
Basic Earnings Per Share (EPS) – pence	12.6	17.4	-28
Adjusted Basic Earnings Per Share (EPS)[3] – pence	28.0	27.2	+3
Net Bank Debt[4] at 31st December – £m	41.9	32.1	+30
Final proposed dividend per Share[5] – pence	7.2	6.9	+4
Full year dividend per Share[5] – pence	11.2	10.9	+3

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). Excluding the impact of IFRS 16 Group Underlying Operating Profit in 2019 was £36.2m
2 Group Adjusted EBITDA is Group Underlying Operating Profit plus depreciation of right of use assets, plant, property and equipment (as defined in Note 5 to the Financial Statements). Excluding the impact of IFRS 16, Group Adjusted EBITDA in 2019 was £40.9m
3 Refer to Note 10 to the Financial Statements for the calculation
4 Refer to Note 32 to the Financial Statements for the calculation
5 Assuming final intended 2019 proposed dividend is approved

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 include: residential sales, lettings, land and new homes, surveying, conveyancing support, and mortgage and non-investment insurance brokerage and intermediary network services. Services to mortgage lenders include: valuations and panel management services, asset management and property management services.

To reflect the increased importance of LSL's Financial Services businesses over the last five years, LSL updated the Group's segmental reporting effective from 1st January 2019. Since 2019, LSL has been reporting three segments: Estate Agency, Financial Services, and Surveying and Valuation Services.

Information included in this section of this Report is as at 31st December 2019.

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

See also Note 35 to the *Financial Statements* for information relating to LSL's subsidiaries and joint ventures.

Estate Agency Division

Residential Sales and Lettings

LSL is one of the largest estate agency networks in the UK[1]. It has strong established high street estate agency brands. These include:

Your Move, with 89 owned branches and 80 independently owned franchised branches has national coverage;

Reeds Rains, is a predominantly northern based network of 55 owned branches and 50 independently owned franchised branches;

Marsh & Parsons, operating out of 30 branches, a leading London premium brand estate agency which brings coverage to prime and outer Central London;

LSLi, nine estate agency companies with a combined network of 57 owned branches and two independently owned franchises based in the South East of England; and owned by the holding company LSLi;

LSL Land & New Homes, a land and new homes business that provides a complete range of specialist services for housebuilders, developers and investors of all sizes; and

Homefast, provides conveyancing panel management and support services to LSL's Residential Sales and Lettings branches and customers.

All LSL's Residential Sales and Lettings businesses are members of The Property Ombudsman Scheme (TPOS), which operates a residential sales and lettings code of practice approved by the Trading Standards Institute (TSI) under its Consumer Codes Approval Scheme (CCAS).

Asset Management

LSL's asset management companies are market leaders in the management of the sale of residential properties on behalf of corporate clients and property investors. LSL's three asset management companies are:

LSL Corporate Client Department operates a repossessions asset management business and a property management business for multi-property landlords;

St Trinity Asset Management specialises in repossession property sales; and

Templeton LPA a Law of Property Act fixed charge receiver.

Financial Services Division

LSL's Financial Services businesses provide services relating to the arrangement of mortgages and non-investment insurance products across three main sectors.

Intermediary Networks

PRIMIS is the trading style of LSL's mortgage and non-investment intermediary networks that are all authorised and regulated by the FCA. PRIMIS is a trading style of First Complete, Advance Mortgage Funding (formerly trading as Pink Home Loans) and Personal Touch Financial Services.

With 878[2] affiliated authorised firms, PRIMIS' combined appointed representative network is the second largest in the UK[3].

The Mortgage Alliance is a trading style of First Complete and Advance Mortgage Funding and distributes mortgages and financial services products to mortgage intermediaries who are directly authorised and regulated by the FCA.

New-build Home Channel

Mortgages First and RSC New Homes are both appointed representatives of PRIMIS (First Complete) and specialise in arranging mortgages and non-investment insurance products to customers financing the purchase of new-build properties.

Insurance First is an appointed representative of PRIMIS (First Complete) and specialises in arranging non-investment insurance products for customers purchasing new-build property.

Direct to Consumer Channel

Embrace Financial Services is an appointed representative of PRIMIS (First Complete) and employs financial consultants who deliver services to customers of the Group's Estate Agencies and third party introducers.

Linear Financial Solutions is an appointed representative of PRIMIS (Advanced Mortgage Funding) and provides financial consultants who are based in the branches of independent estate agents.

First2Protect is a specialist business arranging household insurance for customers of LSL's Estate Agency Division and third party introducers.

Mortgage Gym – included within the Financial Services segment is LSL's investment in Mortgage Gym, which is a digital marketplace that matches mortgage borrowers with mortgage lenders.

Surveying and Valuation Services Division

e.surv Chartered Surveyors is one of the country's largest providers of property risk and residential valuation services[4]. With a network of over 600 surveyors, e.surv is the UK's largest employer of RICS registered surveyors[5]. They use industry-leading technology to provide a range of products and services to a customer base that includes lenders, intermediaries, social housing entities, estate agents, and consumers.

Walker Fraser Steele is 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. FCA Register
3. Which Network – network performance figures for January 2020 showing the combined numbers for PRIMIS (First Complete, Advance Mortgage Funding and Personal Touch Financial Services)
4. The market position is based on LSL's own calculations and assessment using publicly available data
5. LSL sources/data analysis

Milestones

2015

Acquisition of Thomas Morris in Estate Agency.

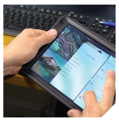
Completed 30 lettings book acquisitions in Estate Agency.

2016

Extension of banking facility to May 2020.

Acquisition of Group First in Financial Services.

2017



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

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

2018

Extension of banking facility to May 2022.

Acquisition of Personal Touch Financial Services and RSC New Homes in Financial Services.

Launch of PRIMIS brand in Financial Services.

Commencement of new Lloyds Bank plc surveying and valuation services contract.

2019

Surveying and Valuation Services Division

Estate Agency Division

Financial Services Division

Commencement of reporting three segments: **Estate Agency, Financial Services, and Surveying and Valuation Services.**

'Toolbox' software platform (acquired with PTFS in 2018) rolled out to all LSL's Financial Services companies.

Extension of contract to supply UK residential surveying and valuation services to a major high street bank.

Completion of the 'ways of working programme' across Your Move and Reeds Rains, with the creation of **144 keystone branches** and the franchising of 39 branches in Estate Agency.

Chairman's Statement

Introduction

The Group delivered a highly resilient Group Revenue and Underlying Operating Profit performance in 2019 in the context of challenging residential market conditions and the introduction of the tenant fee ban on 1st June 2019. This is a strong operational performance, as the successful execution of the stated Group strategy delivered tangible benefits to the Group's financial performance. We continue to deliver a range of proactive strategic and operational initiatives across our business lines, demonstrating the breadth of opportunity across the Group. We are pleased with the market share performance of the Your Move and Reeds Rains keystone branch networks in 2019. Estate Agency Division franchise income increased materially in 2019, following the successful franchising of 39 Your Move and Reeds Rains branches from the previous owned networks.

Group Underlying Operating Profit[1] was up 3% to £37.0m (2018: £35.9m), and Group Adjusted EBITDA[2] was up 25% to £51.9m (2018: £41.6m). Excluding the impact of IFRS 16, Group Underlying Operating Profit was 1% ahead of prior year at £36.2m (2018: £35.9m) and Group Adjusted EBITDA was down 2% to £40.9m (2018: £41.6m). Following decisive and early action to restructure the Your Move and Reeds Rains branch networks, Group Revenue increased by 4% on a like-for-like basis, which was a highly resilient performance in the context of challenging residential market conditions during 2019.

Estate Agency Division

In the Estate Agency Division, the changes to the structure of the Your Move and Reeds Rains estate agency branch networks and operations announced on 5th February 2019, has delivered a material improvement in financial performance of the Estate Agency Division, ahead of expectations. The successful implementation of this large and complex project demonstrates LSL's commitment and ability to evolve our business model to adapt to changes in the landscape and customer demands in order to drive value for our Shareholders.

We have transformed the Your Move and Reeds Rains businesses into a combined branch network of 144 keystone branches. All central support functions have been simplified and streamlined to provide more cost effective support to the smaller network of much larger keystone branches with both brands benefiting from new investment in people, systems, and marketing.

We are pleased to have created a branch network platform that is already benefiting from its larger scale, enabling us to invest in people and technology with the aim of providing enhanced levels of service to our customers whilst ensuring operational performance is optimised by competing more effectively in local markets.

Financial Services Division

In the Financial Services Division, we delivered further strong growth. The Group identified Financial Services as a major opportunity some time ago, since which time LSL's position has strengthened consistently, and we are now an established leading distributor of mortgage and non-investment insurance products.

The Financial Services Division generated £11.6m of Underlying Operating Profit in the 2019 financial year, compared to £2.7m in 2015. I anticipate further positive opportunities for our Financial Services businesses going forwards. We have reported Financial Services as a separate Division from 1st January 2019 onwards, to reflect the increasing importance and development of LSL's Financial Services businesses over the last five years.

During 2019 we have delivered organic growth and executed in line with expectations on the delivery of cost synergies following the acquisition of PTFS and successfully re-branded the Group's Financial Service network activities as PRIMIS and reorganised our Estate Agency financial services structure under the Embrace Financial Services brand. We continue to hold a strategic investment in Mortgage Gym, which is a digital mortgage marketplace for consumers.

Surveying Division

In the Surveying Division, the surveying and valuation services contract awarded to e.surv by Lloyds Bank plc in May 2018 has strengthened our position as a leading player in the market, and we are now taking the steps to drive improved financial performance by leveraging the scale benefits of the Surveying Division with the aim of improving cost efficiency.

Surveying Division's Underlying Operating Profit performance was disappointing at £16.3m (2018: £20.4m), impacted by market conditions, and increased headcount from the transfer of Lloyds Bank plc personnel to e.surv following the award of the new contract. Whilst operating profit margin was 14.8% in the first half of 2019, this improved to 22.9% in the second half of 2019 as our operational changes started to deliver financial improvements.

In 2019, the Group continued to make positive progress in addressing historical Surveying PI claims and there has been a net £2.5m exceptional gain for the year. At 31st December 2019 the total provision for PI Costs reduced materially to £8.2m (2018: £12.4m).

Simon Embley
Chairman

£311.1m

Group Revenue
Down 4% (2018: £324.6m)

£16.0m

Profit before tax
Down 31% (2018: £23.1m)

28.0p

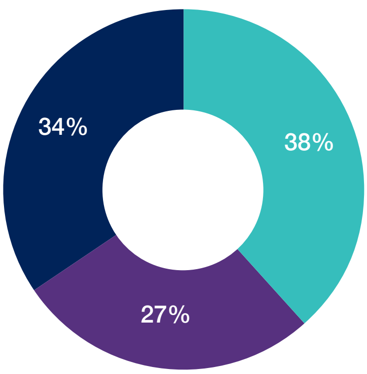
Adjusted Basic Earnings Per Share
Up 3% (2018: 27.2p)

11.2p

Full year dividend per Share[3]
Up 3% (2018: 10.9p)

Full year 2019
Underlying Operating Profit

£37.0m



- Estate Agency
- Financial Services
- Surveying

Discussions with Countrywide plc ("Countrywide")

On 24^{th} February 2020, the Board of LSL confirmed that it is in discussions with Countrywide regarding a possible all-share combination. Discussions between Countrywide and LSL are ongoing. At this stage, there can be no certainty that any offer will ultimately be made for Countrywide. LSL reserves the right to introduce other forms of consideration and/or vary the mix or composition of consideration of any offer. Further announcements will be made in due course as appropriate.

Dividend

The Board continues to support the previously communicated dividend policy to apply a dividend pay-out ratio of between 30% to 40% of Group Underlying Operating Profit[1] after interest and tax. The Board has reviewed the dividend policy while considering the risks and capital management decisions facing the Group.

Adjusted Basic Earnings Per Share for 2019 was 28.0 pence, an increase of 3% on the prior year (2018: 27.2 pence per Share). The Board intends to propose a final dividend of 7.2 pence per Share (2018: 6.9 pence per Share), resulting in a full year dividend of 11.2 pence per Share (2018: 10.9 pence per Share). This is a pay-out at the upper end of the range of LSL's stated dividend policy, reflecting our confidence in the current level of performance of the business and of our balance sheet strength. Taking into account the unknown potential impact of the COVID-19 virus on the UK housing market, the LSL Board will keep the proposed final dividend under review ahead of presenting its proposal to Shareholders at the 2020 AGM.

Corporate Governance and Board

During 2019, the Board remained committed to high levels of corporate governance as we further strengthened the Board with the appointment of two new independent Non Executive Directors. Darrell Evans joined the Board and its Committees in February 2019 and Gaby Appleton joined in September 2019. Darrell's and Gaby's skills enhanced the existing Board composition and further details on all of the Directors can be found within *The Board* section of this Report and within the *AGM Notice*.

Further, in compliance with the *UK Corporate Governance Code (2018)* LSL developed and published its Purpose Statement, supported by a series of values and culture statements that reflect the diverse group of businesses across LSL. Darrell Evans was also appointed as LSL's designated workforce engagement director. Since this appointment, Darrell has been working closely with the Group HR Director and participating in LSL's employee engagement arrangements. Further details are included within the *Stakeholder Engagement Arrangements* and *Corporate Governance Report* sections of this Report.

In relation to 2019, as Chair, I have been responsible for leadership of the Board, and I have together with my fellow Directors, reviewed the effectiveness of the Board and its Committees. The 2019 annual evaluation exercise had regard to the requirements of *the Code* and its associated guidance. In particular, we reviewed the composition of the Board and its Committees and our succession arrangements. Following this review, we concluded that together we have the appropriate balance of skills, independence and knowledge of the Group to enable the Board to discharge its duties and responsibilities effectively. The evaluation also considered other matters such as leadership, division of responsibilities, meeting arrangements, and included a review of the annual evaluation process itself.

Details of our corporate governance arrangements and the recommendations arising from the 2019 evaluation exercise are contained within the *Corporate Governance Report* section of this Report together with details of how we have implemented recommendations, which arose from the 2018 evaluation exercise.

Outlook

The Group delivered a highly resilient Group Revenue and Underlying Operating Profit performance in 2019 in the context of challenging residential market conditions and the introduction of the tenant fee ban on 1^{st} June 2019. This is a strong operational performance, as the successful execution of the stated Group strategy delivered tangible benefits to the Group's financial performance. We continue to deliver a range of proactive strategic and operational initiatives across our business lines, demonstrating the breadth of opportunity across the Group.

Market conditions to date in 2020 have been encouraging, reflected by our Estate Agency sales pipeline at 29th February 2020 being £3.6m ahead of the Board's prior expectations, benefiting from a favourable Estate Agency net sales performance during January and February. The operating profit performance of the Group in the two month period to 29th February 2020 has been, as expected, circa £2m ahead of the same period in the prior year, benefiting materially from the successful execution of the reshaping of the Your Move and Reeds Rains branch networks, which was announced on 5th February 2019. These benefits have now normalised year-on-year.

Whilst we have been encouraged by the residential property market conditions to date in 2020, the situation regarding the COVID-19 virus is rapidly evolving and we have in recent days, seen some slight softening of our lead sales indicators in Estate Agency. We are monitoring the situation very closely as it may create headwinds for our business in 2020 if changes in consumer behaviour impact residential property market conditions. As and when any potential impact on the Group becomes clearer, we will provide updates as necessary.

The Board intends to propose a final dividend of 7.2 pence per share, resulting in a full year dividend of 11.2 pence per share. This is a pay-out at the upper end of the range of LSL's stated dividend policy, reflecting our confidence in the current level of performance of the business and of our balance sheet strength. Taking into account the unknown potential impact of COVID-19 virus on the UK housing market, the LSL Board will keep the proposed final dividend under review ahead of presenting its proposal to Shareholders at the 2020 AGM.

The business is expected to continue to benefit from the range of LSL's ongoing strategic and operational measures. The Group has a robust balance sheet with relatively low levels of gearing and is highly cash generative at an operational level. The Board remains confident of the opportunities for further positive progress for the Group.

Simon Embley
Chairman
10th March 2020

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). Excluding the impact of IFRS 16 Group Underlying Operating Profit in 2019 was £36.2m

[2] Group Adjusted EBITDA is Group Underlying Operating Profit plus depreciation of right of use assets, plant, property and equipment (as defined in Note 5 to the Financial Statements). Excluding the impact of IFRS 16, Group Adjusted EBITDA in 2019 was £40.9m

[3] Assuming final intended 2019 proposed dividend is approved

Group Chief Executive's Review

2019 Overview

In the context of challenging market conditions, the Group delivered a highly resilient performance in 2019, underpinned by a continuing range of proactive strategic and operational measures delivered across the Group. LSL successfully executed its stated strategy during 2019, underpinned by consistent and effective implementation.

Group Revenues for the year ended 31st December 2019 decreased by 4% to £311.1m (2018: £324.6m) including the impact of the reshaping of the Your Move and Reeds Rains branch networks announced on 5th February 2019, with Estate Agency revenue[1] down 16%, Financial Services revenue[1] down 2% and Surveying Division revenue up 24%. Excluding the impact of the planned branch closures during the first quarter of 2019, Group like-for-like revenues increased by 4%.

Group Underlying Operating Profit[2] was up 3% to £37.0m (2018: £35.9m), and Group Adjusted EBITDA[3] was up 25% to £51.9m (2018: £41.6m). Excluding the impact of IFRS 16, Group Underlying Operating Profit was 1% ahead of prior year at £36.2m (2018: £35.9m) and Group Adjusted EBITDA was down 2% to £40.9m (2018: £41.6m). Profit before tax of £16.0m was down 31% compared to the prior year (2018: £23.1m).

The Group has maintained a strong balance sheet with closing Net Bank Debt at 31st December 2019 of £41.9m (2018: £32.1m) and a low level of reported gearing[4] at 0.8 times Group Adjusted EBITDA (2018: 0.8 times). The increase in Net Bank Debt in 2019 is after incurring total exceptional cash expenditure of £8.8m including the Estate Agency restructuring costs, £9.9m in respect of deferred and contingent consideration for the funding of two prior year Financial Services acquisitions (PTFS and Group First) and seven lettings book acquisitions during the year. LSL also maintained the payment of dividends to Shareholders during the year.

The Group generated strong cash from operations of £38.8m (2018: £36.9m) converting 105% of Group Underlying Operating Profit to cash-flow from operations (pre PI and exceptionals, after lease payments) (2018: 103%).

In the Estate Agency Division[1], LSL executed the reshaping of the Your Move and Reeds Rains branch networks delivering an increase in Underlying Operating Profit (up 30%). In the Financial Services Division[1] we delivered 23% growth in Underlying Operating Profit. In the Surveying Division, Underlying Operating Profit was £16.3m (2018: £20.4m) impacted by market conditions and increased headcount from the transfer of Lloyds Bank plc personnel to e.surv following the award of the new surveying and valuation services contract in May 2018.

During 2019, we continued to execute on our stated strategy and made positive progress across the Group:

- In Estate Agency, the effective execution of the major reshaping of the Your Move and Reeds Rains branch networks, announced on 5th February 2019 delivering material financial benefits.
- Successful implementation of Lloyds Bank plc surveying and valuation services contract strengthening LSL's position as the leading provider of surveying and valuation services in the UK.
- In June 2019, the Surveying Division was awarded an extension to its contract to supply UK residential surveying and valuation services to a major high street bank.
- Successful integration of PTFS (acquired in 2018) into the PRIMIS branded network and cost synergies delivered, as well as the successful roll-out out of the Toolbox operating system (part of rationale for acquiring PTFS).
- During 2019, LSL continued its lettings book acquisition programme with seven lettings books acquired during the period.

The Market in 2019

The UK residential property market remained challenging in 2019. HM Land Registry Property Transactions in 2019 decreased by 7%. Full year Rightmove Total Market Residential New Instructions decreased by 7% in 2019. Market transactions continued to decline in London and the South East[6] and Approvals for House Purchases[5] in 2019 were up by 0.9%. Total Mortgage Approvals[5] increased by 0.9% in 2019, with Remortgage Approvals up by 0.7%.

Average House Prices[7] in England and Wales grew by 0.8% (2018: 0.5%) to £304k. Excluding London and the South East, the rest of England and Wales showed house price growth of 1.6%.

The proportion of residential housing stock available for sale with online and hybrid estate agents sector has declined on a year-on-year basis, decreasing from 7.6% in 2018 to 7.3% in 2019[8].

Total gross mortgage lending in 2019 was in line with the prior year at £268bn[9] (2018: £269bn). The proportion of mortgage lending in the market placed through intermediaries increased to 74% in 2019 (2018: 71%)[10].

Following market declines in the repossession market in the past few years, market repossession volumes grew in 2019, increasing by 16% to 8,000[11] the highest since 2016, although still low in a historical context.

LSL's market position

LSL continues to hold market leading positions in its core Estate Agency businesses comprising 12 Estate Agency brands: Your Move, Reeds Rains, LSLi group (nine brands) and Marsh & Parsons. We continue to believe that traditional estate agents will represent the substantial majority of the Residential Sales and Lettings markets for the foreseeable future and that our Estate Agency branches will continue to remain core to providing the service our customers expect.

In Your Move and Reeds Rains, the newly established keystone network of 144 branches are situated in core locations across the UK and generally have larger teams of dedicated experts in Residential Sales, Lettings and Financial Services roles than the average Your Move and Reeds Rains branches previously had in place.

The continuing ambition for these keystone branches is to re-enforce a platform that will benefit from their larger scale, enabling us to invest in people and technology with the aim of providing enhanced levels of service to our customers whilst ensuring operational performance is optimised by competing more effectively in local markets. Our commitment to continued IT investment is intended to give these Your Move and Reeds Rains branches the opportunity to cover a wider geography and benefit from further scale.

Marsh & Parsons continues to implement its well established strategy of expanding its branch network with a focus on locations outside prime Central London. During 2019 we opened two new Marsh & Parsons branches in Willesden Green and Streatham Hill, in outer prime Central London, which are performing in line with expectations.

The LSLi group of companies today operate 57 owned branches and they will continue with their existing strategy to develop the nine well established local brands in their existing markets in the South East of England. In addition, in 2020 the LSLi group of companies will continue to actively evaluate opportunities for lettings book acquisitions.

In 2019, LSL further strengthened its position as a leading distributor of mortgage and non-investment insurance products and delivered strong overall growth in the value of mortgage completions which were up 9% to £31.7bn in 2019 (2018: £29.0bn). LSL's market share is estimated to be 8.5% (2018: 8.0%) of the total market value of mortgage completions. LSL is the second largest combined network nationwide, measured by the combined number of appointed representative firms. The number of financial advisers as at 31st December 2019 was 2,392 (2018: 2,321).

Our Surveying Division continued as a leading player in the market in 2019, maintaining strong relationships with many of the UK's largest lenders. During 2019 LSL was pleased to be awarded an extension to its contract to supply UK residential surveying and valuation services to a major high street bank. LSL's Surveying Division is the UK's largest provider of residential valuation services nationwide and is the largest employer of residential surveyors in the UK[6] with 514 operational surveyors as at 31st December 2019.

Segment reporting

To reflect the increased importance of LSL's Financial Services businesses over the last five years, from 1st January 2019, LSL's Financial Services businesses are reported as a separate segment. The Estate Agency Division receives and reports a commercially agreed commission payment from the Financial Services segment, which reflects Financial Services income generated from the Estate Agency segment. Financial Services revenue reported in our full year financial results for 2018 has therefore been restated on this basis to assist comparison. The Surveying Division reporting is unchanged.

Strategy

LSL remains committed to delivering on its stated strategy:

Estate Agency

- Ambition to achieve £80k-£100k profit per branch[13] in the medium term based on the expectation of a normalised level of market transactions.
- 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.
- Evaluate selective acquisitions of lettings books.

Financial Services

- Enhance LSL's position as a leading distributor of mortgage and non-investment insurance products.
- Consistent delivery of appropriate outcomes for consumers with a focus on "best practice" standards of regulatory compliance.
- Enhancement of technology solutions to improve the customer experience and operational efficiency.
- Evaluate further selective Financial Services acquisitions.

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 recruitment programme.

LSL performance in 2019

Estate Agency Division[1]

LSL announced the reshaping of its Your Move and Reeds Rains branch networks on 5th February 2019. We are pleased that the implementation of this programme has progressed slightly ahead of our expectations despite the scale and complexity of the project. During the first quarter of 2019, the Your Move and Reeds Rains estate agency branch network was reshaped from 308 owned branches to 144 keystone branches following the closure and merging of 81 neighbouring branches into the keystone branch network, the franchising of 39 branches and the closure of 44 branches. This reshaping was executed in line with the

Ian Crabb
Group Chief Executive Officer

LSL announcement of 5th February 2019. Including the impact of this reshaping, total Estate Agency income of £154.9m (2018: £183.8m) decreased by 16%. Adjusting for the closure of the Your Move and Reeds Rains branches during the first quarter of 2019, like-for-like total revenue decreased by 5% compared to 2018. Estate Agency Division operating expenditure decreased by 19%, and operating profit increased by 30%, reflecting the material improvement to Underlying Operating Profit in Your Move and Reeds Rains as a result of reshaping their branch networks.

Residential net sales for the Your Move and Reeds Rains keystone branches increased slightly in 2019, despite the challenging market conditions during the year, and showed modest growth in market share as measured by new instructions during 2019.

Residential Sales exchange income
Residential Sales exchange income decreased by 17% to £57.7m (2018: £69.9m) impacted by the reshaping of the Your Move and Reeds Rains branch networks and the market conditions. Adjusting for the closure of the Your Move and Reeds Rains branches during the first quarter of 2019, Residential Sales income decreased by 3%.

LSL has remained extremely disciplined in its Residential Sales exchange fee strategy throughout 2019. Reported average LSL Estate Agency Residential Sales exchange fee (£) per unit increased by 12% to £3,452 (2018: £3,071). The average Residential Sales exchange fee in 2019 benefitted from the closure of Your Move and Reeds Rains branches, which generated lower average fees. Like-for-like Residential Sales exchange fee (£) per unit in 2019 was maintained at the same level compared to the same period last year.

Lettings income
Total Lettings income decreased by 12% to £67.3m (2018: £76.6m). On a like-for-like basis, adjusting for the reshaping of the Your Move and Reeds Rains branch networks, Lettings income was down 4% on the prior year. Lettings income represented 43% of total Estate Agency Division income in 2019 (2018: 42%).

Emile Heskey launched Your Move's partnership with the EFL

Legislation banning tenant fees came into effect on 1st June 2019 and LSL implemented the required changes across its Estate Agency brands. LSL continues to implement operational measures in Lettings with the aim of optimising Lettings income, and, in line with our stated strategy, we continued our lettings book acquisition programme during 2019 acquiring seven lettings books in 2019 for a total consideration of £3.0m. The lettings books are performing in line with expectations and have been successfully integrated into the Estate Agency networks.

Marsh & Parsons
Given the overall challenging prime Central London market, Marsh & Parsons delivered a resilient top line performance with revenue down by 3% in 2019 to £32.4m (2018: £33.5m). Marsh & Parsons Residential Sales income fell by 5% in 2019, which is a creditable performance in light of the overall prime Central London market conditions. Lettings declined by 2%. Lettings revenue represents 64% of Marsh & Parson's total revenue (2018: 63%). Full year Underlying Operating Profit remained flat at £2.3m (2018: £2.3m). Adjusted EBITDA as reported was £6.2m (2018: £3.4m). Excluding the impact of IFRS 16, Underlying Operating Profit was £1.7m (2018: £2.3m) and Adjusted EBITDA was £2.8m (2018: £3.4m).

In line with LSL's stated strategy, we continued with our Marsh & Parsons branch expansion strategy in 2019, opening two new branches in April 2019 in outer prime Central London, in Willesden Green and Streatham Hill. These new branches are trading in line with expectations. This takes our total number of Marsh & Parsons branches to 30 as at 31st December 2019.

Our ambition remains to expand the number of Marsh & Parsons branches to a total of 36 in the medium term, particularly outside prime Central London. Outer prime Central London has not been as negatively impacted by subdued market conditions as prime Central London and Marsh & Parsons continues to look to expand its branch footprint in outer prime Central London locations.

Estate Agency profit per branch (Your Move, Reeds Rains and LSLi)
In 2019, profit per branch (Your Move, Reeds Rains and LSLi) increased to £47.0k (2018: £18.3k), benefiting materially from the reshaping of the Your Move and Reeds Rains networks during 2019.

Yopa
Traditional estate agents continue to represent the substantial majority of the Residential Sales and Lettings markets. LSL believes this will continue for the

foreseeable future and that Estate Agency branches will continue to remain core to providing the service our customers expect.

LSL has an 8.8% minority shareholding in Yopa. LSL's previous carrying value of £7.8m (as at 31st December 2018) for Yopa was written down through reserves by £1.3m to £6.5m at the 2019 half year to reflect the Board's assessment of fair value, as reported in the Interim Results statement released by LSL on 30th July 2019.

Financial Services Division[1]

Total Financial Services Division revenue including Estate Agency for the year was down by 2% to £69.8m (2018: £71.0m), reflecting the impact of the planned closure of the Your Move and Reeds Rains branches. Financial Services organic revenue growth was 1% year-on-year, excluding Estate Agency.

In 2019, LSL further strengthened its position as a leading distributor of mortgage and non-investment insurance products and LSL delivered strong overall growth in the value of mortgage completions which were up 9% to £31.7bn in 2019 (2018: £29.0bn). LSL's market share is estimated to be 8.5% (2018: 8.0%) of the total market value of mortgage completions. LSL is the second largest combined network nationwide, measured by combined number of appointed representative firms. The number of financial advisers as at 31st December 2019 was 2,392 (2018: 2,321).

The Financial Services Division delivered a strong performance with Underlying Operating Profit[1] up 23% to £11.6m (2018: £9.5m) reflecting growth in core businesses and the benefit of the acquisitions of PTFS and RSC in the first quarter of 2018. The Financial Services Division continues to display positive progress across its breadth of products including mortgage products, pure protection products and general insurance products. The integration of PTFS, which was acquired in January 2018, into the Financial Services Division is delivering cost synergy benefits in line with expectations.

In 2019, the roll out of the Toolbox operating system to network firms including Group businesses was completed in line with expectations, to the full network of over 2,300 brokers and 500 administrators. The technology was part of rationale for acquiring PTFS.

Surveying Division

Surveying Division revenue increased by 24% to £86.4m (2018: £69.8m), which included a material contribution from the successful commencement of the Lloyds Bank plc surveying and valuation services relationship, awarded in May 2018. Total number of jobs performed during the year were 508,061 (2018: 365,504).

Revenue in the first half of 2019 was up by 37% year-on-year, which included a material contribution from the successful commencement of the Lloyds Bank plc surveying and valuation services contract awarded in May 2018 and which commenced in the second half of September 2018. Revenue in the second half of 2019 was up 13% on

An e.surv graduate now MRICS qualified

the same period in 2018, reflecting the commencement of the Lloyds Bank plc revenue from September 2018.

Income per job in 2019 reduced to £170 (2018: £191) due to a change in the business mix. Total Surveying Division expenditure increased due to the additional headcount from the transfer of Lloyds Bank plc personnel to e.surv following the award of the new contract in May 2018. As a result, LSL reported a reduced Underlying Operating Profit in 2019 of £16.3m (2018: £20.4m) with a profit margin of 18.9% (2018: 29.3%). Profit margin was 14.8% in the first half of 2019, improving to 22.9% in the second half of 2019.

The total number of operational surveyors at 31st December 2019 was 514 (2018: 503). In 2020, the Surveying Division will continue to focus on its successful graduate programme, which assists in alleviating the impact of capacity constraints in the market.

During the first half of 2019, the Surveying Division was pleased to be awarded an extension to its contract to supply UK residential survey and valuation services to a major high street bank.

Work is on-going to leverage the scale benefits of the Surveying Division with the aim of improving cost efficiency.

The technology roll out continued during 2019 with further functionality releases designed to enhance quality and drive efficiencies such as an updated surveyor software application to improve the user experience and surveyor efficiency.

At 31st December 2019 the total provision for PI Costs was £8.2m (2018: £12.4m). In 2019, the Group continued to make positive progress in addressing historical claims and there has been a net £2.5m exceptional gain in the year.

Our customers

Our continued focus on providing the best service to our customers has been recognised in 2019 with numerous industry awards including:

Estate Agency

- *Davis Tate:* **Best Estate Agent Guide 2020 (*):** Best Estate Agency Guide Award (Berks/Hamps/Isle of Wight (Sales & Lettings)). Henley and Abingdon – Rated Exceptional (Lettings), Reading – Rated Excellent (Lettings). **The AllAgents Awards:** Best Estate Agency Award, Abingdon, Burghfield, Goring, Henley, Pangbourne, Reading, Sonning, Twyford, Wallingford – Gold Award, Best Letting Agency Award, Abbingdon, Burghfield, Goring, Henley, Reading, Wallingford and Wantage – Gold Award, Best Overall Agent, Abingdon, Burghfield, Goring, Henley, Pangbourne, Reading, Sonning, Twyford, Wallingford.
- *Frosts:* **The ESTAS:** Estate Agency of the Year Awards: Best in County Letting Agent (Hertfordshire) – Winner.
- *Goodfellows:* **Best Estate Agent Guide 2020 (*):** Best Estate Agency Guide Award (South West London (Sales)). **The AllAgents Awards:** Best Overall Agent Award, Carshalton, Cheam Village, Mitcham and Morden – Gold Award, Best Estate Agency Award, Cheam Village and Mitcham – Gold Award, Best Lettings Agency Award, Carshalton, Cheam Village, Mitcham and Morden – Gold Award.
- *Intercounty:* **The Negotiator of the Year Awards:** Large Lettings Agency of the Year – Gold Award, Regional: East of England Agency of the Year – Gold Award. **Best Estate Agent Guide 2020 (*):** East of England (Lettings) – Winner.
- *JNP:* **The AllAgents Awards:** Best Estate Agency Award, Hazlemere, Princes Risborough and High Wycombe – Gold Award, Best Letting Agency Award, Princes Risborough – Gold Award.
- *Marsh & Parsons:* **UK Property Awards 2019:** Best Estate Agency Marketing, London – Gold Award, Best Real Estate Agency, Single Office, London – Award Winner. **The Drum Out of Home Advertising Awards 2019:** Best Local Campaign. **The Data and Marketing Association (DMA) Awards 2019:** Best Integrated Campaign and Best Customer Acquisition Campaign.
- *Reeds Rains:* **Best Estate Agent Guide 2020:** Reeds Rains Lettings – Best Estate Agency Guide Award. Bamber Bridge, Blackpool, Chorley, Didsbury, Garstang, Hanley, Huddersfield, Hull, Leyland, Manchester, Prescot, Rhyl, Sale, Salford, Stanley, Woodseats and York – Rated Exceptional (Lettings). Plaistow – Rated Exceptional (Sales). Bridlington, Castleford, Chester, Congleton, Durham City, Halifax, Hazel Grove, Hyde, Liverpool City Living, Macclesfield and Newcastle Under Lyme – Rated Excellent (Lettings). Chorley, Hillsborough, Salford Quays City Living, Wakefield and Wilmslow – Rated Excellent (Sales). **The AllAgents Awards:** Best Estate Agency Award, Kennington and Dartford – Gold Award.
- *Thomas Morris:* **Guild of Property Professionals 2019:** Lettings (East Anglia) – Gold Award, Sales (East Anglia) – Gold Award. **Fine & Country Awards 2019:** Branch of the Year, East of England. **The ESTAS:** Estate Agency of the Year Awards: Best Local Estate Agency Group – East of England. **The AllAgents Awards:** Best Estate Agency Award, St.Ives – Gold Award. **The Negotiator Awards 2019:** Estate Agency of the Year (6-9 branches) – Gold Award. **Relocation Agent Network Awards 2019:** Best Agent – Eastern Region. **Best Estate Agent Guide 2020 (*):** Best Estate Agency Guide Award (East of England (Sales & Lettings)).

Financial Services

- *TMA:* **Money Age Mortgage Awards 2019** – Best Mortgage Club of the Year. **Precise Mortgage Awards** – Residential Mortgage Club of the Year, Mortgage Strategist 2019, Lisa Martin.
- *PRIMIS:* **Financial Reporter Awards 2019** – Best Network. **Mortgage Introducer Awards 2019** – Mortgage Network of the Year. **The Financial Innovation Awards 2019** – Best Technology Initiative, United Kingdom.
- *LSL Financial Services:* **Precise Mortgage Awards:** Best Distribution Group 2019.

Surveying

- *e.surv Chartered Surveyors:* **Mortgage Finance Gazette Awards 2020:** Best Surveying Firm – Winner **Equity Release Awards 2019:** Best Surveyor – Winner. **Employee Benefits Awards 2019:** Best Alignment of Benefits to Business Strategy – Winner.

(*) As judged and announced in 2019.

Our people

The continued 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 in our Estate Agency, Financial Services and Surveying businesses. I would like to take this opportunity to thank all my colleagues across all our businesses for their professionalism and dedication during 2019. I look forward to working with my colleagues to deliver a successful year in 2020.

Outlook

The Group delivered a highly resilient Revenue and Underlying Operating Profit performance in 2019 in the context of challenging residential market conditions and the introduction of the tenant fee ban on 1st June 2019. This is a strong operational performance, as the successful execution of the stated Group strategy delivered tangible benefits to the Group's financial performance. We continue to deliver a range of proactive strategic and operational initiatives across our business lines, demonstrating the breadth of opportunity across the Group.

Market conditions to date in 2020 have been encouraging, reflected by our Estate Agency sales pipeline at 29th February 2020 being £3.6m ahead of the Board's prior expectations, benefiting from a favourable Estate Agency net sales performance during January and February. The operating profit performance of the Group in the two month period to 29th February 2020 has been, as expected, circa £2m ahead of the same period in the prior year, benefiting materially from the successful execution of the reshaping of the Your Move and Reeds Rains branch networks, which was announced on 5th February 2019. These benefits have now normalised year-on-year.

Whilst we have been encouraged by the residential property market conditions to date in 2020, the situation regarding the COVID-19 virus is rapidly evolving and we have in recent days, seen some slight softening of our lead sales indicators in Estate Agency. We are monitoring the situation very closely as it may create headwinds for our business in 2020 if changes in consumer behaviour impact residential property market conditions. As and when any potential impact on the Group becomes clearer, we will provide updates as necessary.

The Board intends to propose a final dividend of 7.2 pence per Share, resulting in a full year dividend of 11.2 pence per Share. This is a pay-out at the upper end of the range of LSL's stated dividend policy, reflecting our confidence in the current level of performance of the business and of our balance sheet strength. Taking into account the unknown potential impact of COVID-19 virus on the UK housing market, the LSL Board will keep the proposed final dividend under review ahead of presenting its proposal to Shareholders at the 2020 AGM.

The business is expected to continue to benefit from the range of LSL's on-going strategic and operational measures. The Group has a robust balance sheet with relatively low levels of gearing and is highly cash generative at an operational level. The Board remains confident of the opportunities for further positive progress for the Group.

Ian Crabb
Group Chief Executive Officer
10th March 2020

Notes:

1 Following the change to LSL's segment reporting effective from 1st January 2019, the 2018 revenue and Underlying Operating Profit of the Estate Agency and Financial Services Divisions have been restated. The Estate Agency Division also receives a commercially agreed commission payment from the Financial Services segment. This arrangement reflects Financial Services income generated from the Estate Agency segment. The 2018 revenue has been restated on this basis to assist comparison

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 Group Adjusted EBITDA is Group Underlying Operating Profit plus depreciation on property, plant and equipment (as defined in Note 5 to the Financial Statements)

4 Operational gearing is defined as Net Bank Debt divided by Group Adjusted EBITDA[3]. Excluding the impact of IFRS 16, gearing at 1.0x EBITDA

5 Bank of England - House Purchase Approvals and Total Mortgage Approvals

6 LSL estimates and including Land Registry regional data

7 LSL Property Services/ACADATA HPI

8 LSL sources/data analysis

9 UK Finance 'New mortgages by purpose of loan (excluding product transfers)'

10 UK Finance 'New mortgages sold by intermediaries'

11 UK Finance 'Possessions on mortgaged properties'

12 Which-Network – network performance figures

13 The profit per branch methodology has been consistently applied since the profit per branch ambition of £80k-£100k was first announced by LSL in March 2014. Profit per branch is calculated for Your Move, Reeds Rains and the LSLi owned branches and excludes Marsh & Parsons

14 LSL's market share is calculated using gross mortgage completions excluding product transfers

Advertisements from Marsh & Parsons' advertising campaign

Strategic Report

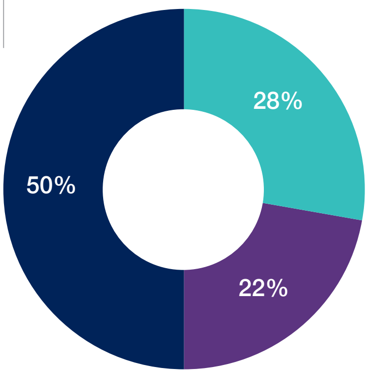
In this section

Strategy

During 2019 LSL remained 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

Group Revenue 2019

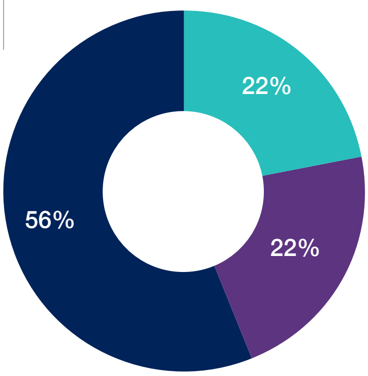
£311.1m



■ Estate Agency
■ Financial Services
■ Surveying

Full year 2019 average FTE

4,268



■ Estate Agency
■ Financial Services
■ Surveying

During 2019 LSL remained committed to delivering on its stated strategy which with effect from 1st January 2019 has been reported in three segments: Estate Agency, Financial Services, and Surveying and Valuation Services.

Estate Agency

- Ambition to achieve £80,000 to £100,000 profit per branch[1] in the medium term based on the expectation of a normalised level of market transactions.
- Ambition to expand the number of Marsh & Parsons branches to a total of 36 in the medium term, in particular outside prime Central London.
- Grow recurring and where market conditions permit, counter-cyclical income streams.
- Evaluate selective acquisitions of lettings books.

Financial Services

- Enhance LSL's position as a leading distributor of mortgage and non-investment insurance products.
- Consistent delivery of appropriate outcomes for consumers with a focus on "best practice" standards of regulatory compliance.
- Enhancement of technology solutions to improve the customer experience and operational efficiency.
- Evaluate further selective Financial Services acquisitions.

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 recruitment programme.

Business Model

Note: Business Model describes the Group's operations as at 31st December 2019

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 meaningful proportion of earnings as a dividend to Shareholders.

- LSL is a leading player in Surveying and Valuation Services, second largest combined network operating under the brand of PRIMIS in Financial Services, and has market leading positions in Estate Agency.
- 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 and non-investment 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.
- LSL services business customers in its Financial Services businesses such as financial services intermediaries and introducers; and retail customers through the provision of mortgage and non-investment brokerage services and other related services.
- 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 in the past due to its market positions in Lettings (recurring income) and Asset Management (counter-cyclical income).
- The re-structured keystone branches in Your Move and Reeds Rains provide a platform which benefits from their larger scale, enabling LSL to invest in people, technology and marketing with the aim of providing enhanced levels of service to their customers whilst ensuring operational performance is optimised by competing more effectively in local markets and utilising central hubs to handle certain administrative tasks centrally.
- The Financial Services business is a leading financial services distributor and benefits from highly regarded back-office and administration technology (Toolbox) which has been designed to build scale and opportunity for its financial services intermediaries.
- The model benefits from scale and investment to ensure the Surveying and Valuation Services 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 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

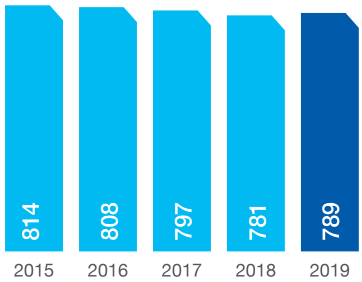
LSL operates across the residential property services value chain

Information in this section of the Report is as at 31st December 2019

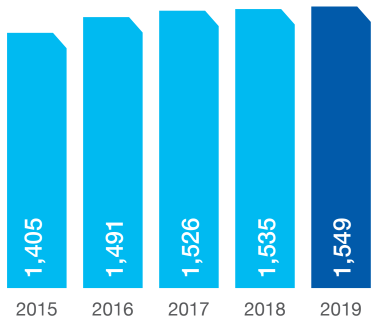
In 2019 total mortgage approvals increased by 0.9% to 1,549,000 (2018: 1,535,000)[1]
Overall house purchase approvals increased by 1.0% to 789,000 (2018: 781,000)[1]
Remortgage (and other) volumes of 761,000 were up by 0.9% compared to 2018 (2018: 754,000)[1].

Market transaction data

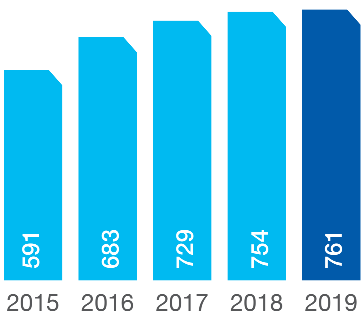
Total mortgage approvals for house purchase[1]
'000s



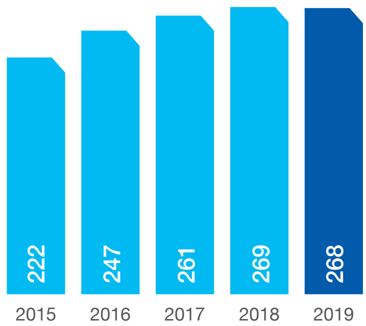
Total mortgage approvals[1]
'000s



Remortgage (and other) volumes[1]
'000s



Total gross mortgage lending[3]
£bn



LSL's markets:

During 2019 LSL's markets were categorised into three principal segments:

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

The Market in 2019

The UK residential property market remained challenging in 2019. HM Land Registry Property Transactions[3] in 2019 decreased by 7%. Full year Rightmove Total Market Residential New Instructions[4] decreased by 7% in 2019. Market transactions continued to decline in London and the South East[5] and Approvals for House Purchases[1] in 2019 were up by 0.9%. Total Mortgage Approvals[1] increased by 0.9% in 2019, with Remortgage Approvals up by 0.7%.

Average house prices[6] in England and Wales grew by 0.8% (2018: 0.5%) to £304k. Excluding London and the South East, the rest of England and Wales showed house price growth of 1.6%.

The proportion of residential housing stock available for sale with online and hybrid estate agents sector has declined on a year-on-year basis, decreasing from 7.6% in 2018 to 7.3% in 2019[7].

Total gross mortgage lending in 2019 was in line with the prior year at £268bn[2] (2018: £269bn). The proportion of mortgage lending in the market placed through intermediaries increased to 74% in 2019 (2018: 71%)[8].

Following market declines in the repossession market in the past few years, market repossessions volumes grew in 2019, increasing by 16% to 8,000[9] the highest since 2016, although still low in a historical context.

LSL's market position

LSL continues to hold market leading positions in its core Estate Agency business comprising 12 Estate Agency brands: Your Move, Reeds Rains, LSLi group (nine brands) and Marsh & Parsons. We continue to believe that traditional estate agents will represent the substantial majority of the Residential Sales and Lettings markets for the foreseeable future and that our Estate Agency branches will continue to remain core to providing the service our customers expect.

In Your Move and Reeds Rains, the newly established keystone network of 144 branches are situated in core locations across the UK and generally have larger teams of dedicated experts in Residential Sales, Lettings and Financial Services roles than the average Your Move and Reeds Rains branches previously had in place.

The continuing ambition for these keystone branches is to re-enforce a platform that will benefit from their larger scale, enabling us to invest in people and technology with the aim of providing enhanced levels of service to our customers whilst ensuring operational performance is optimised by competing more effectively in local markets. Our commitment to continued IT investment is intended to give these Your Move and Reeds Rains branches the opportunity to cover a wider geography and benefit from further scale.

Marsh & Parsons continues to implement its well-established strategy of expanding its branch network with a focus on locations outside prime Central London. During 2019 we opened two new Marsh & Parsons branches in Willesden Green and Streatham Hill, in outer prime Central London, which are performing in line with expectations.

The LSLi group of companies today operate 57 owned branches and they will continue with their existing strategy to develop the nine well-established local brands in their existing markets in the South East of England. In addition, in 2020 the LSLi group of companies will continue to actively evaluate opportunities for lettings book acquisitions.

In 2019, LSL further strengthened its position as a leading distributor of mortgage and non-investment insurance products and delivered strong overall growth in the value of mortgage completions which were up 9% to £31.7bn in 2019 (2018: £29.0bn). LSL's market share is estimated to be 8.5% (2018: 8.0%) of the total market value of mortgage completions. LSL is the second largest combined network nationwide, measured by the combined number of appointed representative firms. The number of financial advisers as at 31st December 2019 was 2,392 (2018: 2,321).

Our Surveying Division continued as a leading player in the market in 2019, maintaining strong relationships with many of the UK's largest lenders. During 2019 LSL was pleased to be awarded an extension to its contract to supply UK residential survey and valuation services to a major high street bank. LSL's Surveying Division is the UK's largest provider of residential valuation services nationwide and is the largest employer of residential surveyors in the UK[7] with 514 operational surveyors as at 31st December 2019.

Estate Agency

Estate Agency Division[10] 49.8%

of Group Revenue in 2019 (2018: 56.6%)

The Estate Agency segment (the Estate Agency Division) includes Residential Sales and Lettings, Asset Management (including repossessions asset management services for lenders and property management for multi-property landlords), and Financial Services, a commercially agreed commission payment from the Financial Services segment which reflects Financial Services income generated from the Estate Agency segment.

Residential Sales and Lettings 40.2%

of Group Revenue in 2019 (2018: 45.1%)

- Residential Sales services for residential property sales.
- Comprehensive Lettings service for residential landlords and tenants.

Financial Services 4.4%

of Group Revenue in 2019 (2018: 5.1%)

- Commercially agreed commission payment from the Financial Services segment.

Asset Management 1.7%

of Group Revenue in 2019 (2018: 1.7%)

- Repossessions asset management services for lenders.
- Property management services for multi-property landlords.
- Repossession volumes increased by 16% to 8,000 (2018: 6,900) in 2019[9] in a historically low market.

Other income 3.5%

of Group Revenue in 2019 (2018: 4.8%)

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

Financial Services

Financial Services Division[10] 22.4%

of Group Revenue in 2019 (2018: 21.9%)

- Three Financial Services intermediary networks all trading as PRIMIS which are authorised and regulated by the FCA and provide support and supervision to financial services intermediaries.
- Brokerage services for mortgages and non-investment insurance products.
- Arranged £31.7bn mortgage completions in 2019 (2018: £29.0bn).
- Combined appointed representative networks is the second largest in the UK[11] measured by number of appointed representative firms. The number of financial advisers as at 31st December 2019 was 2,392 (2018: 2,321).

Surveying and Valuation Services

Surveying and Valuation Services 27.8%

of Group Revenue in 2019 (2018: 21.5%)

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

2 UK Finance 'New mortgages by purpose of loan'

3 HM Land Registry Property Transactions data for 2019 released January 2020

4 Rightmove Total Market Residential New Instructions data for 2019 released January 2020

5 LSL estimates and including Land Registry regional data

6 LSL Property Services/ACADATA HPI

7 LSL sources/data analysis

8 UK Finance 'New mortgages sold by intermediaries'

9 UK Finance 'Possessions on mortgaged properties'

10 Following the change to LSL's segment reporting effective from 1st January 2019, the 2018 revenue of the Estate Agency and Financial Services Divisions have been restated. The Estate Agency Division also receives a commercially agreed commission payment from the Financial Services segment. This arrangement reflects Financial Services income generated from the Estate Agency segment. The 2018 revenue has been restated on this basis to assist comparison

11 Which-Network – network performance figures

Business Review

Estate Agency Division

-16%
Total income
2018: +3%

-17%
Exchange income
2018: -9%

-12%
Lettings income
2018: +4%

-17%
Financial Services income
2018: +17%

+12%
Fee per exchange unit
2018: +1%

9.3%
Operating margin
2018: 6.0%

Financial	2019 £m	2018 Restated[1] £m	% change
Residential Sales exchange income	57.7	69.9	-17
Lettings income	67.3	76.6	-12
Financial Services income	13.6	16.4	-17
Asset Management income	5.3	5.5	-4
Other income[2]	11.1	15.4	-29
Total income	154.9	183.8	-16
Operating expenditure	(140.5)	(172.7)	+19
Underlying Operating Profit[3]	14.5	11.1	+30

KPIs	2019	2018	% change
Exchange units	16,707	22,747	-27
Underlying Operating Margin (%)	9.3	6.0	
Fees per unit (£)	3,452	3,071	+12

Market data			
House purchase approvals (000s)[4]	789	781	+1
Total mortgage approvals (000s)[4]	1,549	1,535	+1
UK housing transactions (000s)[5]	1,181	1,191	-1
Repossessions[6]	8,000	6,900	+16

Notes:

1 Following the change to LSL's segment reporting effective from 1st January 2019, the 2018 revenue and Underlying Operating Profit of the Estate Agency and Financial Services Divisions have been restated. The Estate Agency Division also receives a commercially agreed commission payment from the Financial Services segment. This arrangement reflects Financial Services income generated from the Estate Agency segment. The 2018 revenue has been restated on this basis to assist comparison

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

3 Refer to Note 5 to the Financial Statements for the calculation

4 Bank of England for 'House Purchase Approvals' and 'Total Mortgage Approvals'

5 HMRC 'Monthly property transactions completed in the UK with value of £40,000 or above'

6 UK Finance 'Possessions on mortgaged properties'

Estate Agency Division performance

LSL announced the reshaping of its Your Move and Reeds Rains branch networks on 5th February 2019. LSL is pleased that the implementation of this programme has progressed in line with our expectations despite the scale and complexity of the project. During the first quarter of 2019, the Your Move and Reeds Rains estate agency branch network was reshaped from 308 owned branches to 144 keystone branches following the closure and merging of 81 neighbouring branches into the keystone branch network, the franchising of 39 branches and the closure of 44 branches.

Including the impact of this reshaping, total Estate Agency revenue of £154.9m (2018: £183.8m) decreased by 16%. Adjusting for the closure of the Your Move and Reeds Rains branches during the first quarter of 2019, like-for-like total revenue decreased by 5% compared to 2018.

The Underlying Operating Profit performance was strong with 30% growth in 2019 to £14.5m (2018: £11.1m), benefiting materially from the reshaping of the Your Move and Reeds Rains branch networks, with Estate Agency Division operating expenditure decreasing by 19%. Underlying Operating Margin improved to 9.3% (2018: 6.0%).

Residential net sales for the Your Move and Reeds Rains keystone branches increased slightly in 2019, despite the challenging market conditions during the year, and showed modest growth in market share as measured by new instructions during 2019.

Residential Sales exchange income

Residential Sales exchange income decreased by 17% to £57.7m (2018: £69.9m), average fees per unit increased by 12% to £3,452 (2018: £3,071) and

Residential Sales exchange volumes fell by 27%. On a like-for-like basis, adjusting for the Your Move and Reeds Rains branch network reshaping, Residential Sales exchange income decreased by 3%, average fee per unit was in line with prior year, and Residential Sales exchange volumes fell by 3%.

Lettings income
Total Lettings income decreased by 12% to £67.3m (2018: £76.6m). On a like-for-like basis, adjusting for the reshaping of the Your Move and Reeds Rains branch networks, Lettings income was down 4% on the prior year. Lettings income represented 43% of total Estate Agency Division income in 2019 (2018: 42%). Legislation banning tenant fees came into effect on 1st June 2019 and LSL implemented the required changes across its Estate Agency brands.

Financial Services income
Following the change to LSL's segment reporting effective from 1st January 2019, the Estate Agency Division receives a commercially agreed commission payment from the Financial Services segment. This arrangement reflects Financial Services income generated from the Estate Agency segment. The 2018 revenue has been restated on this basis to assist comparison. Financial Services income was down 17% to £13.6m (2018: £16.4m) reflecting the planned reshaping of the Your Move and Reeds Rains branch network.

Other income
Other income fell by 29% year-on-year in large part due to a fall in conveyancing income due to lower Residential Sales transaction volumes following the branch network reshaping.

Asset Management
Asset Management maintained its market position in the historically low repossessions market. Other income included in this category was down during the period.

Branch numbers
Breakdown of LSL's Estate Agency branches as at 31st December 2019 and 31st December 2018:

	Owned	Franchise	Total 2019	Total 2018
Your Move	89	80	169	252
Reeds Rains	55	50	105	152
Sub total	144	130	274	404
LSLi	57	2	59	59
Marsh & Parsons	30	0	30	28
Total	**231**	**132**	**363**	**491**

The total number of Estate Agency branches reduced by 128 in 2019, following the changes to the structure of the Your Move and Reeds Rains estate agency branch networks announced on 5th February 2019 which reduced the total number of Your Move and Reeds Rains branches from 404 to 279 of which 144 are owned keystone branches and 135 are franchised. Subsequent to these announced changes, there have been closures of five pre-existing franchise branches and the opening of two new branches in Marsh & Parsons.

Residential sales and lettings regulation
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 ARLA Propertymark and NAEA Propertymark. 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.

During the year LSL implemented the *Tenant Fee Act 2019* ahead of the June 2019 commencement date which included a review of and updates to pricing policy and transparency of fees and charges to tenants and landlords to ensure compliance across all LSL's Lettings businesses. All Lettings businesses also ensured compliance with new rules introduced in relation to mandatory Client Money Protection, prior to the commencement deadline in April 2019.

Across LSL's Residential Sales and Lettings businesses, all businesses have been working towards compliance with guidance issued by the National Trading Standards Agency in April 2019 requiring disclosure to clients of referral fees earned from introductions to third parties. LSL's Residential Sales and Lettings businesses have also been impacted by the introduction into UK law of the *Money Laundering Regulations 2019 (MLR 2019)* in December 2019, which applies the full compliance regime set out in the *MLR 2019* to certain high value Lettings activities for the first time. The *MLR 2019* also requires Residential Sales businesses to undertake more detailed checks in relation to the beneficial ownership of corporate entities looking to sell or buy property through LSL's businesses.

LSL from time to time also enters into direct dialogue with the regulators and consumer groups. During 2019 there continued to be significant focus on housing issues and 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 is expected to continue during 2020. This includes legislation and consultations impacting and relating to both Residential Sales and Lettings activities. The Group also considered the varying outcomes of the general election result which took place in December 2019 as part of its business planning, and this included consideration of the impact that a change in UK Government could have on the housing sector as a result of changes to housing policy and regulation.

LSL continues to monitor Government led policy changes in areas such as the proposed regulation of lettings agents, the implementation of selective licensing by local authorities, the review of measures which seek to improve rental arrangements in the private rental sector and the proposal to create a specialist housing court. In relation to Residential Sales this has included monitoring the work being undertaken by the Government's *Regulatory Property Agents: Working Group*, the *Review of the Home Buying and Selling Process* (which included a review of referral fees) and the proposal to create a single property ombudsman.

The Estate Agency Division has a dedicated Risk and Compliance Team which together with the Group's Legal Services Team provides support to the Estate Agency businesses. The Estate Agency Risk and Compliance Team is subject to an annual review by the LSL Audit and Risk Committee with the Director of Risk and Compliance being invited to present to the Audit and Risk Committee each year. The Estate Agency's Financial Services activities are subject to the oversight of First Complete (see the *Regulation* element of the *Business Review – Financial Services Division* section of this Report for further details) as the businesses are appointed representatives of First Complete.

Please also refer to the *Principal Risks and Uncertainties* section of this Report for details of how the Estate Agency Risk and Compliance Team forms part of the Group's risk management and internal control arrangements, together with details of how the Group describes and mitigates risks and uncertainties relating to regulation and compliance.

Business Review

Financial Services Division

-2%
Revenue
2018: +23%

16.7%
Operating profit margin
2018: 13.3%

878
Number of appointed representatives
2018: 841

2,392
Total advisers
2018: 2,321

Financial	2019 £m	2018 Restated[1] £m	% change
Revenue	69.8	71.0	-2
Operating expenditure	(58.2)	(61.5)	+5
Underlying Operating Profit[2]	11.6	9.5	+23

KPIs	2019	2018	% change
Underlying Operating Margin (%)	16.7	13.3	
LSL mortgage completion units (000s)	179.4	166.0	+8
LSL mortgage completion lending[3] (£bn)	31.7	29.0	+9
Total advisers at 31st December	2,392	2,321	+3
Number of AR firms at 31st December	878	841	+4
Gross new mortgage lending[4] (£bn)	267.6	268.7	–

Notes:

[1] Following the change to LSL's segment reporting effective from 1st January 2019, the 2018 revenue and Underlying Operating Profit of the Estate Agency and Financial Services Divisions have been restated. The Estate Agency Division also receives a commercially agreed commission payment from the Financial Services segment. This arrangement reflects Financial Services income generated from the Estate Agency segment. The 2018 revenue has been restated on this basis to assist comparison

[2] Refer to Note 5 to the Financial Statements for the calculation

[3] LSL mortgage completions lending quoted include product transfers

[4] UK Finance 'New mortgage lending by type of lender (excludes product transfers)'

Financial Services Division performance

Total Financial Services Division revenue including Estate Agency for the year was down by 2% to £69.8m (2018: £71.0m), reflecting the impact of the planned closure of the Your Move and Reeds Rains branches. Financial Services organic revenue growth was 1% year-on-year, excluding Estate Agency.

In 2019, LSL further strengthened its position as a leading distributor of mortgage and non-investment insurance products and LSL delivered strong overall growth in the value of mortgage completions which were up 9% to £31.7bn in 2019 (2018: £29.0bn). LSL's market share is estimated to be 8.5% (2018: 8.0%) of the total market value of mortgage completions. LSL is the second largest combined network nationwide, measured by combined number of appointed representative firms. The number of financial advisers as at 31st December 2019 was 2,392 (2018: 2,321).

The Financial Services Division delivered a strong performance with Underlying Operating Profit[1] up 23% to £11.6m (2018: £9.5m) reflecting growth in core businesses and the benefit of the acquisitions of PTFS and RSC in Q1 2018. The Financial Services Division continues to display positive progress across its breadth of products including mortgage products, pure protection products and general insurance products. The integration of PTFS, which was acquired in January 2018, is delivering cost synergy benefits in line with expectations.

In 2019, the roll-out of the Toolbox operating system was completed in line with expectations, to the full network of over 2,300 brokers and 500 administrators (part of rationale for acquiring PTFS).

Financial Services regulation

LSL's Financial Services business includes three FCA regulated firms, First Complete Limited, Advance Mortgage Funding Limited, and Personal Touch Financial Services Limited, which all trade as PRIMIS Mortgage Network.

First Complete Limited, Advance Mortgage Funding Limited, and Personal Touch Financial Services Limited have regulatory permission to advise on and arrange mortgages and insurance products for their customers. Personal Touch Financial Services Limited also has regulatory permission in relation to pension and investment advice, but is intending to relinquish these permissions. First Complete Limited, Advance Mortgage Funding Limited, and Personal Touch

Financial Services Limited each act as a principal to a network of appointed representatives.

The following LSL Group companies are appointed representatives of First Complete for mortgage and insurance business; your-move.co.uk Limited, Reeds Rains Limited, First2Protect Limited, Mortgages First Ltd, Insurance First Brokers Ltd, RSC New Homes Limited and Embrace Financial Services Ltd. Linear Mortgage Network Limited is an appointed representative of Advance Mortgage Funding Limited for mortgage and insurance business, and is also an appointed representative of Openwork Limited for pensions and investment advice.

LSL's authorised and regulated Financial Services businesses are subject to Financial Ombudsman Service (FOS) jurisdiction and contribute to the funding of the Financial Services Compensation Scheme through regulatory fees and charges.

LSL is an active member of the Association of Mortgage Intermediaries (AMI) which is an industry representative and trade body for mortgage and insurance financial services businesses. Through membership of AMI, LSL engaged in FCA market studies and regulatory consultations during 2019. LSL will continue to engage with the FCA and other relevant regulatory bodies during 2020.

Please also refer to the *Principal Risks and Uncertainties* section of this Report for details of how the Financial Services Compliance Team forms part of the Group's risk management and internal control arrangements, together with details of how the Group describes and mitigates risks and uncertainties relating to regulation and compliance.

Business Review

Surveying Division

+24%
Revenue
2018: +9%

-11%
Income per job
2018: -8%

18.9%
Profit margin
2018: 29.3%

514
Number of qualified surveyors
2018: 503

Financial	2019 £m	2018 £m	% change
Revenue	86.4	69.8	+24
Operating expenditure	(70.0)	(49.4)	-42
Underlying Operating Profit[1]	16.3	20.4	-20

KPIs	2019	2018	% change
Underlying Operating Margin (%)	18.9	29.3	
Jobs performed (000s)	508	366	+39
Revenue from private surveys (£m)	1.8	2.1	-16
Income per job (£)	170	191	-11
Historic PI Costs provision (balance sheet) at 31st December (£m)	8.2	12.4	-34
Number of operational surveyors at 31st December (FTE)[2]	514	503	+2
Total mortgage approvals (000s)[3]	1,549	1,535	+1

Notes:
[1] Refer to Note 5 to the Financial Statements for the calculation
[2] Full Time Equivalent (FTE)
[3] Bank of England for House Purchase Approvals and Total Mortgage Approvals

Surveying Division performance
Surveying Division revenue increased by 24% to £86.4m (2018: £69.8m), which included a material contribution from the successful commencement of the Lloyds Bank plc surveying and valuation services contract, awarded in May 2018. Total number of jobs performed during the year were 508,061 (2018: 365,504).

Revenue in the first half of 2019 was up by 37% year-on-year, which included a material contribution from the successful commencement of the Lloyds Bank plc surveying and valuation services relationship awarded in May 2018 and which commenced in the second half of September 2018. Revenue in the second half of 2019 was up 13% on the same period in 2018, reflecting the commencement of the Lloyds Bank plc contract from September 2018.

Income per job in 2019 reduced to £170 (2018: £191) due to a change in the business mix. Total Surveying Division expenditure increased due to the additional headcount from the transfer of Lloyds Bank plc personnel to e.surv following the award of the new contract in May 2018. As a result, LSL reported a reduced Underlying Operating Profit in 2019 of £16.3m (2018: £20.4m) with a profit margin of 18.9% (2018: 29.3%). Profit margin was 14.8% in the first half of 2019, improving to 22.9% in the second half of 2019.

The total number of operational surveyors at 31st December 2019 was 514 (2018: 503). In 2020 the Surveying Division will continue to focus on its successful graduate programme, which assists in alleviating the impact of capacity constraints in the market.

During the first half of 2019, the Surveying Division was pleased to be awarded an extension to its contract to supply UK residential survey and valuation services to a major high street bank.

Work is on-going to leverage the scale benefits of the Surveying Division with the aim of improving cost efficiency.

The technology roll-out continued during 2019 with further functionality releases designed to enhance quality and drive efficiencies, for example updated surveyor software application to improve the user experience and surveyor efficiency.

At 31st December 2019 the total provision for PI Costs was £8.2m (2018: £12.4m). In 2019, the Group continued to make positive progress in addressing historic claims and there has been a net £2.5m exceptional gain in the year.

Financial Review

£311.1m
Group Revenue
Down 4% (2018: £324.6m)

£37.0m
Group Underlying Operating Profit
Up 3% (2018: £35.9m)

£38.8m
Cash generated from operations
Up 5% (2018: £36.9m)

£19.7m
Group operating profit
Down 22% (2018: £25.4m)

Income Statement

Group Revenue
Revenue decreased by 4.2% to £311.1m in the year ended 31st December 2019 (2018: £324.6m).

Other operating income
Other income of £887,000 (2018: £557,000) for the year ended 31st December 2019 increased 59.2% and comprised of rental income. The increase is a result of new leases on properties no longer occupied by the Group.

Gain on sale of property, plant and equipment
There was a gain of £148,000 (2018: £34,000) in the year ended 31st December 2019 resulting from the disposal of commercial property.

Income from joint ventures and associates
Income from joint ventures and associates was £441,000 (2018: £259,000).

Total operating expenses
Total operating expenses decreased by 4.9% to £275.5m (2018: £289.6m). The decrease is largely driven by the reshaping of the Your Move and Reeds Rains branch networks, announced on 5th February 2019, which was partly offset by an increase in Surveying operating expenses with the full year impact of the transfer to e.surv of the existing Lloyds Bank plc surveyors and back-office employees as part of the contract awarded to e.surv during May 2018, which commenced in September 2018.

Group Underlying Operating Profit
Group Underlying Operating Profit[1] increased by 3.2% to £37.0m (2018: £35.9m) with an Underlying Operating Margin of 11.9% (2018: 11.1%). Excluding the impact of IFRS 16, Group Underlying Operating Profit of £36.2m was 1% ahead of prior year (2018: £35.9m).

On a statutory basis, Group operating profit decreased to £19.7m (2018: £25.4m). This decrease is largely driven by exceptional costs resulting from the reshaping of the Your Move and Reeds Rains branch networks. In 2019 there was a net exceptional cost of £13.2m compared to the 2018 financial results which included a net exceptional cost of £3.0m. Group operating profit was positively impacted in the year by a £2m credit relating to contingent consideration, compared to a £1.8m cost in 2018.

Group Adjusted EBITDA
Group Adjusted EBITDA[2] increased by 24.8% to £51.9m (2018: £41.6m), following the adoption by LSL from 1st January 2019 of IFRS 16 Leases. Depreciation of £10.0m has been recognised in the 2019 financial year against the right of use assets created by leasing contracts. Excluding the impact of IFRS 16 Group Adjusted EBITDA was down 2% to £40.9m (2018: £41.6m).

Share-based payments
The share-based payment charge of £312,000 (2018: £349,000) consists of a charge in the period of £1.6m offset by the lapse of the 2017 LTIP scheme as well as adjustments for leavers in the period.

Amortisation of intangible assets
The amortisation charge for 2019 was £5.8m (2018: £5.3m). The increase in 2019 is the result of amortisation on lettings books purchased in the year and software amortised across the Group.

Exceptional items
Total 2019 net exceptional cost of £13.2m included a £2.5m PI Costs exceptional provision release (H119: £0.6m, H219 £1.9m) as claims were settled below previous expectations, and £15.7m of exceptional costs. The majority of which were in relation to the restructuring of the Estate Agency Division, announced on 5th February 2019.

Net financial costs
Net financial costs amounted to £3.7m (2018: £2.3m). The finance costs related principally to interest and fees on the RCF and the unwinding of discounts on provisions and contingent consideration. Additional finance costs of £1.6m in the current year relate to the unwinding of the IFRS 16 lease liability.

Taxation
The UK corporation tax rate reduced to 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 (2018: 17%). Corporation tax is recognised at the headline UK corporation tax rate of 19% (2018: 19%).

The effective rate of tax for the year was 19.0% (2018: 22.5%). The effective tax rate for 2019 is equal to the headline UK tax rate for a number of reasons, but the most significant is the depreciation of assets which do not qualify for capital allowances, which are offset by non-taxable income in relation to contingent consideration.

Deferred tax credited directly to other comprehensive income is £0.1m (2018: £0.0m). Income tax credited directly to the share-based payment reserve is £0.0m (2018: £0.0m).

In 2019 corporation tax payments of £5.5m (2018: £6.9m) were made which is greater than the current year corporation tax charge of £4.0m (2018: £5.9m). This is a result of two quarterly payments being made in the year in respect of the year ended 31st December 2018 liability, which is higher than the corporation tax charge for the year ended 31st December 2019.

Basic Earnings Per Share

The Basic Earnings Per Share was 12.6 pence (2018: 17.4 pence). The Adjusted Basic Earnings Per Share[3] is 28.0 pence (2018: 27.2 pence), an increase of 2.9% which is 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 and amortisation provides a better and more consistent indicator of the Group's underlying performance.

Balance Sheet

Goodwill

There has been no impairment in 2019 in respect of the carrying amount of goodwill or brand (an indefinite useful life asset) held on the balance sheet. In 2019 goodwill has increased by £140k to £159.9m (2018: £159.7m). The increase is due to lettings book acquisitions in the year.

Other intangible assets and property, plant and equipment

Total capital expenditure in the year amounted to £4.9m (2018: £6.0m) which includes expenditure of £1.3m (2018: £1.1m) for new software which has been treated as an intangible asset. The Group recognised £43.2m of lease liabilities on the balance sheet at transition to IFRS 16 on 1st January 2019, with corresponding right of use assets of £43.8m. At the year end the Group had £37.2m lease liabilities on the balance sheet and £36.2m corresponding right of use assets. IFRS 16 lease liabilities are excluded from the Group's Net Bank Debt calculation.

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

Financial assets

LSL holds financial assets of £9.3m (2018: £11.6m). The decrease in the year is in part, as a result of the revaluation of LSL's shareholding in Yopa at the half year, as already reported in the *Interim Results* for the six months ended 30th June 2019. There has been additional downward revaluation at the year end in Vibrant Energy Matters and as a result of the disposal of LSL's shareholdings in eProp Services plc, which were offset in part by the issuance of loan notes to an associate company and the addition of sub-lease assets on transition to IFRS 16.

LSL has a 8.8% minority shareholding in Yopa. LSL recognised a fair value impairment of £1.3m at the half year 2019 through the *Statement of Other Comprehensive Income*. The carrying value of the Group's investment in Yopa remains unchanged from the half year and has been assessed as £6.5m (June 2019: £6.5m and December 2018: £7.8m).

Joint ventures, investments and associates

The Group has two joint ventures and one associate: a 33.3% (2018: 33.3%) interest in TM Group, whose principal activity is to provide property searches, a 50% (2018: 50%) interest in LMS whose principal activity is to provide conveyancing panel management services. LMS and TM Group are held in the balance sheet at £8.8m and £1.5m respectively (2018: £8.2m and £1.5m).

During 2018, LSL acquired a 34.69% interest in Mortgage Gym, a digital mortgage marketplace, for cash consideration of £4.1m. Mortgage Gym is held in the balance sheet at a value of £2.7m as at 31st December 2019 (2018: £3.6m) reflecting the opening carrying amount less losses of £0.9m in the period.

Financial Liabilities

Net Bank Debt

As at 31st December 2019 Net Bank Debt[4] was £41.9m (2018: £32.1m) and Shareholders' funds amounted to £141.2m (2018: £142.6m) with a balance sheet gearing of 29.7% (2018: 22.5%). The increase in Net Bank Debt incorporated total exceptional cash expenditure of £8.8m (the majority of which related to the reshaping of the Your Move and Reeds Rains branch networks), £9.9m in respect of deferred and contingent consideration for Group First and PTFS, and seven lettings book acquisitions during the year. The 2019 gearing level was 0.8 times[5] Group Adjusted EBITDA (2018: 0.8 times). Adjusting for the impact of IFRS 16 Leases, 2019 gearing was 1.0 times.

Bank facilities

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

Deferred and contingent consideration

Within financial liabilities, LSL has £0.1m (2018: £2.1m) of deferred consideration and £5.8m (2018: £15.0m) of contingent consideration. The contingent consideration relates primarily to Group First (£1.5m) and RSC (£3.6m).

Provisions for liabilities:

Professional indemnity (PI) claim provision

At 31st December 2019, the total provision for historic PI Costs was £8.2m (2018: £12.4m). In 2019, the Group continued to make positive progress in addressing historic claims and there has been a net £2.5m exceptional gain.

Onerous lease

As at 31st December 2019 LSL held onerous lease provisions of £440,000 (2018: £130,000).

Net assets

The Group's net assets as at 31st December 2019 were £141.2m (2018: £142.6m).

Statement of Cash-flows

The Group generated strong cash from operations of £38.8m (2018: £36.9m) converting 105% of Group Underlying Operating Profit to cash-flow from operations (pre PI and exceptionals) (2018: 103%). The small increase in conversion from 2018 is primarily related to the decrease in trade and other receivables of £5.4m (2018: increase of £3.8m) offset in part by the decrease in trade and other payables of £6.2m (2018: decrease of £0.1m), resulting in part from normalised Surveying revenue levels in the last quarter of 2019 in comparison to the last quarter of 2018. Provisions also decreased by £3.9m (2018: decrease of £3.6m) due to the positive progress in addressing historic PI claims.

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.

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 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

[4] Refer to Note 32 to the Financial Statements for the calculation

[5] Operational gearing is defined as Net Bank Debt divided by Group Adjusted EBITDA[2]

Stakeholder Engagement Arrangements

This section of the Report details how LSL engages with its stakeholders and has regard to its stakeholders in its decision-making arrangements.

The Group's key stakeholders are identified as:

- employees (workforce);
- customers;
- suppliers; and
- Shareholders.

While other stakeholder groups exist and are regularly considered, the reporting below focuses on the above key groups.

Additional information relating to stakeholder engagement arrangements and activities are also included in the *Report of the Directors'*, *Corporate Social Responsibility* and *Corporate Governance* sections of this Report. Information included in this section and elsewhere in the Report is provided in accordance with relevant legislation and *the Code*.

Stakeholder Engagement – in accordance with relevant legislation and *the Code*:

Set out below is a description of how the Directors have engaged with the Group's workforce in 2019 and how the Directors have had regard to the need to foster LSL's relationships with all key stakeholders including suppliers and customers during the year.

During 2019 the Board continued to embed improvements to its governance arrangements which were implemented in 2018 including in particular reporting arrangements to ensure that items presented to the Board for approval clearly identify stakeholders that are relevant to that particular decision and the potential impact that the decision may have on those stakeholder groups.

During 2019 in response to an action arising from the 2018 Board evaluation exercise, the Board received the findings of a review of the Group's governance arrangements in relation to stakeholder engagement. This followed on from activities in 2017 and 2018, where the Group identified its stakeholders. Taking this identification into account, the 2019 governance review of stakeholder engagement sought to identify the ways in which the Group engages with its diverse range of stakeholders. The completion of this exercise was monitored by the Board and was also reported to the Executive Committee.

Employee Engagement:

In relation to principle D and provision 5 of *the Code*, in 2019 the Board has implemented arrangements in relation to workforce engagement by approval of the designation of Darrell Evans as the independent Non Executive Director for workforce engagement.

In his new role, Darrell has engaged with LSL's existing Group Employee Forum. Darrell is fulfilling his role with support from the Group HR Director and the Company Secretary. A role profile has also been prepared for this role which takes into account the requirements of *the Code*.

The Group Employee Forum will operate as the vehicle for Darrell to establish regular dialogue with the Group's workforce. This dialogue includes Darrell's attendance at an annual meeting with the Group Employee Forum which, in order to maximise the effectiveness of the meeting, takes place after the annual employee survey results have been published to enable the Group to analyse current data relating to employee views. Darrell attended his first meeting of the forum in 2019. See also the *Corporate Governance Report* for further information.

The 2019 Employee Forum discussed LSL's *Employee Mental Health/Well-being Project* (Project) that was due to be launched at the beginning of 2020 and the Employee Forum requested that the Board be asked to confirm its support for this Project. Darrell, with support from the Group HR Director, provided this feedback to the Board and in response, the Directors each confirmed their support for the Project and the mental health pledge which was included.

The Board also 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. Details of further communication with the workforce (including information relating to the employee survey) can be found in the *Corporate Social Responsibility* and *Report of the Directors* sections of this Report.

Employee considerations are also taken into account by the Board in its decision making process. See also the *s172 Statement* included below for examples of how employee considerations were taken into account in relation to the Board's decision making during 2019. The *Corporate Social Responsibility Statement* describes how the Board communicates with the Group's employees.

Shareholders:

LSL consults and meets with Shareholders to take into account their views and during 2019 LSL consulted with significant Shareholders with regards to proxy voting; and in relation to Remuneration Policy changes which are being presented to the 2020 AGM, the Remuneration Committee Chair supported by the Group HR Director consulted with significant Shareholders. Further details of these consultations can be found in the *Corporate Governance Report* and *Directors' Remuneration Report*.

Customers:

The Executive Committee during the year monitors KPIs relating to customer service which is presented to the Board annually as part of a Customer Outcomes review. By monitoring customer outcomes data the Board and Management Teams are able to take into account customer views regarding its products and services. The Board will also as part of Special Business presentations during the year receive reports on customer feedback, which includes consumer surveys and feedback from key lender clients.

Suppliers:

During the year, the Group manages its key suppliers through supplier management protocols which include reviews of contractual performance. The Board will also as part of Management's reporting, including Special Business presentations, receive information relating to key supplier engagements.

s172 Companies Act 2006 Statement:
Set out below is LSL's statement on how stakeholder considerations were taken into account in relation to two Board decisions during 2019. Section 414CZA of the Companies Act 2006 requires a statement describing how the directors have had regard to the stakeholder matters set out in section 172 (a) to (f) of the Act when performing their duty to promote the success of the company under that section. Members of the Board receive regular updates on their duties and responsibilities as directors of the company which help inform their decision making. In addition, the board papers and presentations considered by directors before they arrive at decisions take into account the interests of all relevant stakeholders.

The two examples demonstrate how the Board had regard to stakeholder considerations in relation to principal decisions made during the year. Because stakeholder considerations are relevant to both 'business as usual' and to 'strategic' decision making, the disclosures below include examples of both.

1. Strategic decision:
Reshaping of the Your Move and Reeds Rains branch network ('new ways of working programme'):

In approving the reshaping of the Your Move and Reeds Rains branch networks, which was announced on the 5th February 2019, the Board had regard to a number of key stakeholder related factors in reaching its decision:

Employees:
The simplification and streamlining of the Your Move and Reeds Rains operations was expected to result in a headcount reduction. In approving the proposed reshaping, the Board sought to minimise job losses wherever possible by the franchising of branches, the merging of branches with keystone branches and offering alternative employment where available within the Group.

Customers:
The Directors considered the impact that the simplification and streamlining of the Your Move and Reeds Rains operations would have on customers and concluded that the formation of the keystone branches would create a platform, that would benefit from their larger scale, and that would enable targeted investment with the aim of providing enhanced levels of service to Your Move and Reeds Rains customers.

Suppliers:
Supplier considerations were not regarded as a major element of this decision as there were none whom the Board considered to be key stakeholders.

The long-term:
The Board considered the changes to the Your Move and Reeds Rains branch networks would better position Your Move and Reeds Rains in the longer term by improving their operational performance and market competitiveness.

Shareholders:
The Board also took account of the financial returns of the project, and considered that delivering the new ways of working programme into Your Move and Reeds Rains was expected to deliver material improvement in their operating profit, assuming no material change in market conditions; and as such would be of benefit to Shareholders.

Taking into account all of the considerations above, the Board concluded it was in the best interests of LSL to approve the reshaping of the Your Move and Reeds Rains branch networks.

2. 'Business as usual':
Annual Renewal of the Group's Insurance Policies:
During 2019, the LSL Board approved the renewal of the Group's various insurance policies ahead of renewal dates. The policies, which include: professional indemnity; employer liability; occupiers' liability; cyber; fleet; crime; and business disruption, form part of the Group's risk management arrangements.

In approving the renewal arrangements, the Board had regard to the following key stakeholder considerations in its decision making:

Shareholders:
The Board considered that the terms of the renewals would give protections to the Group for an appropriate cost, and thus support the protection of Shareholder interests.

Customers, suppliers, employees and the community:
The Directors considered that the renewal arrangements would provide relevant reassurances and protections to customers, suppliers, employees and the wider communities the Group businesses operate within.

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 in discharging this role) on a regular basis identifies, evaluates and manages the principal risks and uncertainties faced by the Group; as well as factors which could adversely affect its business, operating results and financial condition.

This part of the Report describes LSL's risk management and internal controls arrangements during 2019 and includes a summary of the principal risks and uncertainties faced by the Group during 2019.

Management of risk appetite

During 2019, in line with the FRC's Guidance on *Risk Management, Internal Control and Related Financial and Business Reporting*, the Board continued to manage the Group's risk appetite through the risk appetite framework to ensure continued compliance with *the Code* and related FRC guidance. The Board through its established culture and underlying processes, expresses and reviews 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.

LSL's risk appetite framework has developed in accordance with the Board's risk framework policy. This policy defines 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 expects 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 the identification of actions needed to bring any specific outlying areas of risk within target levels.

During 2019, the Group has continued to promote and support the enhancement of risk frameworks within each of the Group's subsidiary businesses, including the maintenance of risk appetite measures by each subsidiary. Each year, each subsidiary business quantifies their highest ranked risk areas and routinely provide the Audit & Risk Committee with graphical management information to facilitate the tracking of risk status versus tolerance by the subsidiary boards and governance committees which operate within each of the three Divisions. The framework continues to improve the visibility of action plans to address any core risk areas considered outside tolerance.

Risk management activities in 2019 included the development of more formalised linkages between subsidiary risk metrics and Group level risk appetite statements, furthermore the Group Risk and Internal Audit team conducted a comprehensive mapping exercise to assess the ownership and effectiveness of second-line oversight across risk-related activities, spread across the three operating Divisions and Group Finance, with actions agreed to strengthen oversight routines where required.

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 2020, LSL will continue to review the framework to ensure it remains in line with emerging best practice and continues to foster the maturity of risk appetite routines at both LSL and its subsidiary businesses. Enhancements will be made where improvements which will improve the Group's risk management arrangements are identified.

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, it is discussed and is subject to Board approval before the commencement of any activities, to ensure that appropriate mitigation control measures 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 2020. Further, the Audit & Risk Committee and the Board will periodically conduct reviews of the Group's risk management framework to ensure it reflects the requirements of *the Code* and any related guidance (as amended or replaced from time to time).

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 are included in the *Strategy* and *Business Model* sections of this Report.

Through organic growth, selective acquisitions and 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 2019. This considered the Group's current position and its prospect of operating over the three year period ending 31st December 2022, and reaffirmed the Group's stated strategy. The Group's future prospects have been further strengthened with the extension of the RCF which was renewed in January 2018 for a period up to May 2022.

Brexit

Since the 2016 EU referendum result, LSL has been monitoring Brexit developments to assess the impact on LSL. 'Brexit' is a subset entry within the Group's risk appetite framework and in addition LSL has conducted a specific impact assessment in relation to Brexit which was completed in line with FRC guidance.

The impact assessment considered whether LSL will be impacted directly by the eventual outcome of the negotiations between the UK and the EU, for example due to regulatory changes or due to changes that may impact our Group employees or whether the impact would be indirect, i.e. resulting from the broader economic uncertainties. The Group concluded that whilst LSL is not directly impacted by the Brexit trade negotiations, due mainly to its UK based business model, it is indirectly impacted by the impact that the continued economic uncertainty has on the housing market.

This approach has ensured that Brexit developments are being formally monitored, and the risk status regularly reassessed with reactive action plans identified to respond to any market effects of uncertainty that may be caused by the outcome of the negotiations between the UK Government and the EU.

These practices will continue throughout 2020 as the UK's Brexit transition continues and enters the transitional arrangement period involving negotiation of trade terms, along with wider consideration of the likely impacts of other major economic and political events, and their influence on viability assessment modelling.

The Group's principal risks and uncertainties are set out below. 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. See the *Report of the Directors* in this Report for details of how Brexit was taken into account in completing the going concern assessment.

COVID-19

Risks relating to COVID-19 and the impact are being assessed and the Group will take into account any guidance issued by the FRC in relation to its assessment and its reporting on the impact of the virus.

The Group's approach will ensure that as COVID-19 develops it will be closely monitored, and the risk status regularly reassessed with action plans identified in response.

Further, the description of the Group's principal risks and uncertainties have been reviewed and updated to take into account COVID-19.

Assessment of viability

Although the strategic plan reflects the Directors' best estimate of the prospects of the Group in accordance with provision 31 of *the Code*, the Directors have assessed the viability of LSL 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 2022 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 two of these were 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 close to the level seen in 2008 during the last recession caused by either, or a combination of, Brexit and/or political, economic, or other uncertainties; and
- combination stress test including a loss of a major contract, a downturn in housing market, a Surveying PI risk event and a one-off regulatory fine following a data breach.

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 2022.

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 contained within the *Financial Statements* of this Report.

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 *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 2019 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 routinely 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 in addition to carrying out specific risk assessments as part of its decision-making processes;

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* included in this Report); and

f. reporting by the Chair 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 risk framework includes the following:

a. a risk framework policy;

b. a boardroom culture which promotes risk assessment and management in decision making;

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

d. assessment of prospects and viability;

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

f. going concern confirmation (for LSL's going concern disclosure see the *Report of the Directors* included in this Report).

During 2020 areas of focus will include:

a. further maturing of subsidiary risk measures, with continued ranking of risks and evidential tracking of action plans (for areas outside tolerance) at relevant management and governance committees;

b. on-going development of subsidiary data protection and information security related risks as part of established routines at relevant governance committees; and

c. a revisit by the Group Risk and Internal Audit team of second-line risk management routines.

During 2019, 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 judgement 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 2019, this assessment included the consideration of the following:

a. the implementation of new IT systems across the Group's Divisions;

b. the rationalisation of the Estate Agency branch networks and associated cost base;

c. the re-branding of the Group's Financial Services network activities as PRIMIS in addition to commencing a process of consolidating and harmonising the networks management and business support operations in addition to planning and implementing the new FCA Senior Managers Certification Regime;

d. responding to an evolving regulatory environment which reflects the priority of the housing sector on the Government's agenda and consideration of major scenarios of further external political and economic change on the UK housing market including the impact of Brexit; and

e. consideration of acquisitions to ensure that they remain in line with the Group's strategies and risk appetite.

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 *Financial viability statement* which is included within the *Report of the Directors* section of this Report. 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 2019 is set out in the *Audit & Risk Committee Report (Internal Controls)* of this Report.

Principal Risks and Uncertainties

	Risk	Description	Monitoring and Mitigation
Strategic:			
1	**COVID-19 virus**	Consumer behaviour and confidence may be materially impacted by the COVID-19 virus, which may as a result have a material impact on the residential housing market. There is a risk of infection to LSL employees. There is a risk that LSL offices / branches may be shut in the case of local COVID-19 infection and customer-facing activities would need to switch to less efficient remote working arrangements. If IT staff were not able to maintain and access key systems, due to an inability to access key locations, business critical infrastructure and IT systems may be disrupted.	• Daily management calls to monitor business arrangements and implement regulatory advice, respond to any immediate business concerns or emerging situation, assess readiness of plans and any new responses required, with coordination of the distribution of clear communications to employees. • Daily monitoring of key trading data. • Implementation of responsive measures to reduce costs and conserve cash. • Business continuity plans updated for COVID-19 including escalation procedures and communications. Specific BCP pandemic training arranged for Senior Management Team. Contingency plans put in place with defined levels of escalation leading ultimately to deep-cleaning at affected sites and extensive remote working. • Local representatives appointed, for example in Estate Agency branches, to act both as key contacts for communications, and also to support employees on the ground in observing and applying required processes and routines. • Daily monitoring of any COVID-19 incidents with Group employees and/or customers. Reviewing all site specific business continuity plans, with a particular focus on curtailing non-essential events such as conferences and strengthening home working arrangements across the business, with testing of home working arrangements to build resilience. • Implementing business continuity and disaster recovery solutions (encompassing IT, premises, transportation and employees), for example, plans to split key teams across sites including home working to reduce risk of intra-staff transmission and consequential impact on customer service. • Inclusion of significant market changes in stress testing.
2	**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). The housing market is also impacted by domestic or international incidents (including force majeure events) which may impact LSL's stakeholders (including employees, customers and suppliers) such as COVID-19, which may have a significant impact on the housing market. 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 or sentiment arising from changes in Government policy or legislation).	• Daily, weekly and monthly monitoring of trading and market performance data, as appropriate. • Initiatives to profitably maintain or increase market share, enhance product mix and optimise segmentation. • Development of counter-cyclical and recurring revenue income streams, including ones less correlated with the number of housing transactions. • Responsive investment and cost control measures during the housing market cycle. • Budgetary planning and stress test modelling carried out on a number of market activity scenarios, together with the development of mitigation plans. • Investment to deliver strategic projects. • Balanced UK-wide geographical spread to avoid over-exposure to local market factors. • Monitoring of wider macroeconomic and political developments (including domestic and international developments). • Multi base-case scenarios and 'break-it' modelling for budget setting. • Monitoring of wider macroeconomic events and political developments (including both domestic and international), with responsive business plans and business continuity arrangements.

	Risk	Description	Monitoring and Mitigation
3	**New UK housing market entrants**	Traditional business models and pricing structures for residential property services may be 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, including regular view of market developments. • Development of strategies in response to market disruptors, including options to capitalise on digital opportunities. • Continued infrastructure investment, including investment in innovation and technology, with upgrading, consolidating and replacing core or legacy operating systems to increase functionality, improve customer experience, reduce costs and deliver efficiencies. • Service delivery enhancements, product/services differentiation and test and learn initiatives. • Engagement of specialist external consultative support as necessary. • Monitoring of acquisition, investment, associate and joint venture opportunities. • Marketing initiatives. • Operation of staff incentive schemes to mitigate staff attrition. • Inclusion of significant market changes in stress testing scenarios.
4	**Investment, acquisitions and growth initiatives**	Realisation of business case in relation to investment, acquisition and major project initiatives, including development of business cases, due diligence and integration/implementation requirements, in line with LSL's strategy to complete selective acquisitions.	• Monitoring of opportunities which support delivery of Group strategy. • Engagement of professional advisers to support identification and evaluation of strategic investment and acquisition opportunities. • Defined pre and post-acquisition reporting to the Board and Audit & Risk Committee. • Establishment of authority levels for expenditure. • Use of risk appetite to reflect approach during different stages of the housing market cycle. • Defined due diligence processes completed ahead of all investments and acquisitions. • Due diligence is undertaken by in-house teams with support from subject specialists as required. • Completion of risk assessments including RCF leverage stress testing ahead of all significant investments and acquisitions. • Maintenance of resource pool to deliver integration/implementation activities following completion of acquisitions. • Established integration/implementation planning methodology in place. • Promotion of Group-wide relationships in business arrangements. • Post-acquisition and post-integration/implementation review programmes, including detailed presentations to the Board. • Incorporation in Risk and Internal Audit plans, including additional engagements where required. • Documentation of clear business strategy and risk appetite by the Board, to ensure alignment of new initiatives.

	Risk	Description	Monitoring and Mitigation
5	**Professional services**	Exposure to PI claims arising from lapses in professional services, including surveying and valuation practices, financial services advice, and estate agency services.	*Surveying and Valuation Services Division* • Robust framework and monitoring routines to maintain valuation accuracy. • Dedicated surveying risk team, providing second-line assurance on the operation of the framework. • Additional controls in place for potentially higher risk valuations. • Timely data capture of all potential 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. • Integration of new business products into existing valuation controls framework. • Lender on-boarding policy with Board oversight to ensure instructions are within risk appetite. *Financial Services Division* • Defined responsibilities for claims management and operation of PI insurance together with management of underlying risk areas. • Risk and Internal Audit engagements. • Governance arrangements relating to the inclusion of products included within the Financial Services Division panel distribution arrangements made available for network/club members and their customers. • Experienced claims handling personnel supported by legal and compliance experts. • Development of dedicated conduct risk MI to ensure fair treatment of consumers. • Culture promoting effective sales conduct and open lines of communication with clients with a focus on customer outcomes. *Group-wide* • Robust reporting processes to centralised risk team to ensure timely and compliant notifications are made to insurers. • PLC Board review of PI insurance arrangements.
6	**Client contracts**	The performance of the Estate Agency, Financial Services and Surveying businesses are dependent on entering into appropriate agreements and retaining contracts with key clients/ customers (e.g. lenders, portfolio landlords and housebuilders).	• Customer outcomes focused forums and initiatives. • Designated senior members of staff with responsibility for relationship management at subsidiary and Group levels. • On-going investment in resources, innovation, technology and service standards to ensure LSL has the capacity to meet service level demands. • Development of new products to meet market needs. • Proactive management of third party suppliers to ensure continued compliance with client contract commitments/requirements. • Oversight of third party providers to maintain overall service quality. • Targeted marketing and training events for corporate clients. • Monitoring of client dependency, service delivery, risk 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. • Process to ensure learnings from bids/instructions are identified and actioned. • In-house legal services and compliance teams, with specialist external legal and compliance support engagement when necessary, together with dedicated claims/customer complaints management teams within business areas. • Risk and Internal Audit reviews.

	Risk	Description	Monitoring and Mitigation
7	**Business infrastructure (including IT)**	The failure of business critical business infrastructure and business critical IT systems could result in breakdown in operational processes, loss of data, and IT outages, impacting customers and business performance. Group operations require robust internal controls, resilient infrastructures and business continuity arrangements (including in relation to IT). The controls environment needs to remain adaptable to support growth initiatives, harness technological advancements and counter business continuity/resilience threats, including in relation to IT systems, malicious and cyber-related attacks. LSL's strategy recognises the importance of investing in the Group's infrastructure (including IT) to maintain both competitive advantages and deliver controls and system security – all within the context of changing business models within the residential property services markets.	• Group-wide internal controls processes and policies which are subject to regular review to ensure they are in line with best practice. • Group IT governance, policies, base standards and initiatives supported by the Group IT Director and with oversight from the Data and Information Security Committee. • Focus on investment and development of innovation and systems within the Group's strategies. • Combination of dedicated in-house IT teams and engagement with external IT specialist suppliers to deliver efficiencies and market leading service. • Maintenance of business infrastructure to ensure effective service delivery with appropriate controls. • On-going infrastructure investment and phased development programmes. • Identifying, securing and supporting innovation and technology opportunities through the Group's investment and acquisition strategies. • Implementing business continuity and disaster recovery solutions (encompassing IT premises, transportation and employees). • Monitoring of compliance with relevant contractual and regulatory requirements. • External consultative support as necessary. • Risk and Internal Audit engagements. • Oversight by the Data and Information Security Committee, the Audit & Risk Committee and the LSL Board.
8	**Information security (including data protection)**	Group operations involve the processing and retention of high volumes of personal data, with potential for unintended data loss and exposure to increasing levels of external cybercrime, including phishing attacks and identity theft.	• LSL Data and Information Security Committee established with policy implementation and oversight responsibilities. • Defined Group-wide base policy standards. • Dedicated information security and data protection personnel (including DPOs). • Regular staff training programmes and awareness assessments undertaken. • Group cyber insurance cover in place. *Data protection* • Group data protection policies and training in place supported by in-house legal and compliance teams. • Tracking of data assets/data sharing and any breach incidents, in line with authority levels, including monitoring of the storage of sensitive data. • Remedial steps taken to address any identified control weaknesses and ensure reporting in line with regulatory requirements. • Implementation of regulatory changes, with post-launch oversight routines embedded as 'business as usual' (e.g. General Data Protection Regulation). *Systems security* • Penetration testing, intrusion scanning programme, and secure back-ups and encryption of key data. • Other controls such as password protected computers, clean desk policy, alerts on external emails and automatic password locking of computers left idle. • Benchmarking against and accreditation by best practice standards – e.g. ISO27001 accreditation for e.surv. • Second and third-line risk-based thematic reviews.

	Risk	Description	Monitoring and Mitigation
9	**Regulatory and compliance**	The Group is required to comply with various legal and regulatory requirements, whether as an employer or 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 such as the Senior Managers Certification Regime. Regulatory and compliance risk extends to the Group requiring through its contracts regulatory compliance by its business partners (e.g. franchises, appointed representatives, joint ventures, minority investments, associates and suppliers). The market and business operations are also impacted by a number of proposed regulatory reforms (e.g. Government reviews relating to the housing market, including reforms of lettings fees and conveyancing referral fees) which impact on Group Revenue and expenditure. Regulatory costs, fees and charges continue to grow due to the growth of LSL's Financial Services businesses and the funding requirements of the Financial Services Compensation Scheme (FSCS)..	• Top-down management culture focused on fairness, transparency and delivery of good customer outcomes. • Open dialogue with regulators and monitoring of emerging developments and regulatory reforms. • Group risk framework policy incorporating where appropriate '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 with an associated Group reporting framework which covers the 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, Estate Agency regulatory risk steering group and Data and Information Security Committee). • Dedicated second-line compliance teams in higher risk/regulated functions. • Investment in recruitment of expertise within the divisional compliance teams to ensure the Group is able to maintain appropriate procedures and risk measures for regulatory compliance. • Harmonisation of best practice compliance standards following acquisitions. • Dedicated Group Tax Manager monitors compliance with new tax legislation, e.g. IR35 and Making Tax Digital. • Evolution and development of IT systems to strengthen oversight routines. • Monitoring of franchise oversight obligations continuing. • Responsive complaints tracking of any emerging themes. • In-house legal, with access to specialist external legal when necessary. • Group Risk and Internal Audit engagements including assessments of the effectiveness of second-line oversight routines. • Membership of industry trade bodies and participation in Government and regulatory consultations. • Responsive business model changes to mitigate and address the impact of any regulatory changes.

	Risk	Description	Monitoring and Mitigation
10	**Employees**	There is a risk that LSL may not be able to recruit or retain sufficient staff to achieve its operational objectives. This may result for example, in an inability to service customers adequately, develop new products or execute the LSL Strategic Plan. If staff are recruited into roles without the requisite experience or training, the risk of operational errors increases, which may impact business performance. To address this risk, it is important for LSL to secure and retain key strategic staff and control attrition in key business critical areas, for example, through e.surv's graduate recruitment 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 Company Secretary and Group HR Director as well as a nominated LSL independent Non Executive Director for workforce engagement. • Establishment of employee forum with regular engagement with the workforce engagement designated independent Non Executive Director. • Group remuneration policies and incentive schemes to retain key strategic populations. • Regular benchmarking and appraisals of Executive Directors and Senior Management. • Succession planning reviews and targeted development programmes for high achievers. • Dedicated in-house talent acquisition teams within Group HR. • Targeted retention and recruitment initiatives. • Employee surveys and Group HR initiatives to monitor culture, attrition, morale, and any areas of pressure. • Group-wide HR IT systems. • Monitoring of statutory reporting requirements and developments (e.g. gender and ethnic pay reporting) and impact of new tax regulations, e.g. IR35. • Employee policies and monitoring frameworks in place (e.g. health and safety and lone working arrangements to ensure employee welfare). • Monitoring subsidiary culture, values and ethics and the development of LSL's culture, values and ethics. • Implementation of workforce engagement measures to ensure employee considerations are included in decision making. • Adoption of reporting arrangements to demonstrate consideration of key stakeholders, including employees in decision making. • Clear Group policies and whistleblowing procedures to enable employees to confidentially raise or report concerns.

Corporate Social Responsibility

Thomas Morris branch staff raising money for the Agents Giving charity

Information included in this section of the Report is (unless specified otherwise) as at 31st December 2019.

The Board recognises that it is important that Group companies operate in a responsible way. LSL's stakeholders expect LSL to take their 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 residential property services group. This section of this Report details how LSL seeks to manage these interests and deliver on corporate social responsibility. For further information relating to stakeholder engagement, see the *Stakeholder Engagement Arrangements* section of this Report.

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 continued focus on 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).

The ways in which LSL communicates with its employees were evaluated and assessed in 2019 as part of the work that LSL undertook in relation to the new workforce engagement requirements of *the Code*. Following this review, Darrell Evans was appointed LSL's designated Non Executive Director in relation to workforce engagement. Further details of the Board's employee engagement activities (including the Group's Employee Engagement Forum) can be found in the *Stakeholder Engagement Arrangements* and *Corporate Governance Report* sections of this Report.

LSL's focus is on actions that the Group can take, over and above legal or Code requirements, to address its competitive interests as well as those of the wider society. This approach underpins all internal policies that the Group adheres to. LSL actively ensures that its businesses are compliant and proactive in respect of legislation and take into consideration, where appropriate, key stakeholders, including employees, customers, suppliers, local communities and other relevant stakeholders' interests. Please also see the *Stakeholder Engagement Arrangements* section of this Report.

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 demonstrates the Group's commitment to the reduction of energy consumption and the positive impact that this will have both on the environment and on reducing costs to the Group's businesses.

LSL's social responsibility scope extends to its relationships with customers and suppliers, and all Group companies conduct business in a manner which seeks to be honest and fair in these relationships. Further, ethics, hospitality and conflicts policies are in place to support the businesses and to govern these relationships.

Environmental, Social and Governance (ESG) matters

As part of its regular risk assessment procedures and in its decision making, LSL takes into account the significance of ESG matters relevant to the Group. LSL will identify and assess the significant ESG risks to LSL's short and long-term value, as well as the opportunities to enhance value that may arise from activities. The Board will also receive information and training on relevant ESG matters.

The Board ensures that LSL has in place effective systems for managing and mitigating significant risks, which, where relevant, incorporate performance management systems and appropriate remuneration incentives. For further details on LSL's internal controls and risk management arrangements, see the *Principal Risks* and *Uncertainties* section of this Report.

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 seeks to recruit and retain the right individuals to work at every level throughout the Group. An essential part of LSL's strategy is to encourage and promote effective communication with all employees which includes the use of an annual employee opinion survey to obtain employee views and the establishment of a Group-wide employee engagement forum, which discusses the outcome of the employee survey each year. These engagements support the Group in its decision making, ensuring it takes into account employees' views.

As outlined above, the ways in which LSL communicates with its employees was evaluated and assessed in 2019 as part of the work that LSL undertook in relation to the new workforce engagement elements of *the Code*; further details of the Board's employee engagement activities (including the Group's Employee Engagement Forum) can be found in the *Employee Engagement Arrangements* and *Corporate Governance Report* sections of this Report.

For further details of the employee survey arrangements and the Group Employee Engagement Forum, see also the *Employees* element of the *Communication* section below.

Employees are also eligible to participate in LSL's employee share schemes, including the SAYE and the SIP/BAYE schemes. Participation in the Group's share schemes encourages and involves the Group's employees in the Group's performance.

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, Financial Services, and Surveying and Valuation Services 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 decision making on how the Group approaches the management of its workforce.

Communication

During 2019 LSL continued to implement improvements to its governance arrangements to reflect best practice introduced by the joint guidance issued by the Investment Association and ICSA in relation to stakeholder engagement in addition to the guidance issued by the GC100 on directors' duties under section 172 of the Companies Act 2006.

The Group's businesses evaluate and monitor how they each communicate with LSL's stakeholder groups, including employees; and, as outlined the *Corporate Governance Report* of this Report, in 2019 a review of the Group's governance arrangements in relation to stakeholder engagement was undertaken.

Examples of the communication methods are set out below:

Employees

LSL ensures that employees are kept informed of Group affairs via information distributed by post, email, handbooks, various intranet sites and employee forums (including roadshows/management presentations and colleague briefings). Communications encourage employee awareness of the financial and economic factors affecting the Group. Further employees are invited to participate in Group's share schemes which encourages their involvement in the Group's performance.

LSL's businesses all value employee feedback and all Group employees are encouraged to discuss strategic, operational and other business issues (including financial and economic factors affecting the Group's performance) 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 and review culture.

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 consultant.

As in previous years, the 2019 survey which related to 2018, covered all aspects of the working environment including culture, 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 survey undertaken in 2019 was positive with 3,173 (71%) (2018: 3,302 (65%)) returns received. The survey relating to 2019 is being conducted in 2020 and the findings will be reported in the *Annual Report and Accounts 2020*.

The Group has also established a Group employee engagement forum and cross business team, which has been established in the last three years with individuals from across the Group, including members of the senior management teams. The forum meets regularly via webinars, and at least annually in person. It has proved positive with initiatives being shared across the Group to improve employee engagement.

As outlined in the *Stakeholder Engagement Arrangements* and *Corporate Governance Report* sections of this Report, the Group's employee engagement forum also provides the vehicle for Darrell Evans (LSL's designated Non Executive Director in relation to workforce engagement) to establish regular dialogue with the Group's workforce. This dialogue includes Darrell's attendance at an annual meeting with the Group employee engagement forum which, in order to maximise the effectiveness of the meeting, takes place after the annual employee survey results have been published to enable the Group to analyse current and up to date data relating to employee views. Darrell met with the forum in 2019.

The employee opinion survey results also 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.

The process is planned to be repeated again in 2020 as LSL remains committed to the continual development and improvement of employee engagement across the Group.

Customers

In relation to its customers, all Group 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. LSL's Executive Committee carries out regular customer outcomes reviews which include, for example, a review of customer complaints and a review of the Group's service level performance for key customer contracts.

Suppliers

LSL has in place supplier relationship management arrangements across all its businesses and has a *Supplier Code of Conduct* to capture and communicate LSL's policies and procedures to its suppliers which includes provisions relating to modern slavery and anti-bribery.

Reeds Rains and Lauristons support local football teams

Equal opportunities

LSL promotes equal opportunities in employment, recognising that equality and diversity are a vital part of the Group's success and growth. The Group's recruitment, training and selection processes seek to appoint the best candidates based on suitability for the job and to treat all employees and applicants fairly regardless of race, 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 certain 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. In 2020 it is intended that processes will be developed by which the Board will be able to assess and monitor culture and seek corrective action where behaviour is not aligned.

Gender diversity

During 2019, LSL has remained committed to diversity and equal pay and commenced reporting on gender pay for all LSL Group companies with more than 250 employees, in accordance with the new reporting requirements, to the Government's website for report submissions (*gender-pay-gap.service.gov.uk*).

The Group is also monitoring the Government's review of reporting in relation to ethnic pay and is also reviewing the *Parker Report into the Ethnic Diversity of UK Boards.*

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.

	2019	2018	2017	2016	2015
Total employees at 31st December	**4,772**	5,463	5,084	4,990	5,181
Total employee turnover percentage (%)[1]	**26.7**	27.0	28.7	30.8	28.5

Breakdown by gender	**2019**	2018	2017	2016	2015
Male	**2,255**	2,562	2,273	2,206	2,285
Female	**2,517**	2,901	2,811	2,784	2,896

Note: [1] Data excludes forced leavers

The gender split for the Board, the senior management team and the Group employees as at 31st December 2019 and 2018 is as follows:

	Female		Male	
	2019	2018	**2019**	2018
Directors	**2**	2	**6**	5
Senior Managers	**15**	17	**56**	59
Group employees (exc Directors and senior managers)	**2,500**	2,882	**2,193**	2,498

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 2019, LSL continued its commitment to recruit, develop and invest in colleagues. LSL's approach is to prioritise colleague learning and development to strengthen the Group's businesses and to ensure the Group's continued success.

The Group continued in 2019 to review its processes and put into place arrangements to ensure compliance with new legislation including, in the Estate Agency Division, the *Tenant Fees Act 2019*, *Minimum Energy Efficiency Standard Regulations* and *Homes (Fitness for Habitation) Act 2018*. Within the Financial Services Division, the Group implemented new arrangements to ensure compliance with the FCA's Senior Managers and Certification Regime.

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 regularly monitors and contributes to consultations relating to legislative and regulatory reviews and reforms. For further details relating to laws and regulations which impact LSL's business, see the *Divisional Business Review* sections of this Report.

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

Group HR – Learning and Development Team

LSL's Group HR function includes a 'Learning and Development Team' which delivered classroom and webinar based training to a total of 3,054 Group employees during 2019, equating to the delivery of 5,452 training days.

During 2019 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 and to reduce intrusiveness on day to day business. In addition to this, Group employees completed 77,457 eLearning modules. However classroom based learning continues to be the preferred option for focussed training on initiatives.

By fostering an inclusive culture, LSL is committed to diversity and equal pay, and recognises 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 training programmes which include both unconscious bias and assertiveness training.

The LSL Group recognises the need to support the development of existing staff and have a number of specific routes to progression through newly developed apprenticeship programmes. These programmes prepare individuals for the next step in their careers, whether that be a supervisory, management or leadership position within the Group. In total 393 employees had been enrolled onto an apprenticeship at the end of 2019, with employees undertaking courses ranging from Level 2 qualifications (for individuals new to the business) up to Level 7 qualifications (for those studying a masters or equivalent qualifications). As a national employer LSL works with a number of training providers in order to fulfil our apprenticeship needs these range from national providers to more local providers offering specialised training.

Estate Agency Division

The Estate Agency Division's branches adhere to the Codes of Practice issued by industry professional and regulatory bodies, including the TPO and/or ARLA Propertymark and NAEA Propertymark. 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 2015*, 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 from time to time also enters into direct dialogue with the regulators and consumer groups. During 2019 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 continued during 2018 and 2019.

The Estate Agency Division has a dedicated Risk and Compliance Team and is subject to oversight by the Estate Agency Management Committee.

Financial Services Division

Your Move, Reeds Rains, First2Protect, Mortgages First, Insurance First, Embrace Financial Services, and RSC New Homes are all appointed representatives of First Complete. Linear Financial Solutions is an appointed representative of Advance Mortgage Funding for mortgage and non-investment insurance brokerage and also an appointed representative of Openwork for investment business. RSC New Homes is an appointed representative of First Complete and Personal Touch Financial Services.

The First Complete, Advance Mortgage Funding and Personal Touch Financial Services intermediary networks all trade as PRIMIS. The new trading style was launched in January 2019. All three companies are directly authorised by the FCA in relation to the arrangement of mortgage and non-investment insurance products. During the year, the Financial Services Division put in place arrangements to comply with the Senior Managers and Certification Regime.

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 and Embrace Financial Services, 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 also 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. 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 and outcomes. The Group also has a Financial Services Management Committee which receives reports from the Financial Services Management Team and provides assurance to the LSL Board.

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 Division

There are a total of 47 graduate trainees in the Surveying and Valuation Services Division, with a further 61 from previous graduate cohorts who have achieved AssocRICS qualifications and are productive. There are 55 still working towards the competency levels (including ten apprentices) who are on schedule to qualify to AssocRICS status during 2019/2020. In addition there are seven AssocRICS qualified surveyors being sponsored through the Assessment of Professional Competency (APC) programme, and an additional seven who have successfully completed, resulting in the MRICS status.

e.surv has a well-established mentoring programme for new surveyors entering the industry.

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

Training

During 2019, the Group's training expenditure was:

Division	Expenditure 2019 £	Expenditure 2018 £
Estate Agency	**1,048,252**	1,207,600[1]
Financial Services	**367,370**	365,891[1]
Surveying and Valuation Services	**932,083**	763,182
Total expenditure[2]	**2,347,705**	2,336,673

Notes:

[1] Prior to the introduction of three segment reporting which is effective from the 2019 financial year, the Financial Services businesses' expenditure was reported as part of the Estate Agency and Related Services Division figure

[2] This includes in-house training costs of £1,555,952 (2018: £1,582,119)

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.

During 2019, a project team was established and a set of initiatives created ready to launch in 2020 with the objective of increasing Mental Health awareness within the workplace. The aim of the initiative is to begin to raise the understanding of our own mental well-being and those around us, by encouraging employees to have open conversations around mental well-being and by providing employees with the skills to support each other in the workplace. The initiative is fully supported by the LSL Board and Senior Management Team, with senior leaders demonstrating their commitment by signing an employer pledge, Employees will have access to a range of e-learning modules (including manager specific training), as well as an employee assistance programme and a stress and well-being specific HR policy.

Environmental issues

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)

In complying with *ESOS Regulations 2014* and *Article 8 of the EU Energy Efficiency Directive*, LSL appointed a Lead Assessor to undertake a number of energy audits, the results of which were submitted to the Environment Agency in December 2015 and again for ESOS Phase 2 and submission to the Environment Agency in December 2019.

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.

LSL continued to meet the ESOS qualifying criteria and is required to complete the qualifying number of energy audits and notify the Environment Agency of ESOS compliance by 5th December 2019 (the previous audit being completed in 2015). These audits were completed in 2019 and LSL notified the Environment Agency of ESOS compliance ahead of the 5th December 2019 deadline (please see the *2019 ESOS Phase 2 Audit* section below for further information).

During 2019 the Group continued to proactively review and manage recommendations from the 2015 ESOS audit across branch premises and head office locations, implementing changes to key areas as listed below, on acquisition of new premises and via the branch refresh programmes. During 2019, LSL's energy initiatives will take into account the implementation of the *Estate Agency: ways of working programme*.

- *Energy Monitoring* – The programme of smart meter installation is on-going (and included as a standard requirement where supply is tendered) providing greater accuracy for billing data and usage. Electricity to the Marsh & Parsons premises estate will all be supplied via smart meter by the end of 2020.
- *Lighting* – The upgrade to low consumption fittings and LED lighting continues across the Group's branch premises and head office sites, with LED lighting installed throughout branches included in the Reeds Rains and Your Move 2019 refresh programmes, including both customer facing and back office areas. Elsewhere in the Group there were several key location premises acquired in Halifax, Kettering and Solihull where LED lighting was installed. On acquisition it remains a key requirement that environmental effectiveness of the building is considered and included as part of negotiation and, where applicable, forms part of any fit out work.
- *Heating, Ventilation and Air Conditioning* – The practice of maintaining systems in accordance with manufacturer recommendations continues in order to ensure efficiency of the system, and where new premises are acquired the effectiveness of any existing installation is verified to ensure compliance with ESOS recommendations and standards.
- *Transport* – The Group strategy on emissions levels (including zero emission vehicles) is a key consideration in options on vehicle availability for employees to consider when opting for a fleet vehicle. The trial of telematics devices is also on-going as manufacturers extend the range and scope of technical and driver data available to asses driving practices and fuel consumption.

2019 ESOS Phase 2 Audit:

During 2019, LSL undertook ESOS Phase 2 audits to identify further opportunities for energy and emissions reductions and to ensure continued compliance to *the ESOS Regulations 2014* and *Article 8 of the EU Energy Efficiency Directive*. The aim of ESOS is to aid organisations in its identification of energy efficient savings to support and increase good energy management and it is part of the Government's climate change initiative. The results of the audit were submitted to the Environment Agency in December 2019 and LSL's next audit is scheduled to take place in four years in accordance with the Environment Agency timetable. The 2019 audit, which was completed by a Lead ESOS Assessor, involved a review of energy consumption data and visits to selected branches and offices.

The 2019 audits showed that:

- Lighting shows a significant consumption drop from 19% (2015) to 11%. This directly reflects the on-going branch refresh programmes and installation of LED lighting.
- Heating, ventilation and air conditioning is maintained so as to ensure efficiency of the system, and where new premises are acquired the effectiveness of any existing install is verified to ensure compliance with ESOS strategies.
- Fuel consumption decreased by 6% despite an increase in vehicle numbers. This reduction is attributed to a combination of better fuel consumption, vehicle management and driver performance. The Group strategy on emissions levels (including zero emission vehicles) is a key consideration in options on vehicle availability for employees to consider when opting for a fleet vehicle. The trial of telematics devices is also on-going as manufacturers extend the range and scope of technical and driver data available to asses driving practices and fuel consumption.

The recommendations arising from the audit, which were reported to the Board during 2019, are being reviewed and a plan formulated to ensure the achievement of energy efficient savings and good energy management across the LSL Group.

Greenhouse gas emissions

This section of this 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 2018/19 reporting period, the Group emitted a total of 4,955 tCO_2e from fuel combustion and operation of facilities (Scope 1 direct), and electricity purchased for the Group's own use (Scope 2 indirect). This is equal to 16 tCO_2e per £m of revenue or 1.17 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 2015 to 2019.

(tCO_2e)	2018/19	2017/18	2016/17	2015/16
Combustion of fuel and operation of facilities (Scope 1)	**3,420**	3,705	3,959	4,046
Electricity, heat, steam and cooling purchased for our own use (Scope 2)	**1,535**	2,625	2,721	3,553
Total Scope 1 and 2	**4,955**	6,330	6,680	7,599
tCO_2e per full time equivalent employee	**1.17**	1.27	1.47	1.69
tCO_2e per £m revenue	**16**	20	22	24

As the table demonstrates, since 2015 LSL's absolute emissions have decreased by 35%. This reduction has principally been 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 including the reshaping of the Your Move and Reeds Rains branch network; 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 2018 GHG *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 Statements*. LSL does not have responsibility for any emission sources that are not included within the consolidated *Financial Statements*. 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 2018/2019 reporting period are:

- Scope 1: Natural gas combustion within boilers and road fuel combustion within vehicles; and
- 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 2017/2018 as a proxy.

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

LSL's social and community interests (which includes the promotion of human rights, ethical issues and prevention of 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:

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

Further details of some specific charitable initiatives are set out below in this section of this Report.

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 one of the policies that 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. tax evasion; and
f. whistleblowing.

All Group employees are made aware of the CEP, 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 have in place arrangements which seek to safeguard against modern slavery and human trafficking occurring within their businesses or any of their supply chains.

During 2019, LSL continued to implement arrangements to ensure compliance with the *Modern Slavery Act 2015* including publishing its *Modern Slavery Statement (Statement)* for the financial year ending 2018 which was published in June 2019 (see *lslps.co.uk/modern-slavery*). LSL also has a dedicated LSL *anti-slavery and human trafficking policy* which works in combination with LSL's established *whistleblowing policy*.

The published *Statement* sets out the steps taken by LSL, 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 a director of each of these companies).

Anti-corruption and bribery

The Group has in place arrangements to ensure compliance with the *Bribery Act 2010* and its arrangements are risk-based. The Group reviewed anti-corruption and bribery risks in the development of its policies and procedures which are reviewed periodically.

Payment practices reform

Your Move, Reeds Rains and e.surv continued to submit their payment practices reports in 2019 which are available on the Government's website for report submissions (*check-payment-practices.service.gov.uk/*).

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.

In 2019 the Board undertook an annual review of the *tax evasion policy* for the Group as part of the CEP. Also, the Group reviewed its tax strategy in 2019 and this is available on the LSL website (*lslps.co.uk/investor-relations/corporate-governance/tax-strategy*).

Your Move supports a local children's charity in Walthamstow

Marsh & Parsons supported the Anthony Nolan Trust

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 2019 LSL employees donated over £11,863. The scheme donates to a range of charities and 55 employees participated in the scheme.

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

LSL's Estate Agency Division encourages and promotes team as well as employees' individual fundraising activities in the local communities of all brands. Employees have raised money for a wide range of causes in 2019 including Marsh & Parsons who raised £25,000 in aid of Anthony Nolan (a blood cancer research charity) and, across the division there has also been support for charities including Centrepoint, the Waterside Community Trust and Cash for Kids. In addition there has been funding and widespread support for local community initiatives including: St Peter's Primary School in Portishead; Curzon Cinema (one of the oldest operating cinemas in Britain); Biddulph Rovers Youth Football Club in Congleton; Askew Road Community Christmas Lights Switch On; Northcote Road Christmas Market; Richmond Summer Fair; the South West in Bloom Competition; the Portishead Youth and Community Centre; Tunbridge Wells Puppet Festival; Bamber Bridge United Junior Football Club; and Morden Family Fun Day.

Financial Services

PRIMIS employees participated in a range of local activities, including a team completing a hike on Scafell Pike to raise money for MND Association.

The PRIMIS companies also made donations to Children's Diabetes Research and Crohns and Colitis UK.

Surveying and Valuation Services

For the fourth year running, the Surveying and Valuation Services 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: Circus Starr; Burton Latimer Cricket Club; Kingsley Special Academy; Zoe's Place, Alzheimer's Society; Different Strokes; Severn Hospice; Macmillan; The Boathouse Youth Charity; and Save the Children.

The Board

This section of the Report includes information relating to individuals who were officers of the Company as at 31st December 2019.

Gaby Appleton — Non Executive Director

Gaby was appointed as an independent Non Executive Director on 1st September 2019 and is also a member of LSL's Nominations, Remuneration and Audit & Risk Committees. Gaby joined LSL with significant experience in strategy, technology, operations, and sales and marketing, particularly in the professional information solutions sector. This includes her current appointment as Managing Director of Mendeley & Researcher Products at Elsevier (a RELX Group plc company). Gaby is also currently a board member of the International Association of STM Publishers, a global industry trade body. Gaby has previously held a number of executive strategic digital and marketing roles including Global Director of Strategy and Director of Research Strategy at Elsevier in Amsterdam. Before joining Elsevier, Gaby held a number of operating positions at Sainsbury's Supermarkets Ltd, within the Procter & Gamble group of companies, and was a senior manager at McKinsey & Co. Gaby holds a BA from the University of Cambridge.

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.

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 30 years' experience in finance, having started his career with Price Waterhouse where he qualified as a Chartered Accountant in 1989.

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 for six years of IKON Office Solutions UK/Europe, the document management and office products provider; delivering significant growth both organically and through several acquisitions. Ian holds a BA from the University of Oxford, qualified as a Chartered Accountant with Arthur Andersen, and holds an MBA from Harvard Business School.

Simon Embley — Non Executive Chair

Simon was appointed Non Executive Chair on 1st January 2015, having previously held the positions of Deputy Chair 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, Eveclo Holdings (an IT business), Road to Health (a healthcare provider) and he is also non executive chair at Global Property Ventures (which distributes a tenant deposit replacement product).

Darrell Evans – Non Executive Director

Darrell was appointed as an independent Non Executive Director on 28th February 2019 and is also a member of LSL's Nominations, Remuneration and Audit & Risk Committees. Darrell is also LSL's designated Non Executive Director in relation to workforce engagement. Darrell joined LSL with significant experience in financial services and he is currently the Chief Commercial Officer at the Co-Operative Bank plc. Darrell spent the first part of his career at Royal Bank of Scotland plc, where he was Managing Director, Mortgages, Loans and Retail Telephony in the retail banking division responsible for all aspects of the Group's mortgage proposition. Prior to that he was Product Director for the RBS retail bank. Darrell has also held senior executive roles at Direct Line Insurance Group plc, Virgin Money plc and The Consulting Consortium where he was CEO.

Bill Shannon — Non Executive Director, Deputy Chair, Senior Independent Director, and Chair of the Remuneration Committee and Nominations Committee

Bill was appointed as an independent Non Executive Director and the Chair of the Remuneration Committee on 7th January 2014 and on 1st January 2015, he took on the roles of Deputy Chair, Senior Independent Director and Chair 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 chair 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 chair of Aegon UK plc and St Modwen Property PLC, and non executive director of Rank Group plc, Barratt Developments plc, and Matalan plc.

David Stewart — Non Executive Director and Chair of the Audit & Risk Committee

David joined the Board on 1st May 2015, and is Chair of the Audit & Risk Committee and a member of the Remuneration and Nominations Committees. David has significant experience in finance, strategy, operations, risk and compliance with a particular expertise in financial services. He is currently non executive chair of the Enra Group and also sits as a non executive director on the boards of M&S Bank and Brooks Macdonald Group plc. 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 ten years at DBS Management plc, holding a number of board positions including Group Chief Executive and Group Finance Director. David qualified as a Chartered Accountant with Peat Marwick (KPMG) and is a graduate of Warwick University.

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 Stakeholder Engagement Arrangements, 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
10th March 2020

Adam Castleton
Group Chief Financial Officer
10th March 2020

Report of the Directors and Corporate Governance Reports

In this section

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

The Directors are responsible for preparing the Annual Report and the Group Financial Statements in accordance with applicable United Kingdom law and 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 Group Financial Statements.
- Make judgements and accounting estimates that are reasonable and prudent.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Group 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, the Group Chief Executive's Report* and the *Business Reviews*) sets out a review of the Group's business including details of LSL's performance, developments and strategy during 2019.

Annual general meeting

The *Notice of Meeting* convening the AGM is in a separate circular to be sent to Shareholders. 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 financial results of LSL in relation to 2019.

Dividend

The Board continues to support the 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 dividend policy while considering the risks and capital management decisions facing the Group.

Adjusted Basic Earnings per Share for 2019 was 28.0 pence, an increase of 3% on the prior year (2018: 27.2 pence per Share). The Board intends to propose a final dividend of 7.2 pence per Share (2018: 6.9 pence per Share), resulting in a full year dividend of 11.2 pence per Share (2018: 10.9 pence per Share). This is a pay-out at the upper end of the range of LSL's stated dividend policy, reflecting our confidence in the current level of performance of the business and of our balance sheet strength. Taking into account the unknown potential impact of COVID-19 virus on the UK housing market, the LSL Board will keep the proposed final dividend under review ahead of presenting its proposal to Shareholders at the 2020 AGM.

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 *Corporate Social Responsibility* statement, the *Corporate Governance Report* and the *Stakeholder Engagement Arrangements* sections of this Report. The *Corporate Social Responsibility* statement also summarises the Group's policy in relation to disabled employees.

In relation to employee engagement, the *Corporate Governance Report* details the steps that the Group has undertaken to implement workforce engagement arrangements in compliance with *the Code* and the associated FRC *Guidance on Board Effectiveness*. See also the *Stakeholder Engagement Arrangements* section of this Report which together with the *Corporate Social Responsibility* statement includes LSL's disclosures pursuant to *The Companies (Miscellaneous Reporting) Regulations 2018* and *the Code*.

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 31 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 2019 results are included within the *Corporate Social Responsibility* section of this Report.

Directors

Details of the Directors (who served and were appointed during 2019) are in the *Corporate Governance Report*.

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 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 2019 AGM) will stand for re-election at the 2020 AGM. Gaby Appleton who has been appointed after the 2019 AGM will stand for election. Shareholders may by ordinary resolution elect or re-elect any individual as a Director.

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

The biographical details for all the Directors are set out in *The Board* section of this Report.

During the 2019 Board and Committees annual evaluation and 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 2019 and the date of this Report, there were no changes in the Directors' interests other than the purchases of Shares by Ian Crabb (183 Shares), Adam Castleton (182 Shares) and Helen Buck (182 Shares) as participants of LSL's SIP/BAYE scheme. These Shares were purchased by the Trust at the prevailing market rate.

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

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

Directors' service contracts

Details of the Executive Directors' service agreements and the current Non Executive Directors' letters of appointment (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 2020 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 26 to the *Financial Statements*. There have been no changes to the Share capital during 2019. 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 2020 AGM. LSL obtained Shareholder approval to disapply pre-emption rights at the 2019 AGM.

Full details of the deadline for exercising voting rights in respect of the resolutions to be considered at the 2020 AGM are set out in the *Notice of Meeting*.

Employee Share schemes

LSL has three employee benefit trusts. The first was established in 2006 prior to LSL's flotation on the London Stock Exchange and LSL appointed Apex Financial Services (Trust Company) Limited (formerly Capita Trustees Limited) (ESOT Trustees) to operate the LSL Property Services plc Employee Share Scheme (ESOT). The Trust is able to acquire and to hold Shares to satisfy options or awards granted under any discretionary share option scheme, long-term incentive arrangement or Save As Your Earn (SAYE) plan 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 2019 and to all future payments.

LSL also operates The LSL Property Services plc Employee Share Incentive Plan (BAYE) for its employees, first established in 2007, which is administered by Link Market Services (Trustees) Limited (formerly Capita IRG Trustees Limited) (Link). Link are the trustees of The LSL Property Services Employee SIP Trust (Trust) in which shares are held on behalf of participants in the BAYE. The Shares held in the Trust have dividend and voting rights in line with the rules of the BAYE.

The third employee benefit trust was established in November 2011 (the 2011 EBT), as part of the acquisition of Marsh & Parsons. The 2011 EBT does not currently hold any LSL Shares and is in the process of being closed.

Viability statement

In accordance with provision 31 of *the Code*, the Directors confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years. This assessment was considered against the Group's expected financial position, existing banking facilities and potential management actions.

As with previous years, a three year viability period, ending 31st December 2022, has been selected which corresponds to the Board's three year planning horizon. In accordance with FRC guidance, the appropriateness of this period was reassessed and is still considered appropriate given this aligns with the Group's planning and budget cycle.

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* (which are included in the *Strategic Report*). This section also describes the viability assessment process.

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 in the *Principal Risks and Uncertainties* section of this Report.

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, whether or not the possible all-share combination of LSL and Countrywide progresses.

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 23 to the *Financial Statements*. Note 31 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 32 to 41.

As explained in Note 31 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 31 to the *Financial Statements* as at 31st December 2019 the Group had available £51.3m of undrawn borrowing out of an available £100m 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 judgements, 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. The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future.

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 2019, 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 Chair 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).
- 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 2019, the Trust held 1.43% (2018: 1.44%) 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.

Directors' responsibility statement

Each of the 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 *Stakeholder Engagement Arrangements* statement, the *Principal Risks and Uncertainties*, the *Corporate Social Responsibility* statement and *The Board*) and the *Directors' Report* (including the *Corporate Governance Report*) 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 2019 and as at 9th March 2020, the Shareholders set out below have notified LSL of their interest under DTR 5:

Institutional Shareholders:

		31st December 2019		9th March 2020	
Institution	Nature of shareholding	Number of Ordinary Shares	% of Ordinary Shares	Number of Ordinary Shares	% of Ordinary Shares
Kinney Asset Management, LLC	Beneficial	11,172,046	10.73	**10,322,046**	**9.91**
Harris L.P	Beneficial	10,316,680	9.90	**10,316,680**	**9.90**
Brandes Investment Partners L.P	Beneficial	10,263,763	9.85	**10,263,763**	**9.85**
Setanta Asset Management Limited	Beneficial	9,296,137	8.93	**7,477,798**	**7.18**
FMR, LLC	Beneficial	6,969,606	6.69	**6,725,601**	**6.45**
Russell Investments Group, Ltd	Beneficial	6,625,024	6.36	**6,625,024**	**6.36**
Franklin Templeton Institutional, LLC	Beneficial	5,224,560	5.02	**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
10th March 2020

Corporate Governance Report

UK Corporate Governance Code (July 2018) (Code)

This section of the Report provides details of LSL's corporate governance arrangements in 2019 and describes how the Board and Committees have complied with *the Code* during 2019. *The Code* is available on the FRC's website (*frc.org.uk*).

During 2019 the Board continued to be committed to the highest standards of corporate governance and the Directors recognised the value and importance of meeting the principles of good corporate governance as set out in *the Code* together with the associated FRC *Guidance on Board Effectiveness*.

Compliance with the Code

During 2019, LSL complied with the principles and relevant provisions of *the Code* in all respects with the exception of provisions 9 and 19. The Chair does not meet *the Code's* independence on appointment criteria (provision 9) nor does he satisfy the duration of appointment provision (provision 19), as he has been a Director of LSL for more than nine years and was previously the Group CEO. LSL's explanation in relation to these matters is set out in the *Board Composition* section of this *Corporate Governance Report*.

LSL's purpose

During 2019, with support from the Executive Committee, the Board defined LSL's purpose and identified associated performance characteristics. LSL's purpose statement and performance characteristics have also been published on the LSL website (*lslps.co.uk*) and further details relating to this work is set out in the *Purpose, culture and values* section of this *Corporate Governance Report*.

Workforce engagement

In relation to principle D and provision 5 of *the Code*, during 2019 the Board implemented arrangements in relation to workforce engagement and appointed Darrell Evans as the designated independent Non Executive Director. Details of the workforce engagement arrangements are included in the *Stakeholder engagement* section of this *Corporate Governance Report*. Also see the *Stakeholder Engagement Arrangements* section of this Report for further information relating to stakeholder and workforce engagement matters.

Corporate governance reviews

During 2019 the Board continued to implement and embed improvements to its governance arrangements to implement the 2018 version of *the Code*, to respond to other governance reporting changes including *The Companies (Miscellaneous Reporting) Regulations 2018* and to reflect best practice. In particular, the Board requested as part of the 2018 Board evaluation exercise that a review of governance arrangements in relation to stakeholder engagement be undertaken in 2019, and completion of this exercise was monitored by the Board with report on the output also reviewed by the Executive Committee.

LSL also reviewed the guidance contained in *The Wates Corporate Governance Principles for Large Private Companies (Wates Principles)* which was published in December 2018 following a period of consultation and which applies to the 2019 financial year. This review concluded that none of the Group's subsidiaries fall within the criteria of the *Wates Principles*. Accordingly, no changes to the corporate governance arrangements for subsidiaries was made during the year.

The Board, the Audit & Risk Committee and the Executive Committee have monitored reports on corporate governance failings and the resulting reviews of audit firms and their regulator to ensure that the Group's governance, internal controls and risk management arrangements remain in line with best practice and are appropriate.

Following the Government announcement that the FRC will be replaced with a new regulator, LSL has continued to monitor the FRC announcements and will monitor announcements from any new regulator appointed in the future.

The Board

As at 31st December 2019, the Board consisted of eight members: four independent Non Executive Directors, three Executive Directors plus the Chair, whose details are all set out in the table below.

During the year there were a number of Board changes:

- the appointment of Darrell Evans (independent Non Executive Director) in February 2019;
- the departure of Kumsal Bayazit Besson (independent Non Executive Director) at the 2019 AGM; and
- the appointment of Gaby Appleton (independent Non Executive Director) in September 2019.

Following Kumsal's departure and prior to Gaby's appointment, the Board consisted of seven members: three independent Non Executive Directors, three Executive Directors plus the Chair.

Director Name	Position(s)
Chair	
Simon Embley	Non Executive Director – Chair
Executive	
Ian Crabb	Executive Director – Group Chief Executive Officer
Adam Castleton	Executive Director – Group Chief Financial Officer
Helen Buck	Executive Director – Estate Agency
Independent Non Executive Directors	
Bill Shannon	Independent Non Executive Director – Deputy Chair, Senior Independent Director, Chair of the Remuneration Committee, Chair of the Nominations Committee and a member of the Audit & Risk Committee
David Stewart	Independent Non Executive Director – member of the Nominations Committee, Remuneration Committee, and Chair of the Audit & Risk Committee
Darrell Evans	Independent Non Executive Director – member of the Nominations Committee, Remuneration Committee and Audit & Risk Committee, and designated Non Executive Director for Workforce Engagement
Gaby Appleton	Independent Non Executive Director – member of the Nominations Committee, Remuneration Committee and Audit & Risk Committee
Kumsal Bayazit Besson (retired at the 2019 AGM)	Independent Non Executive Director – member of the Nominations Committee, Remuneration Committee and Audit & Risk Committee

In line with the provisions of *the Code*, all the Directors will retire from the Board at the AGM and stand for re-election. Accordingly, subject to Shareholder approval at the AGM, following the AGM (in compliance with *the Code*), the Board will consist of four independent Non Executive Directors, three Executive Directors and the Chair.

All the Directors are listed with their biographies in *The Board* section of this Report.

Board changes and director search

During 2019 the Nominations Committee conducted a search for a new independent non executive director to join the Board and its Committees. The search focused on individuals with skills and expertise in technology and innovation resulted in the appointment of Gaby Appleton to the Board and its Committees with effect from 1st September 2019. No search agencies were engaged in the search and candidates for the appointment were selected from referrals by other Directors. The Nominations Committee chose not to undertake a search because a pool of appropriate candidates was referred for consideration.

As reported in the *Annual Report and Accounts 2018*, Kumsal Bayazit Besson retired from the Board at the 2019 AGM and Darrel Evans (independent Non Executive Director) joined the Board and its Committees on 28th February 2019.

Details of all of the Directors are included in *The Board* section of this Report.

Board composition

Non Executive Directors

During 2019 the Non Executive Directors (excluding the Chair) were determined to be independent in accordance with Provision 10 of *the Code* and the Board composition continued to comply with Provision 11 of *the Code*, namely that half of the Board (excluding the Chair) comprised independent Non Executive Directors.

The current Non Executive Directors together have a range of experiences which are described in more detail in the Nominations Committee section of this *Corporate Governance Report*.

All the Non Executive Directors (excluding the Chair) 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 judgement.

Chair

The Chair does not meet *the Code's* independence on appointment criteria (provision 9) or the duration of appointment criteria (provision 19) because he was previously the Group Chief Executive Officer of LSL and has been appointed to the Board for more than nine years.

Simon Embley was first appointed to the Board in 2004 when the management buy-out of Your Move and e.surv was completed. LSL listed on the London Stock Exchange in 2006. Simon was Group Chief Executive Officer from 2004 to 2014 when he moved into the role of Deputy Chair before taking on the role of Chair in 2015.

The changes in Simon Embley's role during his term and his position on the Board reflects the Board's desire to retain his knowledge and experience of the residential property market and benefit from his track record in delivering Shareholder value. Prior to his appointment as Chair, LSL consulted with significant Shareholders and their feedback was taken into account. Shareholder feedback is also taken into account at each AGM where Simon, along with the rest of the Board has stood for re-election each year. The proxy results each year relating to Simon's re-election have confirmed Shareholder support each year for his continued appointment to the Board.

The Board has ensured that it continues to have in place effective governance and leadership arrangements in accordance with *the Code's* principles relating to the division of responsibilities by establishing roles and responsibilities (which are described below) and encouraging a culture of openness and debate which is further considered in the annual evaluation exercise.

The Board has through its annual evaluation and the operation of the Nominations Committee ensured on-going adherence to *the Code's* principles relating to its composition, succession planning and evaluation arrangements. Further, during 2020, consideration is being given to the engagement of an external facilitator in the Board and Committee evaluation process.

Roles of the Chair, Deputy Chair and Senior Independent Director, and Group Chief Executive Officer

There is a clear division of responsibilities between LSL's Chair, Deputy Chair and Senior Independent Director and Group Chief Executive Officer and these are documented, approved by the Board and available on the LSL website (*lslps.co.uk*).

Chair:

The role of Chair is pivotal in creating the conditions for overall Board and individual Director effectiveness, setting clear expectations concerning the style and tone of Board discussions, ensuring the Board has effective decision making processes and that it applies sufficient challenge to major proposals. It is up to the Chair to make certain that all Directors are aware of their responsibilities and to hold meetings with the Non Executive Directors without the Executive Directors present in order to facilitate a full and frank airing of views.

LSL's Chair is responsible for leadership of the Board and ensuring its effectiveness in all aspects of its role. The Chair sets the Board's agenda, ensuring that the Board's discussions are focused on key issues including: strategy, performance, value creation, culture, key stakeholders and accountability, and ensuring that issues relevant to these areas are reserved for Board decision.

The Chair shapes the culture of the boardroom by promoting a culture of openness and debate by encouraging all Directors to engage in Board and Committee meetings by drawing on their skills, experience and knowledge. He also fosters relationships based on trust, mutual respect and open communication between the Non Executive and Executive Directors.

The Chair also ensures that the Directors receive accurate, timely and clear information and he ensures that the Board has effective communications with all of LSL's key stakeholders: including its Shareholders, employees, suppliers, customers and regulators. For further information see also the *Stakeholder Engagement Arrangements* section of this Report.

The Chair will also ensure that the Directors continually update their skills, the knowledge and familiarity with LSL required to fulfil their role (both as a member of the Board and its Committees).

The Chair provides support and advice to the Group Chief Executive Officer (while respecting Executive responsibility) and also provides guidance and mentoring to new Directors (as appropriate).

The Chair leads the annual Board and Committee evaluation exercise, with support from the Deputy Chair and Senior Independent Director, and the Company Secretary ensures that the Board and its Committees acts on its results. The Chair will also periodically consider the undertaking of an externally facilitated exercise. For further details regarding the annual evaluation arrangements, see the *Board, Committees and Directors'* evaluation section below.

Group Chief Executive Officer:

The Group Chief Executive Officer's key responsibility is the running of the business and his delegated powers are set by the Board. As the most senior Executive Director, the Group Chief Executive Officer is responsible for proposing Company strategy and for delivering the strategy as agreed by the Board. He also has primary responsibility for setting an example to the Group's workforce, for communicating to them the expectations in respect of the Company's culture, and for ensuring that the operation of policies and practices drive appropriate behaviour.

The Group Chief Executive Officer supports the Chair in ensuring that the appropriate standards of governance permeate through all parts of the organisation and he ensures that the Board is aware of views gathered from meetings between management and the workforce.

The Group Chief Executive Officer ensures the Board is aware of the views of management on business issues in order to improve the standard of discussion in the boardroom and, prior to a final decision on an issue, explain in a balanced way any divergence of view.

The Group Chief Executive Officer is also responsible for ensuring that management fulfils its obligation to provide Directors with:

- accurate, timely and clear information in a form and of a quality and comprehensiveness that will enable it to discharge its duties;
- the necessary resources for developing and updating their knowledge and capabilities; and
- appropriate knowledge of the Group, including access to Group's operations and members of the workforce.

Deputy Chair and Senior Independent Director:

LSL's Deputy Chair and Senior Independent Director acts as a sounding board for the Chair, providing support for the Chair in the delivery of his objectives, and leads the annual evaluation of the Chair on behalf of the other Directors.

The Deputy Chair and Senior Independent Director is also available to meet with Shareholders if they should wish.

The Deputy Chair and Senior Independent Director works closely with the Chair, the Group Chief Executive Officer and the other Directors to resolve significant issues; and the Board has a clear understanding of his role and responsibilities.

The Deputy Chair and Senior Independent Director will also take responsibility for ensuring an orderly succession process and the evaluation of the Chair each year (see below for details of the annual evaluation exercise).

All role profiles are available on the LSL website (*lslps.co.uk*).

Chair's other appointments

In addition to his role as Chair, Simon Embley's other board appointments comprise a small estate management company, Eveclo Holdings (an IT business), Road to Health (a healthcare provider), and he is also non executive chair of Global Property Ventures (trading as Zero Deposit, which distributes a tenant deposit replacement product).

Board, Committees and Directors' evaluation

During the year the Directors continuously monitor and review their performance, and are encouraged to provide feedback on the effectiveness of the Board and its Committees. Further, in accordance with the requirements of *the Code*, the Directors undertake a formal and rigorous annual evaluation of the performance of the Board with the assistance of the Company Secretary. The process includes an evaluation of the Board, its Committees and of individual Directors. The Chair leads the annual evaluation exercise, with support from the Deputy Chair and Senior Independent Director (as appropriate). The Deputy Chair and Senior Independent Director leads the evaluation of the Chair.

LSL's evaluation exercise is bespoke in its formulation and delivery; and whilst the 2019 exercise did not involve an externally facilitated evaluation, the Chair monitors the need for an externally facilitated evaluation on an on-going basis.

The exercise considers: the balance of skills, experience, independence and knowledge of the Group on the Board; its diversity (including gender); how the Board works together as a unit; and other factors relevant to its effectiveness. In addition this year, the evaluation considered ways in which the Directors can formally include feedback from key stakeholders and whether the exercise should be externally facilitated.

The exercise seeks to ensure that the Directors remain individually and collectively effective and the Chair, with the support of the Company Secretary, ensures that the Board acts on the results of the evaluation by recognising its strengths, addressing its weaknesses and, where appropriate, reviewing its composition.

Individual Director evaluations consider each person's contribution to demonstrate that each Director continues to contribute effectively and to demonstrate their commitment to the role (including commitment of time for Board and Committee meetings and any other duties). The evaluation exercise forms a useful part of the Board's succession planning as it provides an opportunity to review skills, assess composition and agree plans for filling any gaps in skills and diversity.

As part of the 2019 annual evaluation exercise, the Directors considered and determined that they are satisfied that the balance of Executive and Non Executive Directors on the Board is appropriate and that no individual or group dominates the Board's decisions.

Implementation of 2018 evaluation recommendations:

The actions agreed during the 2018 evaluation process were completed in 2019 and the findings arising from the exercise contributed to succession planning in 2019, including the recruitment of a new independent Non Executive Director (Gaby Appleton) and the conducting of a review of the Group's governance arrangements in relation to stakeholder engagement which was conducted by the Group Finance team.

2019 evaluation exercise:

LSL's evaluation practice includes completion of a questionnaire and is supported by discussions between each Director and the Chair, meetings of the Board and discussions between the Non Executive Directors. In addition, the independent Non Executive Directors evaluate the Chair's performance, after taking into account the views of the Executive Directors.

No significant issues requiring action arose from the 2019 evaluations and the outcomes of the exercise were reported to, and discussed by, the Board. The outcomes will be fed back into the Board's work on composition, the design of induction and development programmes, and other relevant areas. 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 of the 2019 exercise, during 2020 the Board will undertake the following:

- Continue to review Board succession planning arrangements with a focus on Non Executive Directors' succession, Executive Director succession (short-term/emergency arrangements) and diversity (including gender, skills and experience).
- Continue to ensure that the Board's meeting arrangements encourage active participation from all Directors.
- Continue to review and develop Board and Committee reporting to ensure that the delivery of information supports the Directors to continue their focus on strategic matters.
- Consider the evaluation process, including incorporating views and the method of evaluation (specifically external evaluation options).
- Consider additional support and engagement of Directors outside of scheduled Board meetings and reporting.

Diversity (including gender)

LSL continues to recognise the benefits of diversity on the Board (including relevant professional skills, experience, gender and race). *The Code* provides that diversity in the boardroom can have a positive effect on decision making and recommends that the Board decide on which aspects of diversity are important to the Group in the context of its business and needs.

In terms of gender diversity, as at 31st December 2019 the Board included two female Directors, Helen Buck (Executive Director – Estate Agency) and Gaby Appleton (independent Non Executive Director).

The Board also considers other aspects of diversity in addition to gender and considers that its composition includes a wide range of skills and expertise that are relevant to the Group's businesses and needs. Diversity of personal attributes is also important and is taken into account in the search and recruitment of new directors. See also the *Corporate Social Responsibility* section of this Report for details of the gender split within the Group's Management Team.

During 2019 the LSL Board composition included expertise, skills and experience in strategy, technology, estate agency, surveying and valuation services, financial services, the residential housing sector, commercial property, sales and marketing, operations, entrepreneurial private and public companies, finance, consumer and employee matters, corporate governance, professional information solutions and risk and compliance.

LSL has not adopted a formal diversity policy in relation to the Board's composition and whilst the Directors remain of the view that the setting of diversity related targets (for example, the number of female directors) in relation to Director appointments is not necessary, the Board continues with the support of the Nominations Committee to appoint on merit. Both the Chair of the Board and the Chair of the Nominations Committee ensure that all searches for directors and senior managers (including those undertaken in 2019) continue to take into account the benefits of diversity, including professional skills, experience, gender, social and ethnic backgrounds.

LSL believes that diversity on the Board, within the Management Team and the general Group workforce has a positive impact on the Group's performance, and the Board will during 2020 continue to review its position with regard to the adoption of a formal diversity policy in relation to the Board's composition.

For further information on how the Nominations Committee ensures the promotion of diversity within the Group, see below (*Nominations 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 the Executive Directors' service agreements and Non Executive Directors' letters of appointment are contained in the *Directors' Remuneration Report*.

Director support (including the role of the Company Secretary)

All Directors have access to independent professional advice at LSL's expense, where they judge it necessary to discharge their responsibilities and for the performance of their duties. This is in addition to the access every Director has to the Company Secretary and to the Group HR Director and their teams.

The Company Secretary is responsible for ensuring that Board procedures are complied with, advising the Board on all governance matters, supporting the Chair of the Board and each of the Committees, and helping the Board and its Committees to function efficiently. She reports to the Chair and the Deputy Chair and Senior Independent Director on all governance matters and to Executive Directors in relation to other executive management responsibilities.

LSL's Company Secretary's responsibilities include ensuring information flows efficiently within the Board and its Committees and between senior management and the Non Executive Directors. The Company Secretary also works alongside the Group HR Director, facilitating Board inductions, arranging Board training and assisting with professional development as required.

The Company Secretary and Group HR Director organise and arrange for the provision of resources to develop and update the Directors' knowledge and capabilities. Training is delivered in a manner that is appropriate to the particular Director, and that aims to enhance that Director's effectiveness as a part of the Board or its Committees in line with the results of the Board evaluation process.

Assisting the Chair in establishing the policies and processes the Board needs in order to function properly is a core part of the Company Secretary's role.

The Company Secretary's effectiveness is enhanced by building relationships of mutual trust with the Chair, the Deputy Chair and Senior Independent Director, and each of the Non Executive Directors, while maintaining the confidence of Executive Director colleagues. As *the Code* identifies, the role of Company Secretary is in a unique position between the Executive and the Board, and is well placed to take responsibility for concerns raised by the workforce about conduct, financial improprieties or other matters.

Director induction and training

Each newly appointed Director receives a comprehensive, tailored induction on a range of topics, including, as appropriate, the responsibilities of a director of a public listed company and the LSL businesses. Thereafter, LSL with the support of the Company Secretary and the Group HR Director, provides the necessary resources for developing this understanding and knowledge. Further, the Chair reviews and agrees any training and development needs with each of the Directors and any training needs are also discussed as part of the annual evaluation exercise. During 2019, LSL completed an annual review of its induction and training arrangements to ensure it continued to into account the requirements of *the Code*, and specifically to ensure that LSL's approach to stakeholder engagement was included in the induction programme for new Directors. The updated induction arrangements were used in the inductions of Darrell Evans and Gaby Appleton as new independent Non Executive Directors. The Company Secretary and Group HR Director ensure that the Director induction and training arrangements are reviewed regularly with updates provided to the Board.

During 2019, the Board also received a training session on governance matters including culture and recent corporate failures which was delivered by Pinsent Masons LLP.

Board and committee meetings

During 2019 the Board held nine scheduled meetings (including a strategy meeting). Each of the Directors was able to allocate sufficient time to LSL to discharge their responsibilities effectively, as shown by the attendance of each of the Directors at all Board and Committee meetings. The attendance of each Director at Board and Committee meetings is set out below.

During 2020 the Board is scheduled to meet nine times (including a strategy meeting). Additional meetings may be held as required.

During 2019 the Non Executive Directors collectively met four times without the Executive Directors being present and it is the intention that the Non Executive Directors will meet six times during 2020. These meetings are scheduled to take place 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 Chair being present.

2019 Board and Committee attendance:

Board Member	Position	Board Meetings (including a strategy meeting)	Audit & Risk Committee	Remuneration Committee	Nominations Committee
Simon Embley	Non Executive Chair	9	-	-	-
Bill Shannon	Deputy Chair and Senior Independent Director	9	3	3	3
Ian Crabb	Group Chief Executive Officer	9	-	-	-
Adam Castleton	Group Chief Financial Officer	9	-	-	-
Helen Buck	Executive Director – Estate Agency	9	-	-	-
Darrell Evans[1]	Independent Non Executive Director	9	2	2	3
David Stewart	Independent Non Executive Director	9	3	3	3
Gaby Appleton[2]	Independent Non Executive Director	4	1	2	1
Kumsal Bayazit Besson[3]	Independent Non Executive Director	2	1	1	1

Notes:

[1] Darrell Evans was appointed to the Board on 28th February 2019

[2] Gaby Appleton was appointed to the Board on 1st September 2019

[3] Kumsal Bayazit Besson retired from the Board at the 2019 AGM

Director elections

LSL's Articles of Association stipulate that all 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 chosen to adopt annual elections for all Directors, in accordance with best practice (under *the Code*) and by an amendment to the Nominations Committee terms of reference. Accordingly, all the Directors will stand for re-election/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 at least 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 the information or advice necessary for them to discharge their duties. These arrangements are monitored by the Chair and the Company Secretary and reviewed annually by the Directors as part of the Board's evaluation process (which is explained above).

Governance

There is also a programme of regular reviews by the Board of LSL's 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).

Stakeholder engagement - workforce engagement (Code)

In accordance with the *Companies (Miscellaneous Reporting) Regulations 2018*, see the *Stakeholder Engagement* section of this Report for further details of how, during 2019, the Directors have engaged with the Group's workforce and how the Directors have had regard to the need to foster LSL's relationships with all key stakeholders including Shareholders, employees, suppliers and customers.

In relation to principle D and provision 5 of *the Code*, in 2019 the Board has implemented arrangements in relation to workforce engagement by designating Darrell Evans as the independent Non Executive Director for workforce engagement.

In his new role, Darrell has engaged with LSL's existing Group Employee Engagement Forum and cross business team. Darrell is fulfilling his role with support from the Group HR Director and the Company Secretary. A role profile has been prepared for this role which takes into account the requirements of *the Code*.

The Group Employee Engagement Forum will operate as the vehicle for Darrell to establish regular dialogue with the Group's employees. This dialogue includes Darrell's attendance at an annual meeting with the Group Employee Engagement Forum which, in order to maximise the effectiveness of the meeting, takes place after the annual employee survey results have been published to enable the Group to analyse current and up to date relating to employee views. Darrell attended his first meeting of the forum in 2019.

Purpose, culture and values

LSL's purpose

Through the talents and expertise of our people we seek to deliver excellent residential property services to our customers whilst creating a long-term value for all our stakeholders.

During 2019, with support from the Executive Committee, the Board defined LSL's purpose and a set of associated aspirational performance characteristics. The purpose and the associated aspirational performance characteristics are all available on the LSL website (*lslps.co.uk*).

The process, which started in 2018 and continued during 2019, involved the identification and articulation of cultural behaviours for use across the Group's businesses. The aim of the exercise was to establish a set of aspirational performance characteristics that fully describe the behaviours that the Board wants its leaders and employees to demonstrate to support the strategic direction of the Group and to support LSL's purpose.

The final draft of the *Purpose Statement* was then approved and adopted by the Board at its annual Strategy Meeting. In considering the performance characteristics the Board also considered the adoption and existence of purpose, culture and value statements which have been adopted by the Group companies and it was agreed that LSL's *Purpose Statement* and aspirational performance characteristics may be adapted and modified where necessary to take account of specific businesses.

In arriving at its decision, the Board recognised the Group's structure and business model and its diversity of businesses. Whilst the Board did not wish to affect locally agreed arrangements, it has requested that the Executive Committee review divisional approaches to culture and values and in the event that any conflicts are identified, confirm that these are addressed to ensure the alignment of the Group's cultures and values. This work will continue during 2020.

Defining LSL's *Purpose Statement* and the associated aspirational performance characteristics assists the Board and the Executive Committee in monitoring the alignment of strategy and culture to LSL's purpose.

Corporate Social Responsibility (CSR)

LSL believes that CSR is necessary to support responsible business decisions that consider the broad impact of corporate actions on people, communities, and the environment. Accordingly, the Board takes account of the significance of environmental, social and governance matters (ESG) when making decisions and has during 2019 been monitoring and considering what lessons can be learnt from corporate failures of other companies. Including, as outlined in the *Director induction and training* section of this *Corporate Governance Report*, receiving a training session from Pinsent Masons LLP which included briefing on recent corporate failures.

Further details of LSL's CSR objectives can be found in the *Corporate Social Responsibility* statement included in this Report.

New regulations and consultation

During 2019, the Board closely monitored the Government's review of the FRC and LSL's implementation of the Directors' remuneration elements of the *Shareholders' Right Directive II* and also received regular updates on arrangements relating to *Reporting on Payment Practices Regulations 2017*, the *Modern Slavery Act 2015*, the *Bribery Act 2010*, the *Equality Act 2010* (*Gender Pay Gap Information*) *Regulations 2017* and the *Criminal Finances Act 2017*.

The Board has also been monitoring developments in relation to laws and regulations which impact LSL's Estate Agency and Financial Services businesses and further details relating to these are included in the *Business Review* sections of this Report.

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 the 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.

In addition the Board has established a Disclosure Committee to ensure compliance with the *Market Abuse Regulation*.

The membership of the above three 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 2018, the Board reviewed the terms of reference for each of the Committees and updated each to ensure compliance with the new *Code* and the *FRC Guidance on Board Effectiveness* and an annual review of the Committees' terms of reference was undertaken in 2019.

It is also the intention that Bill Shannon, as Chair of the Nominations Committee and Remuneration Committee and David Stewart, as Chair of the Audit & Risk Committee, will both attend the 2020 AGM to answer any questions.

Nominations Committee

During 2019, Bill Shannon was the Chair of the Nominations Committee and its other members were David Stewart, Kumsal Bayazit Besson up until her retirement from the LSL Board at the 2019 AGM, as well as Darrell Evans and Gaby Appleton who were appointed to the LSL Board on 28th February 2019 and 1st September 2019 respectively.

Director searches

During 2019 in relation to the recruitment of a new independent non executive director, the Nominations Committee has not been assisted in its search by any agencies.

During 2019, the Nominations Committee considered at length a number of aspects regarding the Board's composition and commenced a search for the recruitment of an additional independent non executive director with strategy, technology and innovation expertise.

Darrell Evans was appointed as a new independent Non Executive Director with effect from 28th February 2019 following a search which commenced in the second half of 2017.

Following this search the Board also appointed Gaby Appleton as a new independent Non Executive Director with effect from 1st September 2019. In relation to the appointment of Gaby Appleton in 2019, the Nominations Committee chose not to undertake a search because a pool of appropriate candidates was referred to it for consideration.

Roles and responsibilities of the Nominations Committee

The Nominations Committee has been established by the Board to lead the process for appointments to the Board and to ensure plans are in place for orderly succession to both the Board and senior management positions. The Nominations Committee has oversight of LSL's succession arrangements and in discharging its roles and responsibilities it considers and has regard to the requirements of the *Listing Rules and Disclosure and Transparency Rules* together with guidance issued by the FRC (including *the Code*).

The duties of the Nominations Committee are governed by its terms of reference, which were reviewed in 2018 to ensure compliance with *the Code* and updated with effect from 1st January 2019. An annual review of the terms of reference was also undertaken in 2019 to ensure continued compliance with *the Code*.

The Nominations Committee's roles and responsibilities include 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 ethnicity). 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 and its Committees 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 and its Committees;

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 (i) the benefits of diversity, including gender and ethnicity; and (ii) 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 Chair, 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 makes recommendations to the Board as set out in its terms of reference.

In 2019 recommendations to the Board included the following matters:

- succession plans for both Executive Directors and Non Executive Directors (in particular, for key roles of the Chair and the Group Chief Executive Officer);
- recommended the extension of appointment terms for Bill Shannon;
- recommended the appointment of Gaby Appleton as an independent Non Executive Director;
- corporate governance updates, including reviewing LSL's purpose, values and culture activities; and
- reporting on its activities each year within LSL's *Annual Report and Accounts*.

The Nominations Committee will also monitor the terms of each Director and ensure that each year the Board, along with the Chair, completes a formal and rigorous evaluation of the Board, its Committees and its Directors. For details of the 2019 evaluation exercise, see above *Board, Committees and Directors' evaluation*.

What the Nominations Committee did in 2019

The Nominations Committee met three times in 2019 and the Group Chief Executive Officer, the Chair, the Group HR Director and the Company Secretary were all invited to attend all or parts of these meetings and to assist the Nominations Committee in its deliberations during this period.

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

a. Board composition, including gender, race and professional skills diversity of the Board and its Committees as a whole;

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

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

d. a follow up to the 2018 review of the governance arrangements within the Financial Services management teams;

e. a review of *the Code* and the associated FRC *Guidance on Board Effectiveness* including discussing LSL's purpose, values and culture and reviewing LSL's adoption in compliance with *the Code*;

f. a review of the Nominations Committee's performance and its terms of reference to ensure compliance with *the Code* and related FRC guidance; and

g. the Nominations Committee commenced a search for the recruitment of an additional independent Non Executive Director which resulted in the appointment of Gaby Appleton with effect from 1st September 2019.

As part of its discussions in 2018 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 takes into account both the requirements of the *Listing Rules* (together with requirements issued by the FCA), *the Code* and related guidance issued by the FRC and other relevant bodies (for example ICSA), together with the requirements of the Board.

During 2019, the Nominations Committee continued to monitor reviews and reforms of corporate governance and during its discussions it considered *the Code* and the FRC *Guidance on Board Effectiveness*, including considering LSL's purpose, culture and values and how the Group would implement the new workforce engagement requirements. Details relating to employee engagement are included in the *Stakeholder Engagement Arrangements* section of this Report.

Board composition and diversity

Whilst LSL does not have in place a formal policy on diversity, it has during 2019 and will continue during 2020 to ensure that LSL's recruitment and succession planning practices continue to identify and consider a diverse pool of candidates to improve diversity over time.

For further details regarding LSL's approach to diversity, see above *Diversity (including gender)*.

Gender pay reporting

LSL published its gender pay reports for all LSL Group companies with more than 250 employees in April 2019 and further reporting will be published in April 2020. The reports are available to view at *gender-pay-gap.service.gov.uk*.

For details of gender reporting in relation to the Board, the Management Team and Group employees, see the *Corporate Social Responsibility* statement included in this Report.

Remuneration Committee

During 2019, Bill Shannon was the Chair of the Remuneration Committee and its other members were David Stewart, Kumsal Bayazit Besson up until her retirement from the LSL Board at the 2019 AGM, as well as Darrell Evans and Gaby Appleton who were appointed to the LSL Board on 28th February 2019 and 1st September 2019 respectively.

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

Roles and responsibilities of the Remuneration Committee

The Remuneration Committee has delegated responsibility for determining the policy for Executive Director remuneration and setting remuneration for the Chair, the Executive Directors and senior management (the definition of senior management for this purpose is determined by the Board). With effect from 1st January 2019, the Remuneration Committee also reviews workforce remuneration and the alignment of incentives and rewards with LSL's culture, taking these into account when setting the policy for Executive Director remuneration.

The Remuneration Committee does not consider remuneration of the Non Executive Directors as this is a matter for the Board.

The duties of the Remuneration Committee are governed by its terms of reference, which were reviewed in 2018 to ensure compliance with *the Code* and updated with effect from 1st January 2019. An annual review of the terms of reference was also undertaken in 2019 to ensure continued compliance with *the Code*.

The Remuneration Committee's roles and responsibilities include the following:

- review the design of schemes of performance related remuneration which include discretion to override formulaic outcomes and provisions to enable recovery or the withholding of payments where it is appropriate to do so;
- ensure that only basic pay is pensionable and to review pension contribution arrangements (or payments in lieu) for the Executive Directors to monitor alignment with those available to the employees;
- review of share incentive plan arrangements for approval by the Board and Shareholders;
- promote long-term shareholdings by the Executive Directors to support alignment with Shareholder interests; and
- review workforce remuneration and related policies and the alignment of these incentives and rewards with culture.

The *Directors' Remuneration Report* provides details of how the Remuneration Committee discharged its duties during 2019.

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 2019

During 2019, the Remuneration Committee met three times and considered the following matters:

a. reviewed the levels of remuneration of the Executive Directors and the Non Executive Chair;

b. continued to implement and apply LSL's Remuneration Policy;

c. reviewed the Group's Executive Directors' and senior management bonus arrangements for 2019 and 2020 (including reviewing and setting Executive Director non-financial measures);

d. reviewed and approved LTIP awards for the Executive Directors and senior management;

e. reviewed the Executive Director shareholding guidelines and Executive Director shareholdings;

f. reviewed the Executive Director pension scheme in the context of *the Code*;

g. reviewed the Remuneration Committee's performance and its terms of reference to ensure compliance with *the Code* and related FRC guidance;

h. as part of the annual Board and Committee evaluation exercise, the Remuneration Committee evaluated its composition and performance;

i. reviewed employee remuneration matters including employee engagement arrangements;

j. discussed the remuneration elements of the *Shareholders Rights Directive II*;

k. reviewed the Directors' Remuneration Policy, which included significant Shareholder consultation, amendments of which will be presented to the 2020 AGM for Shareholder approval; and

l. reporting on its activities each year within LSL's *Annual Report and Accounts*.

As part of its discussions in 2019 the Remuneration Committee considered FRC guidance and other publications relevant to the roles and responsibilities of the Remuneration Committee, including feedback from shareholder groups.

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 or 2019 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 senior managers, take into account LSL's performance on governance (including regulatory compliance) and CSR related issues. Further, it ensures that the incentive schemes put in place do not raise any ESG issues by inadvertently motivating irresponsible behaviour.

2020 remuneration

In relation to Executive Director remuneration for 2020, see the *Directors' Remuneration Report* included in this Report.

Audit & Risk Committee

During 2019, the Audit & Risk Committee was chaired by David Stewart and its other members were Bill Shannon and Kumsal Bayazit Besson, up until her retirement from the LSL Board at the 2019 AGM, as well as Darrell Evans and Gaby Appleton who were appointed to the LSL Board on 28th February 2019 and 1st September 2019 respectively.

During the 2019 Board and Committee evaluation process, the Board also confirmed that the Audit & Risk Committee as a whole has 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 2019. LSL's Head of Risk and Internal Audit, the external auditor, the Non Executive Chair, 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. The Audit & Risk Committee met with the Head of Risk and Internal Audit and the external auditor, without the Executive Directors being present, twice during 2019.

Further details of the duties and responsibilities of the Audit & Risk Committee are included in the *Audit & Risk Committee Report* together with details of how it discharged its duties during 2019.

Whistleblowing, fraud and anti-bribery arrangements

With effect from 1st January 2019 by way of an amendment to the Audit & Risk Committee's terms of reference and an update to LSL's *Matters Reserved for the Board Policy*, the Board will provide direct oversight of LSL's whistleblowing arrangements alongside fraud and anti-bribery controls. This change was introduced to reflect the requirements of *the Code* (Principle E). The Audit & Risk Committee continues to receive reports on any matters which relate to LSL's internal controls and risk management arrangements including those relating to any incidents of fraud or bribery.

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.

During 2019 LSL consulted with significant Shareholders with regards to the proxy voting AGM results; and in relation to Remuneration Policy changes which are being presented to the 2020 AGM, the Remuneration Committee Chair supported by the Group HR Director consulted with significant Shareholders. For further details of this consultation, see the *Directors' Remuneration Report* included in this Report.

The Group Chief Executive Officer and Group Chief Financial Officer also engaged proactively with Shareholders following results and other material announcements, and met with Shareholders upon request at other times in 2019. Throughout the year, a number of steps were taken to ensure that all Directors understand the views of significant Shareholders, including providing feedback received from the corporate advisers and Executive Directors and the distribution of analysts' reports to the Board.

The Code requires chairs of company boards to seek regular engagement with major Shareholders in order to understand their views on governance and performance against strategy. Each year all of the Non Executive Directors, including Simon Embley (Non Executive Chair) and Bill Shannon (Deputy Chair 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 the *Shareholder Information* section 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 Directors will be available at the 2020 AGM to meet with Shareholders.

LSL is also monitoring the FRC and the FCA review of shareholder engagement including revisions to the *UK Stewardship Code* which was launched in January 2019.

Details of specific Shareholder consultation exercises undertaken in 2019 are set out below. For further information on Shareholder engagement, see also the *Stakeholder Engagement Arrangements* section of this Report.

Shareholder consultation exercises in 2019

- *Investment Association Register: 2019 AGM Vote (Resolution 18 – General Meeting Notice Period)*

At the 2019 AGM, whilst Shareholders approved all of the resolutions presented to the meeting, the results of the voting for resolution 15 (to disapply pre-emption rights for acquisitions) and resolution 18 (to authorise the holding of a general meeting on not less than 14 days' notice) is included in the Investment Association's Public Register (*theia.org/public-register*). A copy of LSL's response can be found on the LSL website (*lslps.co.uk*).

A total of 90,867,906 proxy votes were received at the 2019 AGM to all of the resolutions presented for Shareholder approval, which represents 87.24% of LSL's issued share capital. For resolution 15 (to disapply pre-emption rights for acquisitions), 20.75% of the votes received were against the resolution; and for resolution 18 (to authorise the holding of a general meeting on not less than 14 days' notice), 22.29% of the votes received were against the resolution. In response to the votes LSL conducted a Shareholder consultation in order to understand Shareholder concerns on this matter. Following this consultation, LSL notes that, notwithstanding that this resolution is customarily proposed (and passed) at the AGMs of most listed companies, certain Shareholders typically vote against shortening a general meeting notice period or the dis-application of pre-emption rights over a certain threshold as a general principle.

The Board has considered this feedback but remains of the view that the flexibility afforded by the ability to disapply pre-emption rights for acquisitions and reduce the general meeting notice period are important, and therefore intends to seek approval for the resolutions at the 2020 AGM. As in previous years, the resolution put forward to the 2020 AGM in relation to the dis-application of pre-emption rights is compliant with the guidelines set out in the *Statement of Principles* of the Pre-emption Group of the FRC.

• *Remuneration Policy Consultation*
During 2019, LSL engaged with significant Shareholders and their representative bodies, as appropriate, in respect of proposed changes to the Directors' Remuneration Policy which is being presented to the 2020 AGM. Further details of this consultation are contained in the *Directors' Remuneration Report*.

• *Strategic Announcement*
Following the announcement of changes to the structure of the Your Move and Reeds Rains estate agency branch networks and operations announced on 5th February 2019, the Group Chief Executive Officer and Group Chief Financial Officer engaged with significant Shareholders in relation to the announcement.

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

Share Dealing Code and Disclosure Committee
LSL has in place a *Share Dealing Policy* and *Share Dealing Code* to ensure LSL's compliance with the *EU's Market Abuse Regulation (MAR)*. This *Share Dealing Policy* and *Share Dealing Code* applies to the Directors, other persons discharging managerial responsibilities and relevant employees of LSL.

The Board has also established and delegated responsibilities to a Disclosure Committee which supports LSL's compliance with the disclosure and control of inside information obligations as set out in the UKLA's *Listing Rules*, *Disclosure Guidance and Transparency Rules* and *MAR*. Notwithstanding the delegation to the Disclosure Committee, the Board remains responsible for LSL's compliance with all regulatory disclosure obligations and the Disclosure Committee refers matters to the Board as it sees fit, and the Board will consider any matter referred to it.

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*.

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

Sapna B FitzGerald
Company Secretary
10th March 2020

Audit & Risk Committee Report

Dear Shareholder

I am pleased to report on the activities of the Audit & Risk Committee during 2019.

The Audit & Risk Committee, on behalf of the Board, has taken steps to ensure that the Annual Report and Accounts 2019, when taken as a whole, is fair, balanced and understandable.

I wish to welcome Darrell Evans and Gaby Appleton who both joined the Audit & Risk Committee during the year; and I would like to thank all of the Committee members for their support and the active role each member played in understanding the Group and the risks and challenges it faces.

Shareholders will note the announcement on 24th February 2020 stating that LSL and Countrywide plc were in discussions regarding a possible all-share combination. There can be no certainty that any transaction will result from those discussions, and accordingly, this Audit & Risk Committee Report does not address any matters relating to the possible combination.

In this *Audit & Risk Committee Report*, we have detailed how the Audit & Risk Committee has discharged its responsibilities during 2019, including details of its monitoring of the Group's control environment including financial and regulatory compliance which contained a detailed review of the effectiveness of the Group's oversight arrangements and led to the implementation of additional controls. Further details of the Audit & Risk Committee's activities in 2019 are contained in this Report at page 79.

I will be available at the 2020 AGM along with my fellow Directors to answer Shareholder questions relating to the Audit & Risk Committee and how this Committee discharged its roles and responsibilities during 2019.

David Stewart
Chair of the Audit & Risk Committee
10th March 2020

LSL's Audit & Risk Committee

During 2019 David Stewart was the Chair of the Audit & Risk Committee. David Stewart was appointed Chair of the Audit & Risk Committee in April 2016, the Board and Nominations Committee have determined that he has the requisite recent and relevant financial experience as is required by *the Code*. Its other members were Bill Shannon, Kumsal Bayazit Besson (up until her retirement from the LSL Board at the 2019 AGM), Darrell Evans (from 28th February 2019) and Gaby Appleton (from 1st September 2019).

All members of the Audit & Risk Committee during 2019 were independent Non Executive Directors (as defined by *the Code*).

During the 2019 annual Board and Committees evaluation exercise, the Board confirmed that the Audit & Risk Committee as a whole has the competence relevant to the sectors in which LSL operates. 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 Board and its Committees, including the Audit & Risk Committee to ensure LSL's continued compliance with *the Code*.

Further details relating to the members of the Audit & Risk Committee are also contained in the *Corporate Governance* Report and in the Director profiles included in *The Board* section of this Report.

The Audit & Risk Committee met three times during the year and the Chair of the Board, the Group Chief Executive Officer, the Group Chief Financial Officer, the Group Financial Controller, the Head of Risk and Internal Audit and the Company Secretary were each invited to attend all or parts of these meetings to assist the Audit & Risk Committee in its deliberations during this period.

The Roles and Responsibilities of the Audit & Risk Committee

The Audit & Risk Committee has been established by the Board and is responsible for discharging governance responsibilities in respect of audit, risk and internal controls. The main roles and responsibilities of the Audit & Risk Committee (which are set out in its terms of reference) are detailed below.

During 2019, the Audit & Risk Committee continued its programme of work to ensure that each of its roles and responsibilities were covered adequately during the year. In discharging its roles and responsibilities, the Audit & Risk Committee considered the requirements of the *Listing Rules* and *Disclosure and Transparency Rules* (together with any other requirements issued by the FCA), *the Code* together with guidance issued by the FRC (including the *Guidance on Audit Committees and the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting*), and any requirements of the Board.

The duties of the Audit & Risk Committee are detailed in its terms of reference, which were reviewed and updated with effect from 1st January 2019 to reflect the requirements of *the Code*. Its principal roles and responsibilities include:

a. monitoring the integrity of LSL's financial statements and any formal announcements relating to LSL's financial performance, and reviewing significant financial reporting issues and judgements contained in them;

b. providing advice (where requested by the Board) on whether the *Annual Report and Accounts*, taken as a whole, is fair, balanced and understandable, and provides the information necessary for Shareholders to assess LSL's position and performance, business model and strategy. In addition, the Audit & Risk Committee assists the Directors to support their statements to be included in the *Annual Report and Accounts*. In particular, the Audit & Risk Committee considers whether other information presented in the *Annual Report and Accounts* is consistent with the financial statements and reports its findings to the Board;

c. reviewing LSL's internal financial controls and internal control and risk management systems, unless expressly addressed by a separate Board risk committee composed of independent Non Executive Directors, or by a review undertaken by the Board itself;

d. monitoring and reviewing the effectiveness of LSL's Risk and Internal Audit Team;

e. conducting the external auditor tender process and making recommendations to the Board, about the appointment, re-appointment and removal of the external auditor, and reviewing (including benchmarking) and approving the remuneration and terms of engagement of the external auditor;

f. reviewing and monitoring the external auditor's independence and objectivity;

g. reviewing the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements;

h. developing and implementing LSL's policy on the engagement of the external auditor to supply non-audit services (which is contained within the *Auditor Independence Policy*);

i. ensuring that there is prior approval of any non-audit services, considering the impact the provision of such services may have on auditor independence, taking into account the relevant regulations and ethical guidance in this regard, and reporting to the Board on any improvements or action required; and

j. reporting to the Board on how it has discharged its responsibilities.

The Audit & Risk Committee terms of reference are available from the Company Secretary and on LSL's website (*lslps.co.uk*).

Detailed below is further information on how the Audit & Risk Committee discharges its roles and responsibilities.

How the Audit & Risk Committee discharges its roles and responsibilities:

1. Internal controls and risk management

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

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

b. ensures that internal and external auditing processes are properly coordinated and work effectively;

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

d. considers the level of assurance the Audit & Risk Committee provided in relation to the risk management and internal control systems, including financial controls, and whether there is sufficient evidence to enable the Board to satisfy itself that they are operating effectively;

e. advises the Board in its setting of LSL's overall risk appetite, tolerance and strategy, taking account of the current and prospective macroeconomic, political and financial environment and drawing on external sources 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;

f. oversees and advises the Board on the current risk exposures of LSL and its future risk strategy;

g. monitors LSL's risk management and internal control systems and, at least annually, carries out a review to enable LSL to report on that review in the *Annual Report and Accounts*. The monitoring and review covers all material controls, including financial, operational and compliance controls; and

h. reviews and approves 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 risks. The framework ensures that focus is placed on threats to Group objectives, with action plans put in place for any areas considered outside risk 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 the results by the Risk and Internal Audit function, prior to the reporting of overall conclusions for discussion at the Audit & Risk Committee meetings.

2. Reporting to the Board

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

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

b. its assessment of the effectiveness of the external audit process and its recommendation on the appointment/re-appointment 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 seeks to identify significant matters in respect of which action or improvement is needed, whether the subject of a specific request by the Board or not, and makes recommendations as to the steps to be taken.

3. External auditor

The Audit & Risk Committee is responsible for overseeing LSL's relationship with the external auditor, in relation to which its roles and responsibilities include:

a. making annual recommendations to the Board for it to put to Shareholders for their approval in a general meeting in relation to the appointment, re-appointment 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. satisfying itself that the audit fee is appropriate and that an effective, high quality audit can be conducted for such a fee;

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

d. meeting with the external auditor before the start of each annual audit to consider the nature and scope of the audit and post-audit at the reporting stage. The Audit & Risk Committee ensures that appropriate plans are in place for the audit and considers whether the overall audit plan (including planned levels of materiality and proposed resources) appears consistent with the scope of the audit engagement (having regard to the seniority, expertise and experience of the audit team);

e. reviewing with the external auditor the findings of their work and their report, including:
   - any major issues that arose during the audit (including a review of resolved and unresolved items);
   - an explanation on how the auditor addressed any risks to audit quality;
   - weighing the evidence received in relation to areas of significant judgement and reviewing key accounting and audit judgements;
   - seeking the auditor's view on the quality of their interaction with senior management and members of the Group's finance teams; and
   - reviewing levels of errors identified during the audit and obtaining explanations from management and the auditor in relation to the same;

f. annually assessing, and reporting to the Board on, the effectiveness of the audit process, taking into account qualification, expertise, ethical standards (including compliance with the same), resources, and independence of the external auditor. The assessment will also consider mind-set, culture, skills, character and knowledge, quality control and judgements, including the robustness and perceptiveness of the external auditor in handling key judgements, responding to questions from the Audit & Risk Committee, and in any commentary on LSL's systems of internal control. The Audit & Risk Committee will also consider all aspects of the audit service provided by the firm including its internal quality control procedures and consideration of the firm's annual transparency reports;

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

h. evaluating 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. developing and implementing LSL's policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance, reporting to the Board in relation to the same (including identifying any matters in respect of which it considers that action or improvement is required and making recommendations on the steps to be taken);

j. reviewing and monitoring the Management Team's responsiveness to the external auditor's findings and recommendations and reviewing the audit representation letters (giving particular consideration to matters where any representation is requested that relate to non-standard issues). The Audit & Risk Committee considers whether the information provided is complete and appropriate based on its own knowledge;

k. meeting with the Board formally, at least twice a year, to discuss the *Annual Report and Accounts*, the relationship with the external auditors and any other matters included within its duties and responsibilities;

l. keeping under review the nature and extent of non-audit services provided by the external auditor, taking into account LSL's *Auditor Independence Policy*; and reviewing at least annually for recommendation to the Board, LSL's *Auditor Independence Policy*; and

m. meeting with the external auditors without the presence of the Executive Directors at least once a year.

4. Annual Report and Accounts

Each year, the Audit & Risk Committee prepares a report to Shareholders for inclusion in LSL's *Annual Report and Accounts*. For details of how the Audit & Risk Committee discharged its obligations in relation to this Report, please see the *Corporate Governance Report* and this *Audit & Risk Committee Report*.

5. Financial reporting

The Audit & Risk Committee reviews and reports to the Board on significant financial reporting issues and judgements 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 interim statements, and summary financial statements 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 and any changes to them;
b. the appropriateness of LSL's accounting policies, estimates and judgements (taking into account the external auditor's view on the financial statements);
c. the clarity and completeness of disclosures and consideration as to whether the disclosures are set properly in context;
d. major judgemental areas;
e. any significant adjustments arising from the audit;
f. the appropriateness of the adoption of the going concern basis of accounting and identification of any material uncertainties to the Group's ability to continue to do so for a period of at least 12 months from the date of approval of the financial statements;
g. compliance with accounting standards;
h. the extent to which the financial statements are affected by any unusual transactions; and
i. compliance with legal and regulatory requirements (including FCA and LSE requirements).

6. Risk and Internal Audit

The Risk and Internal Audit Team provides objective assurance and advice on risk and control. In relation to LSL's Risk and Internal Audit Team, the Audit & Risk Committee:

a. reviews and approves the role and mandate of the Risk and Internal Audit Team (ensuring that the function has unrestricted scope, sufficient resources and access to information to enable it to fulfil its mandate, and to perform in accordance with relevant professional standards);
b. approves the internal audit plan and reviews and approves annually the Risk and Internal Audit Team's terms of reference to ensure that it is appropriate to the needs of the Group. The Audit & Risk Committee pays particular attention to the areas in which risk, compliance, finance, internal audit and external audit functions may be aligned or overlapping and oversee these relationships to ensure they are coordinated and operating effectively to avoid unnecessary duplication whilst maintaining the independence of the Risk and Internal Audit function;
c. ensures that there is open communication between the Group's different functions and that Risk and Internal Audit evaluates the effectiveness of LSL's risk, compliance and finance functions as part of the internal audit plan;
d. monitors and reviews the effectiveness of LSL's Risk and Internal Audit Team and its activities;
e. approves the appointment and termination of the Group's Head of Risk and Internal Audit. The Head of Risk and Internal Audit has unrestricted access to both the Audit & Risk Committee Chair and LSL's Non Executive Chair, and meets privately with the Audit & Risk Committee Chair on a regular basis;
f. undertakes a review of the effectiveness of the Risk and Internal Audit Team and confirms to the Board that it is satisfied that the quality, experience and expertise of the function is appropriate for the Group. The matters which will be taken into account in the review are detailed in the Audit & Risk Committee's terms of reference. The Audit & Risk Committee will, if it deems it appropriate, instruct an independent, third party review of the effectiveness of the internal audit function; and
g. receives and considers the findings of the Risk and Internal Audit Team together with reports on the actions senior management has taken to implement the recommendations of the Risk and Internal Audit Team.

7. Whistleblowing, fraud and anti-bribery arrangements

Whistleblowing and fraud arrangements

With effect from the 1st January 2019, and in line with *the Code* and FRC's *Guidance on Board Effectiveness*, the Board assumed responsibility for the oversight and monitoring of whistleblowing, fraud and anti-bribery arrangements from the Audit & Risk Committee. However, the Audit & Risk Committee continues to receive reports relating to these matters as appropriate in connection with its oversight of the Group's internal controls.

Anti-corruption and bribery arrangements

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.

For further details in relation to LSL's whistleblowing, fraud and anti-bribery arrangements see the *Corporate Governance Report* of this Report.

What the Audit & Risk Committee did in 2019

The Audit & Risk Committee met three times in 2019. 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, for review and challenge. 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 further development of subsidiary risk appetite measures.

b. Evaluated areas for the continued development of the Group's financial control structures, including reviewing the Group's financial reporting systems and internal control environment, receiving reports on compliance with Group Finance procedural requirements and consideration of the effectiveness of related controls; considered new regulatory requirements for payment practices and VAT submissions; and undertook additional oversight of new expenses and client accounting IT developments.

c. Reviewed arrangements to develop further the Group's oversight routines in relation to data protection and IT security requirements, and cybersecurity related threats, including consideration of second-line risk assessments and third-line audit findings across relevant areas of business IT infrastructure.

d. Undertook a detailed Group-wide review of the effectiveness of second-line oversight routines. Group principal risk and uncertainties areas were disaggregated to a more granular level of detail, to highlight any areas for additional focus as part of future oversight routines by relevant compliance and risk-related teams operating within the business Divisions.

e. Reviewed the risk management framework in operation at subsidiary level, relevant second-line oversight and the development of proportionate subsidiary risk reporting to the Audit & Risk Committee. This has included supporting the further development of functional risk reporting, such as information security and project management metrics.

Surveying and Valuations Services risk and compliance

f. Received reports from the Surveying Division Risk and Governance Director in relation to the principal and emerging risks pertaining to surveying and valuation services, including consideration of valuation controls in relation to higher loan to value mortgages and oversight of third party supply chain management.

Estate Agency risk and compliance

g. Received reports from the Estate Agency Risk and Governance Director in relation to the second-line risk based assurance cycle priorities in 2019, including a presentation of the most significant common risk areas and how they are being managed.

Financial Services risk and compliance

h. Received reports from the Financial Services Chief Risk Officer in relation to the second-line risk based assurance cycle priorities in 2019, the alignment of compliance and risk across the PRIMIS networks, improvements to fraud detection capability and the risk-related benefits from the rollout of a new core IT system.

i. Reviewed the effectiveness of the Financial Services Risk Committee (FSRC), and received the minutes of the FSRC for information. Also during the year, the Audit & Risk Committee completed an annual review of key Group committees which included the FSRC.

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 2020 AGM.

b. Reviewed the external 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.

c. Reviewed, discussed and approved the external auditor's 2019 full year audit scope, plan and fee. For further information regarding the auditor's fee, including details relating to a fee increase in relation to the 2019 audit, see below *Auditor fees*.

3. Financial reporting (including Annual Report and Accounts 2018)

a. Reviewed the annual financial results and the preliminary results announcement for 2018 which were released in March 2019, and the interim results for 2019 which were released in July 2019, 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 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. 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.

c. 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.

d. Undertook a review of the classification of exceptional items.

4. Risk and Internal Audit

a. Considered the effectiveness and independence of the internal audit arrangements and agreed the annual Risk and Internal Audit Team's 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 against best practice professional guidelines.

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 tax strategy)

a. 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.

b. Reviewed the Audit & Risk Committee's terms of reference and the Group's *Auditor Independence Policy* to ensure compliance with *the Code*, and the FRC's *Guidance on Board Effectiveness* and *Guidance for Audit Committees*, in addition to carrying out an annual review of the Audit & Risk Committee's performance.

c. Reviewed and approved the Group's tax strategy for recommendation to the Board for adoption.

d. Undertook an annual review of the Group's committee structure (including its Executive Committees).

e. Received corporate governance reports, including a particular focus on developments in relation to corporate reporting and corporate failures.

Annual Report and Accounts 2019

The Audit & Risk Committee has considered this Report, including the Financial Statements in the context of fairness, balance and understandability. This included a review of LSL's fair value assessment of its equity assets which is detailed in the significant issues in financial reporting 2019 summary below.

Following its evaluation, the Audit & Risk Committee has reported to the Board that the Annual Report and Accounts 2019 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 both '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 included the Group's *Corporate Social Responsibility Statement* (including the environmental disclosures).

Significant matters 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 were the significant risks and issues in relation to the Financial Statements, and how these should be addressed. Areas of particular focus during the year are outlined in the table below:

Significant issues in financial reporting for 2019	How the Audit & Risk Committee addressed these issues
Provision for PI Costs relating to valuation services	The PI provision necessarily contains significant management judgement and estimation uncertainty in relation to the incidence of claims, the propensity for each claim to result in financial loss and the ultimate loss per claim. In addition, management judgement is applied in the categorisation of exceptional versus non-exceptional costs. During 2019, 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 also received reports from the Risk and Internal Audit Team following the completion of its reviews of PI Costs provisioning.
Inappropriate recognition of revenue (including lapse provisions)	There is a risk that revenue is recognised in the wrong period, either due to error or as a result of management bias. Further to this, there is estimation uncertainty in the measurement of lapse provisions, which are recognised as a reduction in revenue. In general, revenue recognition in the Group is not considered complex. Revenue is recognised when control of a good or service transfers to the customer. This may occur at a discrete point in time (e.g. Financial Services, Residential Sales exchange, Surveying and Valuation services) or over time (e.g. management services). Certain Financial Services businesses distribute pure protection products, which are cancellable without a notice period, and if cancelled within a set period will result in a portion of the commission initially received being repaid. The proportion of such repayments is estimated in a lapse provision, which is recognised as a reduction in revenue and includes estimation uncertainty. Management estimates of the lapse provision is reviewed by the Audit & Risk Committee. LSL's Risk and Internal Audit Team undertakes a number of financial control audits as part of its assurance plan. These audits included a review of 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 identification of intangible assets acquired in business combinations and recognition of deferred and contingent consideration)	The Audit & Risk Committee has reviewed the treatment of earn-out and other contingent consideration, to ensure that management's estimates are reasonable and based on the best available information. The Group has made a number of acquisitions, the consideration for which sometimes includes earn-out arrangements, in which some of the consideration is dependent on performance subsequent to the acquisition. The estimate of the likely payments that will become due is reflected in deferred and contingent consideration provisions. These balances are calculated with reference to specific management judgements. These include expected exit date and future cash-flows which have a degree of estimation uncertainty.
Impairment/inappropriate valuation of goodwill and intangible assets and financial assets	On an annual basis, the Management Team undertake reviews of goodwill to determine whether impairment is required. These reviews will include a review of the net assets, and current and future profitability of the assets giving rise to the goodwill. The test will involve the application of a discount factor to projected future cash-flows. There is a level of uncertainty inherent in the impairment review, including the cash-flow and profit forecasts used and the discount rate applied. The Audit & Risk Committee reviewed management's calculations and assumptions in detail, taking into account advice provided by the external auditor. Following this review, it was able to conclude that no impairment was necessary to the goodwill or intangible assets as at 31st December 2019. Further information is provided in the Notes to the Financial Statements.

Other Financial Statements matters considered by the Audit & Risk Committee	How the Audit & Risk Committee addressed these matters
Client monies with regards to the Lettings businesses	The Group holds client monies in its Lettings businesses. Neither the client monies, nor the matching liabilities, 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 has a responsibility to ensure that the money held in the client accounts is segregated and would be liable for any shortfall. Group Finance teams provide oversight of the integrity of client account operations, undertaking regular reconciliation. The Risk and Internal Audit Team also perform regular client account audits, the findings of which are reported to the Audit & Risk Committee.
Financial assets	The Group holds minority shareholdings in VEM, NBC Property Master, Global Property Ventures and Yopa. The Group disposed of warrants for shares in ZPG plc in 2018. The Audit & Risk Committee has considered the fair value of each of these holdings for inclusion in the Group's balance sheet. Particular attention was devoted to the valuation of Yopa. As with any relatively new and untraded company which, in line with its business plan, is currently loss making, this is a highly judgemental area. In determining the fair value of the Yopa equity asset and the need for any impairment, the Audit & Risk Committee considered a number of factors, including estimates of valuation prepared by the Management Team, as well as indications of an intention to invest from a number of third parties. The assessment (as detailed in Notes 2 and 17 to the Group Financial Statements) was undertaken using level three techniques in accordance with IFRS 13. Following which, the Audit & Risk Committee accepted management's recommendation that the asset be reduced in value from £7.8m to £6.5m (as disclosed in Note 17 to the Group Financial Statements), a reduction of 17%. The fair value impairment of £1.3m has been recognised through the *Statement of Other Comprehensive Income*. It should be noted that the valuation remains highly judgemental and subjective in nature, and that a further impairment is possible, should Yopa fail to meet its revised business plan, or if current fundraising plans do not proceed as expected. Accordingly, the value of the asset will be kept under close review. Further impairments were also recognised through the *Statement of Other Comprehensive Income* of £0.4m on VEM, to a fair value of £0.3m, and £0.2m on Global Property Ventures, to a fair value of £0.1m.
Treatment of exceptional items	It is sometimes appropriate to disclose certain items of income and expenditure as exceptional in order to enable users of the accounts to understand the underlying performance of the Group. The classification of items presented as exceptional has an impact on KPIs within the Financial Statements, such as Underlying Operating Profit. Exceptional items is an area of focus for the FRC, which considered these in its thematic reviews of alternative performance measures published in November 2017. The Audit & Risk Committee has, in line with FRC guidance, continued to review the Group's policy with regard to the classification of items as exceptional. In 2019 it ensured that the Management Team's assessment of the exceptional costs and gains reported in the Financial Statements is in line with Group policy, which requires that they are material in both size and nature, and are non-recurring. In 2019, costs in relation to branch closures and restructuring costs including redundancy costs have been disclosed as exceptional. These substantially are costs relating to the planned reshaping of the Your Move and Reeds Rains branch networks, and Surveying and Valuation Services contract transition and integration costs. After careful consideration the Audit & Risk Committee agreed that these items were material and non-recurring in nature and that it was appropriate to categorise them as exceptional within the 2019 Financial Statements.
Misstatement due to fraud and error	The Management Team has primary responsibility to prevent and detect fraud and has endeavoured to put in place a culture that requires ethical behaviour of staff, together with a control environment to both deter and prevent fraud. There are established whistleblowing arrangements in place to enable staff to confidentially raise concerns. The Audit & Risk Committee received reports on the Group's fraud prevention and whistleblowing arrangements, including details of any instances of any actual or suspected fraud related circumstances.
New accounting policies	The Audit & Risk Committee oversaw the introduction of the new IFRS standard, specifically IFRS 16 Leases, which was adopted at 1st January 2019. Group Finance undertook a comprehensive process to ensure LSL was prepared to implement IFRS 16 from 1st January 2019. This included substantial data collation and verification exercises as well as consultation with Ernst & Young technical and audit team. LSL Internal Audit also carried out a readiness review in advance of the adoption on 1st January 2019, the findings of which were considered by the Audit & Risk Committee.
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 a review of the likely future profitability of the Group, a forecast of future cash-flows, the impact of banking covenants, the liquidity of investments, the performance of joint ventures and the ability of the Group to re-finance debt (the Group's facility is due to mature in May 2022) when necessary. The key judgements, assumptions and estimates underpinning this review were 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.

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. Based on this conclusion, the Board has resolved to recommend to Shareholders the re-appointment of Ernst & Young as external auditor at the 2020 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 auditor being compromised, the Audit & Risk Committee has adopted a policy under which any non-audit related services provided by the external auditor 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 2019 to ensure compliance with *the 2018 Code*.

The *Auditor Independence Policy*, which was in place during 2019 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 on LSL's website (*lslps.co.uk*).

Auditor fees

The split between audit and non-audit fees for 2019 appears at Note 9 to the Financial Statements. Non-audit fees of £9,000 (2018: £9,000) were incurred in the year. Audit fees of £453,000 (2018: £352,000) were incurred in the year. This is in line with the provisions of the *Auditor Independence* Policy. The non-audit fees related to other assurance services.

The 2019 audit fee was reviewed and increased during the period. The fee increase is consistent with fee increases which have been seen across the audit market which are the result of audit firms reviewing their fee arrangements as a consequence of, and in response to, the FRC's review of audit firms in relation to the level of work needed and focus on quality.

Internal controls

The Board has overall responsibility for LSL's system of internal controls and for its effectiveness. The system of internal controls is subject to on-going evaluation and is regularly reviewed. It was developed in 2016 and 2017 to ensure compliance with the guidance set out in the September 2014 FRC *Guidance on Risk Management, Internal Control and Related Financial and Business Reporting* and has been reviewed more recently to ensure compliance with *the Code* and FRC *Guidance on Board Effectiveness*.

The arrangements in place for 2019 aimed to identify, evaluate and manage significant risks faced by LSL. It included assessments by the Board and the Executive Committee of risk appetite levels and measures to define levels of risk being carried in relation to this appetite. Additional work was undertaken to identify and refine appetite tolerance levels, and this has proven to be a valuable tool to support key business decisions throughout the course of the financial year. For any areas considered outside tolerance, remedial steps are identified to reduce the risk being carried.

In common with any risk management framework, 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 was extended to the main subsidiary businesses, each of which now maintains its own appetite measures. The development of this continues to be a focus for the Group, as its systems increase in maturity.

The control framework facilitates the effectiveness and efficiency of LSL's operations, helps to ensure the reliability of internal and external reporting and assists in ensuring compliance with laws and regulations. The internal control system is designed to safeguard both Shareholder investment and LSL's assets.

In order to ensure the adequacy of its system of internal controls, the Board has established procedures to apply both *the Code* and relevant FRC guidance, including establishing a *Group Risk Framework Policy*, backed with clear operating procedures, distinct lines of responsibility and delegated authority levels. LSL's risk management and internal control procedures and framework has evolved significantly since LSL was first listed on the London Stock Exchange and is regularly reviewed by the Board and the Audit & Risk Committee.

Further details of LSL's risk management arrangements are contained in the *Principal Risk and Uncertainties* section of this Report.

LSL's risk management and internal control framework provides for:

a. ownership of the risk management and internal controls framework by the Board, 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. documentation and monitoring of risks are recorded through risk appetite measures prepared in accordance with defined Group criteria. This is subject to regular review by subsidiary boards, divisional governance committees and the Head of Risk and Internal Audit;
d. regular consideration by the Executive Committee, Board and Audit & Risk Committee of the principal risks and uncertainties which may impact the Group. This is embedded in both decision making and as part of the routine planning and reporting cycle to ensure that such risks are identified, monitored and mitigated in a timely and effective manner and reinforced by the carrying out of specific risk assessments;
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 of this Report); and
f. reporting by the Chair 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 identified failings in, or exceptions to, these procedures.

LSL has in place a well-established Group-wide risk appetite statement and risk framework which will evolve further in 2020 in line with best practice and with a particular focus on the further development of the framework for key functional areas which are subsets of overarching subsidiary risk metrics, for example, data protection and information security.

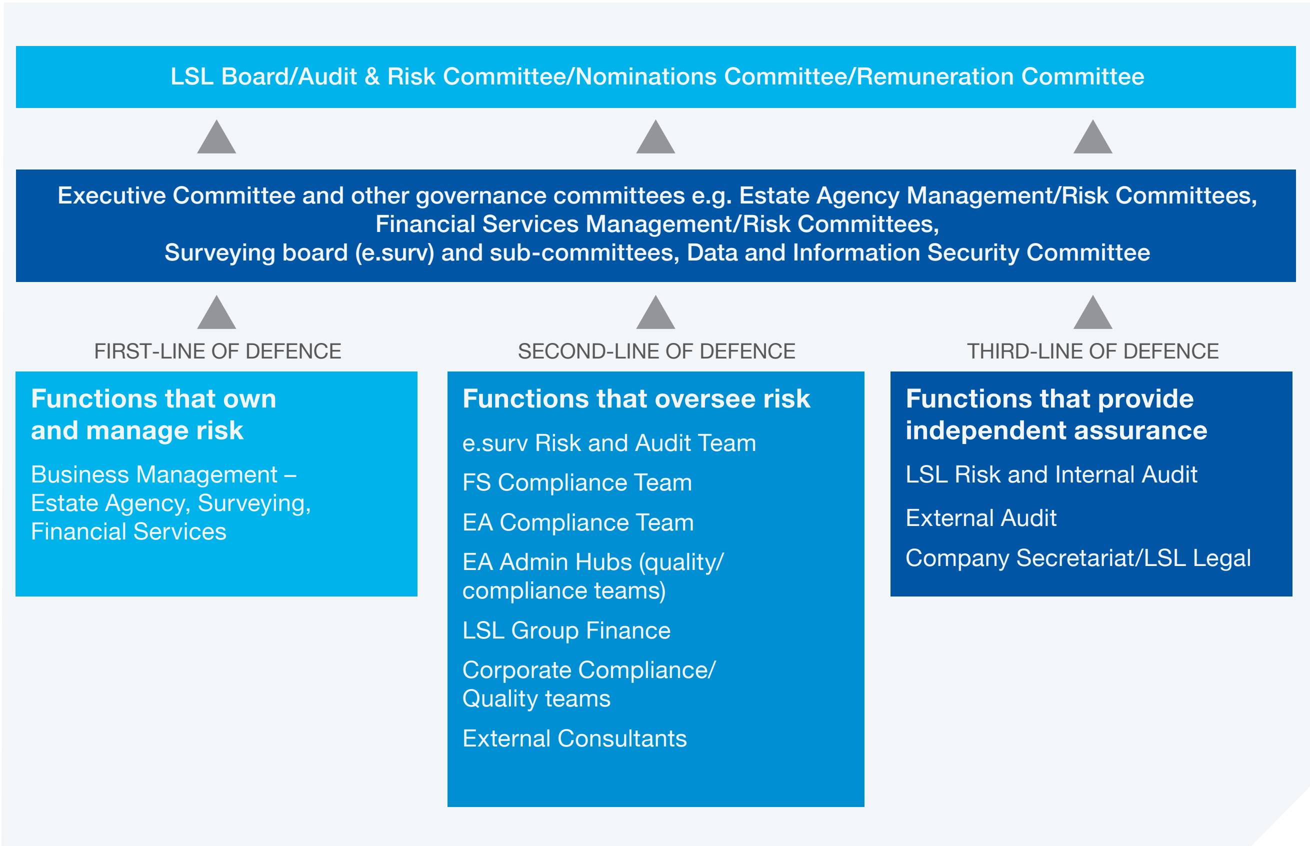
The risk management framework includes the following:

a. risk management framework policy;
b. determination of risk appetite and the 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* in this Report).

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 *Principal Risks and Uncertainties* section of this Report.

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

LSL operates a 'three lines of defence' structure (see diagram below) to facilitate effective oversight of Group operations. Further features of the risk management framework include delegated authority levels and functional reporting lines and accountability. LSL operates a budgeting and financial reporting system that on a monthly basis compares actual performance to forecasts, budget and the previous year. In addition, the Executive Directors receive information on a more regular basis that reviews key areas of performance, for example daily sales activity. All capital expenditure and other purchases are subject to appropriate authorisation procedures, with centralisation of several payment functions.



Three lines of defence diagram

In addition, LSL has established a number of executive committees charged with the management of performance and risk. These include the Financial Services Management Committee (FSMC) and the Financial Services Risk Committee (FSRC), which have roles and responsibilities relating to the management of LSL's FCA regulated Financial Services businesses. In this work, they are supported by the Financial Services Compliance and Risk Committee, which is established at business-level.

Other governance bodies are in place for the Group's information security arrangements (Data and Information Security Committee (DISC)) and other business operations, for example, the Estate Agency Management Committee, the Estate Agency Risk Committee and the Surveying Valuation Controls Board.

The Audit & Risk Committee and/or the Board receives regular reports from the DISC, FSRC and FSMC along with updates from the Group's Executive Committee, whose focus also includes the monitoring of key performance indicators in relation to LSL's customers. Further, the Audit & Risk Committee reviews the risk and compliance arrangements within each of the three Divisions at each of its meetings. The Estate Agency Risk and Governance Director; the Financial Services Chief Risk Officer and the Surveying Risk and Governance Director are invited to attend and present at these sessions as appropriate.

During 2019 the Executive Directors 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 also kept under review by the Audit & Risk Committee and has been reviewed by the Board during 2019 as part of an annual review.

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 ensure attendance and reporting of key second-line personnel (including the Chief Risk Officers/Directors of all core Divisions);
- mapping by the Risk and Internal Audit team of the effectiveness and reach of second-line oversight routines across the Group;
- presentation by the Group IT Director of a review of Group data protection and information security arrangements;
- linkage of key subsidiary risk metrics to the over-arching Group risk appetite framework;

- assessments of learnings from external corporate failures; and
- assessed resourcing and skills of the Risk and Internal Audit Team.

The principal risks and uncertainties facing LSL together with details of key mitigation initiatives are set out in the *Principal Risks and Uncertainties* section of this Report.

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

David Stewart
Chair of the Audit & Risk Committee
10th March 2020

Directors' Remuneration Report

Annual Statement

Dear Shareholder

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

- **Annual Statement:** summarising remuneration for and explaining major decisions made during 2019 as well as explaining the operation of the *Policy* for 2020;
- **Directors' Remuneration Policy (the *Policy*):** setting out the proposed policy being presented for Shareholder approval at the 2020 AGM; and
- **Annual Report on Remuneration:** setting out details of the remuneration earned by the Directors in the year ended 31st December 2019 and how the *Policy* will be implemented during 2020.

The *Policy* is subject to a binding vote every three years or sooner if any changes are made to the *Policy* prior to the expiry of the three years. The *Policy* was last submitted and approved by Shareholders at the 2017 AGM and, accordingly, it is being submitted for its triennial binding Shareholder vote at the forthcoming 2020 AGM.

The *Annual Statement and Annual Report on Remuneration* are subject to an annual Shareholder advisory vote and will also be presented to Shareholders at the forthcoming 2020 AGM.

Summary of LSL's performance in the year and incentive payments to Executive Directors

The Group's financial performance during 2019 has been robust, especially taking into account the difficult market conditions and continued national and global political uncertainty as well as the issues surrounding Brexit.

The bonus scheme in 2019 was based 80% on LSL's financial performance and 20% on individually agreed non-financial measures. The Executive Directors' maximum bonus opportunity is 100% of basic salary. The 2019 annual bonus awards for the Executive Directors reflect good performance against the financial performance targets as well as the successful delivery of strategic initiatives.

Based on LSL's financial and operational performance in 2019, the Executive Directors earned an annual bonus award of between 47.2% and 47.8% of basic salary in respect of the financial performance element of the bonus scheme reflecting performance against Group and divisional Estate Agency measures and 13.7% and 15.9% of basic salary for performance against their individual non-financial measures. These non-financial measures have been important in driving forward and delivering strategic initiatives during the year.

The performance period for the 2017 LTIP ended on 31st December 2019. As a result of performance over the three year period, the LTIP awards will lapse in full due to the challenging EPS performance targets and TSR targets not being achieved.

The Remuneration Committee reviewed and concluded that the incentive outturn reflected underlying performance and that it did not need to exercise any discretion to adjust the formulaic outcome. The Remuneration Committee also considered whether there were any relevant environmental, social, and governance matters that it needed to take account of when reviewing the remuneration outcomes and concluded that there were no such factors that needed to be taken into account. The Remuneration Committee is also comfortable that the *Policy* has operated as intended and that no changes are needed as a result of the review of operation in 2019.

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

The Remuneration Committee carries out an annual review of the Executive Director and senior management remuneration including the *Policy*, to ensure it promotes the attraction, motivation and retention of high quality executives who are key to delivering LSL's strategy, sustainable growth and Shareholder return. The Remuneration Committee's review of the *Policy* in 2019 and the decision making process included an extensive and informative Shareholder consultation process. This review concluded that whilst the current *Policy* remains broadly appropriate, a limited number of changes should be made to take account of developments in best practice and the recent changes to the *Corporate Governance Code*.

Summary of proposed Policy changes

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

- New appointments will have a pension contribution in line with the contribution available to the majority of the workforce at the time of the appointment, this is currently 3%. Ian Crabb, Group Chief Executive Officer, will retain the 5% of basic salary contribution he currently receives, Adam Castleton, Group Chief Financial Officer, participates in the LSL auto enrolment pension scheme with a pension contribution of 3% and Helen Buck, Executive Director – Estate Agency, has elected not to join the pension scheme.

- Annual bonus maximum opportunity under the *Policy* will now be set at 125% of salary for all Executive Directors. Previously the 125% applied only to our Group Chief Executive Officer. However, the applied maximum will not be increased above the current 100% of salary without prior consultation with our largest Shareholders and there is no current intention to increase it at this time.
- The Remuneration Committee is keen to increase Share ownership amongst LSL's Executive Directors, as such Ian Crabb, Group Chief Executive Officer will be required to purchase Shares equivalent to 33% of any bonus earned, net of tax, and the other Executive Directors, Shares equivalent to 25% of any bonus earned, net of tax, and retain them for a minimum period of two years, or until the Executive shareholding requirement is met. These Shares will not be forfeited on cessation of employment as they have been acquired with bonus already earned. However, the holding period and clawback will continue to apply post-employment.
- The Executive Director Share ownership guidelines have been increased to 200% of salary for the Group Chief Executive Officer. The Share ownership guideline for the other Executive Directors remains at 150% of salary. The Executive Directors have five years from approval of the new *Policy* to meet the requirement.
- LSL's new post cessation of employment shareholding policy ensures that the holding periods for annual bonus Shares and Shares acquired from LTIP awards, continue to apply post-employment. For good leavers pro-rated unvested LTIP awards will also provide further post-employment alignment with investors and longer term Company performance.
- The Remuneration Committee will have the discretion to adjust formulaic variable pay and vesting level outcomes in line with *the Code* where they do not reflect, for example, underlying corporate performance, the investor experience or employee reward outcome. As part of its discretion the Remuneration Committee will also consider the "quality of earnings" that underlies the pay and vesting outcomes and consider whether they support sustainable long-term growth and do not put at risk future cash-flows.
- The clawback and malus provisions have been broadened to additionally cover reputational damage, corporate failure and failure of risk management.
- The new *Policy* also clarifies that on a change of control, LTIP awards will vest with performance being determined at the time of the relevant event and awards pro-rated to the date of the relevant event, with the Remuneration Committee having discretion to reduce the time pro-rating if deemed appropriate.

The new *Policy* is detailed in full on page 90.

Implementation of the Policy for 2020

On 24th February 2020, LSL announced a possible all-share combination with Countrywide plc. There is no certainty that this will result in any offer being made for Countrywide plc, or in the all-share combination becoming effective. As a result, both the Directors' Remuneration Report and proposed new Directors' Remuneration Policy have been formulated based on the LSL Group as it is currently comprised as at the date of this Report.

The Remuneration Committee believes that the *Policy* may also be suitable for the enlarged group which would result from any combination of LSL and Countrywide becoming effective, but it is possible that changes may be required to reflect that transaction, if it is concluded. In the event that any changes are proposed to the *Policy* then significant Shareholders will (to the extent practicable) be consulted and Shareholder approval for the revised *Policy* will be sought prior to any changes to the *Policy* being made.

The *2020 Annual Report and Accounts* will report on how the *Policy* has been applied in 2020.

Corporate Governance and Reporting Regulations

As detailed in last year's *Annual Report*, the Remuneration Committee adopted many of the new elements of *the Code* earlier than it was required to do. Of the outstanding elements of *the Code* LSL implemented the following changes in 2019:

- During 2019 Darrell Evans was appointed to the Board and its Committees and is the designated Non Executive Director in relation to workforce engagement, further detail on this role and work undertaken during the year can be found in the *Stakeholder Engagement Arrangements* and *Corporate Governance* sections of this Report.
- The Remuneration Committee's remit was formally broadened during 2019 and during the year the Remuneration Committee reviewed the wider LSL workforce remuneration and related policies to ensure the alignment of incentives and rewards with culture. This review was taken into account when designing the new *Policy* for executive director remuneration.
- The new *Policy* incorporates a formal policy for post-employment shareholdings.

The Remuneration Committee has also reviewed and noted the changes in remuneration reporting and policy requirements as a result of new regulations implementing Articles 9a and 9b of the *European Directive 2017/828/EC*, commonly known as the *Revised Shareholder Rights Directive (2018 Regulations)*. The Remuneration Committee has ensured compliance with the *2018 Regulations* in determining the new *Policy* and whilst the *2018 Regulations* with respect to remuneration reporting only formally come into effect for the accounting period commencing on 1st January 2020, the Remuneration Committee has elected to comply earlier than required and the changes have been adopted into this year's Report.

Conclusion

The Remuneration Committee believes that LSL's remuneration arrangements for the Executive Directors and senior management are aligned to LSL's strategic goals and incorporate the Group's key performance indicators. Further, the Committee is comfortable that the remuneration outcomes for 2019 are aligned to performance and the Remuneration Committee believes that the *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.

Accordingly the Remuneration Committee seeks the support of Shareholders for the resolutions to approve LSL's new *Policy* and remuneration arrangements at the 2020 AGM. In the event that Shareholders have any questions or observations then I will be pleased to hear from you directly and will be available at the 2020 AGM, or I can be contacted via the Company Secretary's office (please see details on page 206).

Bill Shannon
Chair of the Remuneration Committee
10th March 2020

Directors' Remuneration Policy (the *Policy*)

Remuneration Policy approved by Shareholders at the 2017 AGM

The current *Policy*, which is effective until the new *Policy* is approved by Shareholders at the 2020 AGM, is set out in the *2016, 2017 and 2018 Annual Report and Accounts*, which are available on LSL's website (*lslps.co.uk*).

New Directors' Remuneration Policy (the *Policy*)

Detailed below is the new *Policy* which will be submitted for Shareholder approval at the forthcoming 2020 AGM.

Introduction and overview

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

LSL's policy is to provide remuneration packages which are designed to attract, motivate and retain Executive Directors of the calibre necessary to maintain and improve the Group's profitability, to reward them for long-term sustainable performance and growth, as well as enhancing Shareholder value and return. In doing this, LSL aims to provide a market competitive (but not excessive) package of pay and benefits. LSL's general remuneration policy is to set basic salaries around mid-market levels and set performance pay levels by applying stretching goals that accord with LSL's general policy of seeking to make bonuses self-financing wherever possible. Remuneration packages will also reflect individual responsibilities and contain incentives to deliver LSL's strategic objectives.

Decision making process for determination, review and implementation of Directors' Remuneration Policy

The Remuneration Committee reviews the *Policy* and operation of the *Policy* to ensure it continues to support and reward the Executive Directors to achieve the business strategy both operationally and over the longer term. It reviews the structure and quantum and takes into account *the Code*, market practice, institutional investor and investor representative body views generally and those of its own Shareholders. The Remuneration Committee also has regard to the remuneration arrangements, policies and practices of the workforce as a whole which it reviews as part of its annual agenda.

The *Policy* is reviewed annually by the Remuneration Committee to ensure that changes are not required prior to the triennial Shareholder vote. When the Committee determines that changes are required it will formulate proposals and consult with its Shareholders. Shareholder feedback is then taken into consideration in finalising the *Policy* changes.

Operation of the *Policy* is considered annually for the year ahead, including metrics for incentives, weightings and targets. The Remuneration Committee reviews operation for the prior year and considers whether, in light of the strategy, changes are required for the year ahead. Targets for the annual bonus and LTIP awards are also reviewed and consideration is given to whether these remain appropriate or need to be recalibrated. Shareholders' views will be sought depending on the changes proposed.

Consideration of Shareholder views

Each year the Remuneration Committee considers Shareholder feedback received in relation to LSL's *Annual Report and Accounts*, including the *Directors' Remuneration Report*, at a meeting following the Company's AGM. This feedback, plus any additional feedback received during any meetings or consultations with Shareholders during the year, is then considered as part of LSL's review of the *Policy* and its annual implementation review. 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, changes to the 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*.

Wider workforce considerations

The Remuneration Committee considers the remuneration arrangements for the wider LSL workforce remuneration and related policies to ensure the alignment of incentives and rewards with culture and has taken these into account when setting the *Directors' Remuneration Policy* and in determining the remuneration for the Executive Directors and senior managers.

As part of its wider remit under *the Code* the Remuneration Committee reviews wider workforce remuneration and related policies and the alignment of rewards and incentives to culture, and has taken these into consideration when setting the *Policy* to ensure consistency of approach throughout the Group. Annual bonus and annual bonus Share investment and long-term incentive awards provide alignment between the senior management and Shareholders. The Remuneration Committee also considers average base salary increases awarded to the overall employee population and the cascade of pay structures throughout the business. The remuneration policy for all employees is determined in line with best practice and aims to ensure that LSL is able to attract and retain the best people. This principle is followed in the development of LSL's *Policy*.

Although employees were not directly consulted on the new *Policy*, the Group HR Director attends Remuneration Committee meetings by invitation to provide additional perspective on Group HR policies and practices, including from an employee perspective. Further, the *Annual Report on Remuneration* details the engagement undertaken to explain the alignment of the new *Policy* to the wider Group remuneration policy.

Policy detail by remuneration element

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 LSL 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 and to override formulaic outcomes for annual bonus payment due if the Remuneration Committee considers it is not reflective of the underlying performance of LSL, taking into account amongst other things, the "quality of earnings" that underlies the pay and vesting outcomes which may put at risk future cash-flows, as well as investor experience and the employee reward outcome. • The Group Chief Executive Officer is required to purchase and hold Shares equivalent to 33% of any bonus earned, net of tax, for a period of two years. The other Executive Directors are required to purchase and hold Shares equivalent to 25% of any bonus earned net of tax, for a period of two years which will in normal circumstances continue post-cessation of employment. For all Executive Directors on cessation of employment, these Shares will not be forfeit for any reason however clawback and the holding period will continue to apply. • Not pensionable. • Bonus awards are subject to clawback and malus applicable for six years from payment of the bonus in circumstances of: material misstatement of financial results, corporate failure, failure of risk management, reputational damage, error, inaccurate or misleading information in determining a performance condition or any other matter determining the vesting of an award, breach of relevant regulations, an act or omission during vesting period to the significant detriment of customers, or an act or omission leading to gross misconduct. Recovery can be made through scaling back of existing awards, reduction of future awards including under the LTIP and requesting repayment as cash sum.	• Maximum opportunity: 125% 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; and – not more than 20% of the total bonus 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 and to override formulaic outcomes of LTIP vesting if it considers that it is not reflective of the underlying performance of LSL, taking into account amongst other things the "quality of earnings" that underlies the vesting outcomes which may put at risk future cash-flows, as well as the investor experience and the employee reward outcome. • Discretion for the Remuneration Committee to provide for dividend equivalents in Shares 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, corporate failure, failure of risk management, reputational damage, 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.	• Performance period: normally three years. • A two year post-vesting holding period applies to awards granted from 2018 and in normal circumstances continues to apply post-cessation of employment. • 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.	• The Group Chief Executive Officer is required to build and maintain a minimum shareholding equivalent to 200% of basic salary over a period of five years from the approval of the *Policy*. • The other 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 approval of the *Policy*. • All 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) and Shares purchased from annual bonus under the new *Policy* until the guideline is met. • A post-employment shareholding policy applies as follows with the Committee retaining the discretion to amend the *Policy* in exceptional circumstances: ◦ The two year holding period for annual bonus Shares continues post-employment. ◦ The two year post-vesting holding period for LTIP awards continues post-employment.	• Minimum of 200% of basic salary for Group Chief Executive Officer and 150% of basic salary for the other Executive Directors – no maximum.	None.

Element of remuneration arrangements	How this component supports LSL strategies	Operation	Maximum	Performance metrics and period
Benefits	• Provides insured benefits to support the Executive Directors and their families during periods of ill health, or in the event of 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 appointments will receive employer pension contributions in line with the contribution for the majority of the workforce at the time of appointment. • Existing Directors are offered a pension in accordance with auto enrolment minimums or a pension contribution equivalent to 5% of basic salary.	None.
Chair 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 annually. • Any reasonable business related expenses can be reimbursed (including tax thereon 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*. • Fee levels are determined and reviewed taking into account experience, time commitment, responsibility and scope of role as well as the general increase for the broader employee population and market data for similar roles in other companies of a similar size and complexity to LSL. Current fee levels are set out in the *Annual Report on Remuneration*.	None.

Notes to the Remuneration Policy summary:

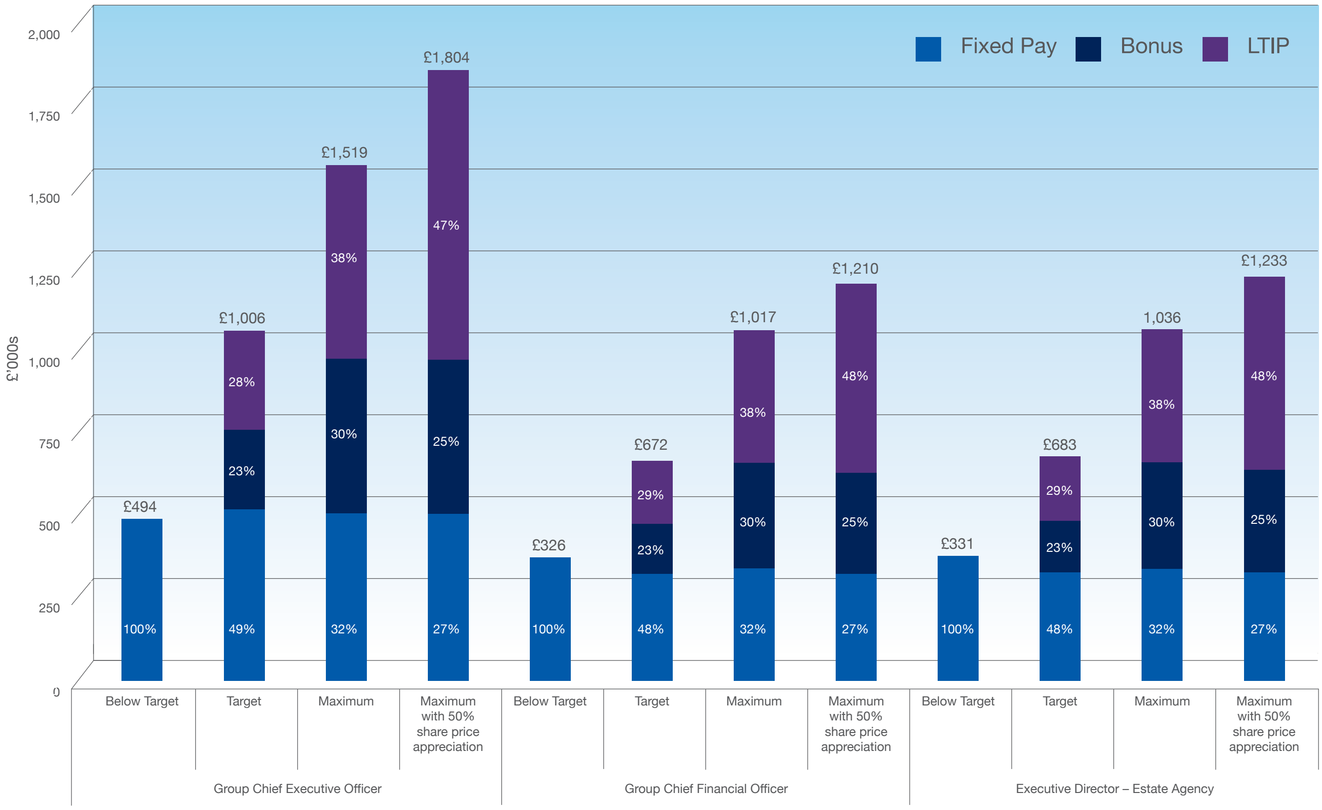
1. A description of how LSL will operate the *Policy* in the year ahead is detailed in the *Annual Report on Remuneration*.
2. LSL's *Policy* for the remuneration of Executive Directors and senior managers as set out in the table above also applies to the wider LSL workforce with the following differences:
   - a lower level of maximum annual bonus (or no bonus) opportunity may apply to employees or commission may be payable for fee earning roles;
   - 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: SAYE, SIP/BAYE; and CSOP upon invitation;
   - benefits (including benefits in kind and salary sacrifice arrangements) that are offered to other employees generally comprise of paid holidays, life insurance cover and a wide variety of flexible benefits such as childcare vouchers, a health cash plan, and, for more senior employees, private medical insurance; and
   - 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 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 adviser whilst LSL's EPS growth is derived from the audited Financial Statements. Alternative or additional measures may be selected by the Committee if it considered they are aligned to the Group's strategy.
5. LSL operates the LTIP scheme in accordance with the plan rules, the *Listing Rules* of the UKLA, and the Remuneration Committee terms of reference which are consistent with market practice. This retains Remuneration Committee discretion over a number of areas relating to the operation and administration of the LTIP scheme. 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.
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 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 the Policy for financial year 2020)

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

In line with the new Reporting Regulations the graph also includes an indication of the maximum remuneration under a scenario of 50% Share price appreciation over the three year performance period of the LTIP award:



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 2020;
   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 50% 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 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 in the Below Target, Target and Maximum calculations.
5. 50% Share price growth over the three year performance period of the LTIP award has been used for the Maximum with 50% share price appreciation scenario.
6. 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 skills and experience of the individual, the market rate for a candidate with those skills and experience and the importance of securing the relevant individual into the role.

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 skills, expertise and performance has been proven and sustained. The annual bonus potential will be limited to 125% of basic salary 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 delivery mechanism, 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 the Group 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 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.

The Remuneration Committee may pay reasonable outplacement and legal fees where appropriate, and may pay any statutory entitlements or settle or compromise claims or potential 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, based on performance 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 scheme 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.

LTIP awards for "good leavers" will, except in exceptional circumstances:

- Vest at the original specified vesting date.
- Be determined by testing of the performance conditions at the usual time.

- Be pro-rated for the proportion of the vesting period that has elapsed.
- Be subject to the two year post-vesting holding period, where applicable.

Awards to Executive Directors, who are not "good leavers", lapse immediately on cessation.

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 qualifications, skills and experience relevant to LSL's businesses and strategy. Appointments are made by the Board upon the recommendations and advice of the Nominations Committee. For further details on the roles and responsibilities of the Nominations Committee and how it discharges its duties, see the *Corporate Governance Report* included in this Report.

Non Executive Directors, including the Chair, have letters of appointment which set out their duties and responsibilities. The Non Executive Directors, including the Chair are not eligible to participate in incentive arrangements or receive pension provision. The following table shows details of the terms of appointment of LSL's Non Executive Directors. Further details relating to the Non Executive Directors' appointments can be found in the *Corporate Governance Report* included in this Report.

Director	Date original term commenced	Date current term commenced	Expiry date of current term
Gaby Appleton Independent Non Executive Director	1st September 2019	-	31st August 2022
Simon Embley Chair	1st January 2015	1st January 2018	31st December 2020
Darrell Evans Independent Non Executive Director	28th February 2019	-	27th February 2022
Bill Shannon Deputy Chair and Senior Independent Director	7th January 2014	7th January 2020	6th January 2023
David Stewart Independent Non Executive Director	1st May 2015	1st May 2018	30th April 2021

Annual Report on Remuneration

Implementation of the Policy for the year ending 31st December 2020

This section of the *Directors' Remuneration Report* sets out how the *Policy* will be implemented for the financial year ending 31st December 2020.

On 24th February 2020 LSL announced a possible all-share combination with Countrywide plc. The *Directors Remuneration Report* contained in this Report does not detail how the *Policy* will be applied in 2020 in the event of the possible transaction completing. Set out below are details of how the *Policy* will be implemented in LSL during 2020 based on LSL's structure as at the date of this Report. Shareholders should note that there can be no certainty that any offer will be made to Countrywide plc.

Basic salary

2020 basic salary increases for the Executive Directors are in line with the average increase of non-commission earning Group employees (1.5%) rounded to the nearest £250. The basic salary levels as at 1st January 2020 for the Executive Directors are set out below:

Director	Role	2020 (£)	% increase from 1st January 2020	2019 (£)
Helen Buck	Executive Director - Estate Agency	313,750	1.5%	309,000
Adam Castleton	Group Chief Financial Officer	307,500	1.5%	303,000
Ian Crabb	Group Chief Executive Officer	455,750	1.5%	449,000

Annual bonus for 2020

The Remuneration Committee will operate an annual bonus plan for Executive Directors during 2020 that is broadly similar to that operated in 2019. 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 non-financial measures for 2020 bonus scheme will include objectives based on the Executive Directors' delivery of key strategic initiatives in each of LSL's three business segments; Estate Agency, Financial Services, and Surveying and Valuation Services. Full disclosure of these targets will be provided in the *Annual Report and Accounts 2020*.

The Remuneration Committee is satisfied that the objectives set 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.

As detailed under the revised *Policy* the Group Chief Executive Officer will be required to purchase and hold Shares equivalent to 33% of any 2020 bonus earned, net of tax, for a period of two years. The other Executive Directors will be required to purchase and hold Shares equivalent to 25% of any 2020 bonus earned, net of tax, for a period of two years.

Long-Term Incentive Plan (LTIP) 2020 awards

LSL's annual grant of any LTIP awards typically occurs in late March each year. However, in light of the announcement made on the 24th January 2020 relating to discussions taking place regarding a possible combination with Countrywide, the Remuneration Committee decided to delay the grant of any new LTIP awards in 2020 until the outcome of those discussions is known.

The Remuneration Committee anticipates that, regardless of the outcome of the discussions, the performance conditions of any awards granted in 2020 will continue to be based on EPS growth targets for 70% of the award and relative TSR for the remaining 30%.

The TSR peer group will be replaced for any 2020 LTIP awards with the FTSE Small Cap index, excluding investment trusts. In reaching its decision to change the TSR peer group, the Remuneration Committee considered the small number of direct competitors to LSL who are currently listed on the stock exchange and the resulting range of sectors and size of firms required to form a peer group of a meaningful size going forward. The Committee has also concluded that as a constituent of the FTSE Small Cap, LSL's relative performance against this index would provide an appropriate measure of performance for future awards and provide alignment with Shareholders.

The Remuneration Committee's aim is to set an EPS target range that is realistic and achievable for threshold vesting whilst providing stretching targets for maximum vesting that significantly exceed analysts' expectations. The Remuneration Committee will review and set the EPS growth range for 2020 awards in light of the outcome of the possible combination.

All awards to Executive Directors will be subject to a two year post-vesting holding period, following the three year vesting period.

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, Group Chief Executive Officer receives a 5% of salary pension contribution and Adam Castleton, Group Chief Finance Officer a 3% contribution of banded earnings, in line with auto enrolment legal minimums and aligned to the majority of the workforce. Helen Buck, Executive Director – Estate Agency has elected not to join the pension scheme and receives no additional compensation in lieu of this.

Non Executive Directors

2020 basic salary increases for the Non Executive Directors are in line with the average increase of non-commission earning Group employees (1.5%) rounded to the nearest £250. A summary of annual fees for the Non Executive Directors is as follows:

Director	Note	2020 (£)	% increase from 1st January 2020	2019 (£)
Gaby Appleton Independent Non Executive Director	1	44,750	1.7%	44,000
Simon Embley Chair		139,500	1.5%	137,500
Darrell Evans Independent Non Executive Director	2	46,750	6.25%	44,000
Bill Shannon Deputy Chair and Senior Independent Director	3	79,250	1.6%	78,000
David Stewart Independent Non Executive Director	4	50,750	1.5%	50,000

Notes to summary of 2020 fees for the Non Executive Directors:

1. Gaby Appleton was appointed to the Board and its Committees on 1st September 2019 and her fee is paid for her role as a Non Executive Director.
2. Darrell Evans was appointed to the Board and its Committees on 28th February 2019. Darrell Evans' fee is paid for his role as a Non Executive Director (£44,750) and his additional responsibility as designated Non Executive Director in relation to workforce engagement (£2,000, payable from 1st January 2020).
3. Bill Shannon's fee is paid for his role as a Non Executive Director (£44,750) and his additional responsibilities as Deputy Chair and Senior Independent Director (£22,500), Chair of the Nominations Committee (£6,000) and Chair of the Remuneration Committee (£6,000).
4. David Stewart's fee is paid for his role as a Non Executive Director (£44,750) and his additional responsibility as Chair of the Audit & Risk Committee (£6,000).

Directors' remuneration payable in 2019 - audited information

Directors' remuneration

The remuneration of the Directors for 2019 was as follows:

	Notes	Year	Basic salary or fees (£)	Benefits[5] (£)	Pension contributions[6] (£)	Sub total - fixed pay[7] (£)	Annual bonus[8] (£)	Share awards[9] (£)	Sub total - variable pay[7] (£)	Grand total (£)
Chair										
Simon Embley	1	**2019**	**158,500**			**158,500**				**158,500**
		2018	132,500			132,500				132,500
Executive Directors										
Helen Buck		**2019**	**309,000**	**16,324**		**325,324**	**188,235**		**188,235**	**513,559**
		2018	304,500	16,526		321,026	137,550		137,550	458,576
Adam Castleton		**2019**	**303,000**	**16,703**	**366**	**320,069**	**193,014**		**193,014**	**513,083**
		2018	298,500	16,754		315,254	234,905		234,905	550,159
Ian Crabb		**2019**	**449,000**	**15,000**	**19,641**	**483,641**	**277,038**		**277,038**	**760,679**
		2018	412,000	15,000	18,667	445,667	328,962		328,962	774,629
Non Executive Directors										
Gaby Appleton	2	**2019**	**14,667**			**14,667**				**14,667**
		2018								
Kumsal Bayazit Besson	3	**2019**	**14,667**			**14,667**				**14,667**
		2018	41,333			41,333				41,333
Darrell Evans	4	**2019**	**38,500**			**38,500**				**38,500**
		2018								
Bill Shannon		**2019**	**78,000**			**78,000**				**78,000**
		2018	72,667			72,667				72,667
David Stewart		**2019**	**50,000**			**50,000**				**50,000**
		2018	46,667			46,667				46,667
Total		**2019**	**1,415,334**	**48,027**	**20,007**	**1,483,368**	**658,287**		**658,287**	**2,141,655**
		2018	1,308,167	48,280	18,667	1,375,114	701,417		701,417	2,076,531

Notes to Directors' remuneration table:

1. Simon Embley's fee includes £21,000 in relation to one off consultancy services provided to the LSL Group in 2019 in addition to his responsibilities as Board Chair.
2. Gaby Appleton was appointed to the Board on 1st September 2019.
3. Kumsal Bayazit Besson retired from the Board on 30th April 2019.
4. Darrell Evans was appointed to the Board on 28th February 2019.
5. Benefits comprise private medical cover and company car or car allowance.
6. Ian Crabb receives a 5% of basic salary pension contribution paid partly as a cash allowance to the extent he has reached his annual pension allowance. Adam Castleton elected to join the auto enrolment pension scheme in September 2019 and receives 3% of banded earnings as an employee contribution from that date.
7. In compliance with the *Shareholders Rights Directive (2018 regulations)* which LSL has chosen to incorporate early into the 2019 Annual Report and Accounts a sub total for both fixed and variable pay have been added into the single figure table detailed above.
8. LSL's performance in 2019 resulted in the Executive Directors earning an annual bonus of between 60.9% and 63.7% of their basic salary. LSL's performance in 2018 resulted in the Executive Directors earning an annual bonus of between 45.2% and 79.8% of their basic salary. See page 103 for further details.
9. The Adjusted EPS and TSR performance conditions for the 2017 LTIP have not been met and there is therefore no vesting of these awards.

Annual bonus

Annual bonus payments 2019 – audited information

Set out in the table below is a summary of the Executive Directors' bonus scheme for 2019:

Financial performance measures	Group Underlying Operating Profit				Estate Agency Underlying Operating Profit				Total payment under financial element % of basic salary
Director	Weighting	Threshold	Maximum	Achievement	Weighting	Threshold	Maximum	Achievement	
Helen Buck	20%	£35.144m	£39.728m	£37.035m (Resulting in 11.95% of salary for Helen Buck and 47.8% of salary payable to Ian Crabb and Adam Castleton).	60%	£14.790m	£19.140m	£16.271m (35.27% of salary)	47.2%
Adam Castleton	80%	£35.144m	£39.728m		Specific to Helen Buck only				47.8%
Ian Crabb	80%	£35.144m	£39.728m						47.8%

The bonus ranges (threshold and maximum figures detailed in the table above) were higher in 2019 than in 2018 for both the Group and Estate Agency segments. The profit achievement for both the Group and Estate Agency segment was also higher in 2019 than in 2018, reflecting the improved financial performance of the Group. However due to the higher ranges put in place in 2019 compared to 2018 the total bonus payment for the financial element of bonus, as a percentage of basic salary, was lower for the Group Chief Executive Officer and Group Chief Financial Officer than in 2018 (62.7%), but higher for the Executive Director - Estate Agency (45.6%), reflecting the relative performance of the different business segments compared to the prior year.

Given the difficult market conditions the Remuneration Committee is comfortable that not only was the 2019 target range challenging but that the bonuses earned for 2019 are reflective of the overall performance of the Group. On this basis the Remuneration Committee was comfortable that discretion was not required to adjust the formula-driven outturn.

Non-financial measures/strategic goals

Detailed below is a summary of the non-financial measures which were in place for Helen Buck (Executive Director – Estate Agency), Adam Castleton (Group Chief Financial Officer) and Ian Crabb (Group Chief Executive Officer) in respect of their 2019 annual bonus. The Remuneration Committee applies its judgement to determine the extent of any pay-out where goals are partially achieved during the year.

Based on the outcomes and the weightings detailed in the table below, Helen Buck has achieved 68.5% of her non-financial measures (equating to 13.7% of basic salary), Adam Castleton has achieved 79.5% of his non-financial measures (equating to 15.9% of basic salary) and Ian Crabb has achieved 69.5% of his non-financial measures (equating to 13.9% of basic salary).

Executive Directors' non-financial measures Objective and factors used to determine overall outcome	Weighting Helen Buck, Executive Director - Estate Agency	Weighting Adam Castleton, Group Chief Financial Officer	Weighting Ian Crabb, Group Chief Executive Officer	Outcome
A. Group strategy Measured through development of future strategy, execution of agreed strategy and Share price performance relative to peers.	20%	20%	20%	Partially achieved
B. Customer outcomes Measured through file reviews of product sales and prevalence of customer issues.	10%	10%	10%	Partially achieved
C. Governance/Compliance and regulatory risk Measured through output of reviews with various regulatory bodies, delivery of key compliance projects and prevalence of governance issues.	10%	10%	10%	Partially achieved
D. People and culture Measured through improvement in staff engagement, reduction in staff turnover and effective implementation of new code with regards to workplace engagement.	15%	10%	10%	Fully achieved[1]
E. Internal audit Measured through the successful delivery of the 2019 audit plan and internal audit findings to be in line with expected performance as measured by the Audit & Risk Committee.	–	10%	–	Fully achieved
F. Estate Agency strategic execution Measured through the successful execution of core Estate Agency projects.	15%	10%	10%	Fully achieved
G. Estate Agency operational execution Measured through relative market share and fee level.	15%	5%	5%	Fully achieved
H. Lettings books acquisition programme Measured through adherence to investment criteria, level of investment and resulting operating profit of acquisitions.	15%	5%	5%	Not achieved
I. Surveying strategic and operational execution Measured through volume of jobs and relative market share.	–	5%	15%	Not achieved
J. Financial Services strategic and operational execution Measured through total lending as % of market, market share and organic growth of business.	–	15%	15%	Fully achieved

Notes to Executive Directors' non-financial measures table:

1. The 'People and culture' measure was fully achieved for Ian Crabb and Adam Castleton who were targeted against LSL Group performance but partially achieved by Helen Buck who was targeted against Estate Agency specific performance.
2. 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 scheme requires the financial performance element of LSL's performance to be significantly better than budget for full pay-out of the non-financial objectives.

Share awards vesting

Details of LTIP awards vesting in relation to the period ending 31st December 2019 are as follows:

2017 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	TSR target	Actual adjusted EPS growth (70% of the award)[2]	Actual relative TSR (30% of the award)[2]	Expected vesting % in 2020	Expected total vesting value
Helen Buck Executive Director – Estate Agency	30th March 2017	143,198	£300,000	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 12.5% p.a.	25% of TSR part vesting for median ranking increasing to 100% vesting for upper quartile or above ranking	2.88% p.a.	Below median 38.3% TSR against a median of 54.8%	0.0%	£0.0
Adam Castleton Group Chief Financial Officer	30th March 2017	140,334	£294,000					0.0%	£0.0
Ian Crabb Group Chief Executive Officer	30th March 2017	193,794	£406,000					0.0%	£0.0

Notes to 2017 LTIP awards:

1. Based on the number of Shares granted multiplied by the three day average Share price (209.5 pence) immediately prior to the grant date.
2. Three year performance period ending 31st December 2019.

Share awards granted during 2019

Details of LTIP (nil cost option) awards granted in 2019 are as follows:

Executive Director	Date of grant (three year vesting)	Number of Shares under award	Face value at grant date[1] (125% of basic 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 21 companies[2]	Performance period
Helen Buck Executive Director – Estate Agency	29th March 2019	151,470	£386,250	25%	100%	Threshold vesting: 5.0% p.a. growth Maximum vesting: 12.0% 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 2021.
Adam Castleton Group Chief Financial Officer	29th March 2019	148,529	£378,750					
Ian Crabb Group Chief Executive Officer	29th March 2019	220,098	£561,250					

Notes to 2019 LTIP awards:

1. Face value is calculated using the three day average Share price (255.0 pence) prior to the grant date.
2. TSR peer group is a group of 21 firms in similar or related sectors, as detailed in full in the *2018 Annual Report and Accounts.*
3. The 2019 LTIP awards made to the Executive Directors are subject to a two year post-vesting holding period.

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.

Payments to past directors

No payments have been made to past directors.

Payments for loss of office

No payments have been made to directors for loss of office.

Outstanding Share awards

Options granted to Executive Directors and the Chair (when Group Chief Executive Officer) 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 2019	Awards granted during year	Awards lapsed during year	Awards exercised during year	Awards vested during year	As at 31st December 2019	Exercise period
Helen Buck Executive Director – Estate Agency	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
	LTIP	29th March 2018	219.50p	Nil	173,405	-	-	-	-	173,405	29th March 2021 to 29th March 2028
	SAYE	1st June 2018	249.00p	245.00p	1,469	-	-	-	-	1,469	1st June 2021 to 30th November 2021
	LTIP	29th March 2019	255.00p	Nil	-	151,470	-	-	-	151,470	29th March 2022 to 29th March 2029
	SAYE	1st June 2019	227.00p	265.00p	-	2,037	-	-	-	2,037	1st June 2022 to 30th November 2022
Adam Castleton Group Chief Financial Officer	LTIP	31st March 2016	285.50p	Nil	101,576	-	101,576	-	-	0	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
	LTIP	29th March 2018	219.50p	Nil	169,988	-	-	-	-	169,988	29th March 2021 to 29th March 2028
	SAYE	1st June 2018	249.00p	245.00p	1,469	-	-	-	-	1,469	1st June 2021 to 30th November 2021
	LTIP	29th March 2019	255.00p	Nil	-	148,529	-	-	-	148,529	29th March 2022 to 29th March 2029
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	31st March 2016	285.50p	Nil	140,105	-	140,105	-	-	0	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
	LTIP	29th March 2018	219.50p	Nil	234,624	-	-	-	-	234,624	29th March 2021 to 29th March 2028
	SAYE	1st June 2018	249.00p	245.00p	1,469	-	-	-	-	1,469	1st June 2021 to 30th November 2021
	LTIP	29th March 2019	255.00p	Nil	-	220,098	-	-	-	220,098	29th March 2022 to 29th March 2029
	SAYE	1st June 2019	227.00p	265.00p	-	2,037	-	-	-	2,037	1st June 2022 to 30th November 2022
Simon Embley Chair	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

* 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 2019 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 Group Financial Statements.
2. The Ordinary Share mid-market price ranged from 190.0 pence to 286.5 pence and averaged 234.5 pence during 2019. The Share price on 31st December 2019 was 274.0 pence compared to 226.0 pence on 2nd January 2019.
3. Simon Embley's Shares awards have been pro-rated to reflect his change of role to Non Executive Chair on 1st January 2015.
4. The LTIP awards granted to the Executive Directors in 2018 and 2019 are subject to the two year post-vesting holding period.

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[1]	Executive Director shareholding[2]
Director	31st December 2019	31st December 2018	Unvested number of Shares	Vested but unexercised number of Shares	31st December 2019	(% of basic salary)	(% of basic salary)
Gaby Appleton Non Executive Director	-	-	-	-	-	-	N/A
Kumsal Bayazit Besson Non Executive Director	-	-	-	-	-	-	N/A
Helen Buck[3] Executive Director – Estate Agency	2,145	1,156	474,090	-	2,145	150%	1.9%
Adam Castleton[4] Group Chief Financial Officer	3,139	2,107	462,831	-	3,139	150%	2.8%
Ian Crabb[5] Group Chief Executive Officer	81,759	59,659	654,533	49,228	130,987	200%	65.8%
Simon Embley Chair	6,777,291	6,777,291	-	154,761	6,932,052	-	N/A
Darrell Evans Non Executive Director	-	-	-	-	-	-	N/A
Bill Shannon Deputy Chair and Senior Independent Director	25,329	24,248	-	-	25,329	-	N/A
David Stewart Non Executive Director	-	-	-	-	-	-	N/A

Notes to Directors' interest in Shares:

1. Under the new *Directors' Remuneration Policy*, Executive Directors are required to build and maintain a shareholding equivalent to 200% of annual basic salary for the Group Chief Executive Officer and 150% of annual basic salary for the other Executive Directors from the implementation date of the new *Policy*. The Remuneration Committee recognises that due to the minimal vesting of long-term incentive awards in recent years there have been limited opportunities for Executive Directors to accumulate LSL Shares and thus achieve the Executive Director shareholding guideline in place in the previous policy. The Committee is keen to increase Share ownership amongst our Executive Directors, therefore under the new *Policy* the Group Chief Executive Officer will be required to purchase LSL Shares equivalent to 33% of any bonus earned from 2020 onwards, net of tax, and retain them for a minimum period of two years or until the shareholding requirement is met. The other Executive Directors will be required to purchase LSL Shares equivalent to 25% of any bonus earned from 2020 onwards, net of tax, and retain them for a minimum period of two years or until the shareholding requirement is met.
2. The shareholding is calculated based on Shares owned and vested, net of tax, unexercised awards as at 31st December 2019. Based on the Share price at 31st December 2019 of 274.0 pence per Share and the Executive Director's basic salary at 31st December 2019.
3. Helen Buck was appointed as Executive Director – Estate Agency on 2nd February 2017 and she has purchased Shares as a participant in LSL's SIP/BAYE since 4th July 2017. The Shares specified in the table were purchased by the Trust at the prevailing market value.
4. Adam Castleton was appointed to the Board on 2nd November 2015 and he has purchased Shares as a participant in LSL's SIP/BAYE since 1st June 2016. The Shares specified in the table were purchased by the Trust at the prevailing market value.
5. Ian Crabb was appointed to the Board on 9th September 2013 and he has purchased Shares as a participant in LSL's SIP/BAYE since 1st November 2013. The Shares were purchased by the Trust at the prevailing market value. Ian Crabb has also purchased Shares in the market on a number of occasions and these are included in the table above. The shareholding calculation includes Ian Crabb's owned Shares and the vested but unexercised Share awards, net of tax.

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

There have been no changes in the interests of any Director between 1st January 2020 and the date of this Report other than the purchases of Shares by Ian Crabb (183 Shares), Adam Castleton (182 Shares) and Helen Buck (182 Shares) as participants of LSL's SIP/BAYE scheme. These Shares were purchased by the Trust at the prevailing market rate.

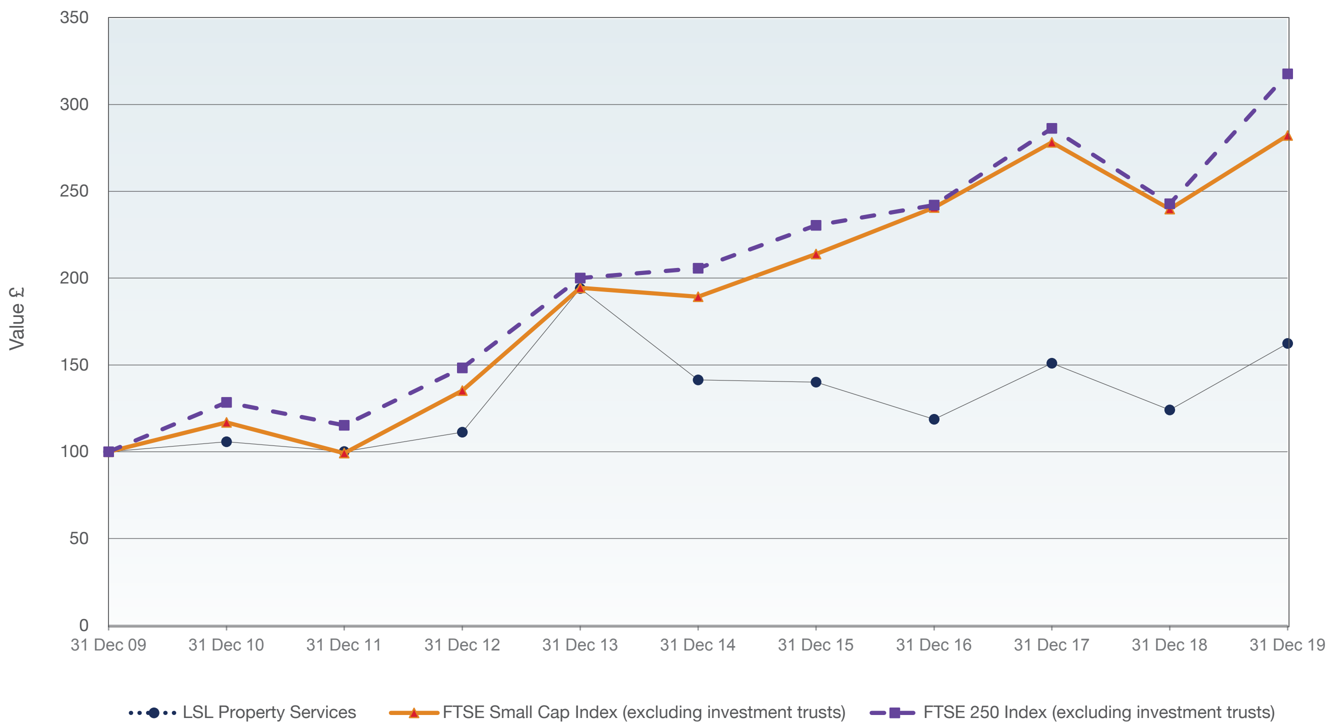
No Director has or has had any interest, direct or indirect, in any transaction, contract or arrangement (excluding service agreements), which is or was unusual in its nature or conditions or significant to the business of the Group during the current or immediately preceding financial year.

Performance graph and table

The following graph shows the value, up to the 31st December 2019, 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 2009. The FTSE 250 Index has been chosen for consistency with prior years and the FTSE Small Cap Index because LSL is a constituent of the FTSE Small Cap Index.

Total Shareholder return

Source: Thomson Reuters Datastream



Group Chief Executive Officer's total remuneration

The total remuneration figures for the role of Group Chief Executive Officer during each of the last ten 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)						
	2010	2011	2012	2013	2013	2014	2015	2016	2017	2018	2019
Total remuneration	£517,716	£308,747	£525,018	£500,862[1]	£119,522[1]	£571,500	£852,869	£499,000	£835,120	£774,629	£760,679
Annual bonus	97.5%	9.6%	60.0%	91.7%	N/A	54.0%	93.3%	16.0%	97.0%	79.8%	61.7%
LTIP vesting	N/A	N/A	55.0%	0.0%	N/A	N/A	66.81%	0.0%	0.0%	0.0%	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 Group Chief Executive Officer to 9th September 2013 when he ceased being Group Chief Executive Officer and became Deputy Chair on 9th September 2013. The value stated for Ian Crabb for the year ended 31st December 2013 is for the period from 9th September 2013 when he was appointed as Group Chief Executive Officer.

Percentage change in Directors' remuneration

In line with the requirements of the *Revised Shareholders Rights Directive (2018 Regulations)* the table below shows the annual change, between the financial years ending 31st December 2018 and 2019, of each LSL Director's salary/fees, benefits and annual bonus and the percentage change in average employee pay of the wider LSL workforce on the same basis.

Director	2019 vs 2018		
	% Change in salary/fees	% change in taxable benefits (excluding pension)	% change in bonus (includes commission)
Chair			
Simon Embley[1]	19.6	0.0	0.0
Executive Directors[2]			
Helen Buck	1.5	-1.2	36.8
Adam Castleton	1.5	-0.3	-17.8
Ian Crabb[3]	9.0	0.0	-15.8
Non Executive Directors			
Gaby Appleton[4]	N/A	N/A	N/A
Kumsal Bayazit Besson[5]	6.5	0.0	N/A
Darrell Evans[4]	N/A	N/A	N/A
Bill Shannon[1]	7.3	0.0	N/A
David Stewart[1]	7.1	0.0	N/A
All employees			
Median of LSL workforce[6]	4.8	N/A	30.0

Notes to percentage change in Directors' remuneration:

1. As detailed in the *2018 Annual Report* the fees paid to the LSL Chair and Non Executive Directors were reviewed and increased in late 2018, having not been reviewed for a number of years. The increases took into account the time commitment and responsibilities of each of the Non Executive Directors (including the Chair). In addition Simon Embley's fee in 2019 included £21,000 in relation to one off consultancy services provided to the Group in 2019, in addition to his fee for his services as Non Executive Chair.
2. The bonus payments and resulting percentage change in Executive Directors' bonus is detailed further in the annual bonus section of the Report on page 103.
3. As detailed in the *2018 Annual Report* the basic salary paid to the Group Chief Executive Officer was increased by 9.0% in 2019, following extensive consultation with LSL's major Shareholders. The increase took into account the Group Chief Executive Officer's personal performance as well as that of the Group and the increased complexity of the role.
4. Gaby Appleton and Darrell Evans were appointed to the Board in 2019 and therefore percentage change from the prior year figures are not available.
5. Kumsal Bayazit Besson retired from the Board on 30th April 2019. The percentage change figures quoted reflect the change in fee level on full year equivalent basis.
6. The median full time equivalent pay of all employees in the LSL Group as at 31st December has been provided as an appropriate comparator. The total number of employees in this Group as at 31st December 2019 was 4,717; this excludes employees who began with the business during the month of December but received their first pay in January 2020. The increase in average earnings of the LSL workforce is largely attributable to changes in the workforce demographics; as a result of changes made to the structure of some the Estate Agency business at the beginning of the year, and also the improved financial performance of the Estate Agency segment resulting in a higher average commission being paid to employees in 2019 when compared to 2018. A percentage change figure has not been provided for taxable benefits as the median figure for employees was £0 in 2018 and was £151 in 2019.

Group Chief Executive Officer to Employee Pay Ratio (The Companies (Miscellaneous Reporting) Regulations 2018)

In line with *2018 Reporting Regulations* the table below discloses the ratio between LSL's Group Chief Executive Officer's remuneration and the wider LSL workforce in 2019 and 2018.

Financial year	Method	25th percentile pay ratio	Median pay ratio[2]	75th percentile pay ratio
2018[1]	Option A	40.5 : 1	27.9 : 1	16.2 : 1
2019	Option A	38.1 : 1	26.1 : 1	14.9 : 1

Disclosure of 2019 employee data used to calculate the ratios:

	25th percentile	Median	75th percentile
Total pay and benefits of employees	£19,984	£29,166	£51,023
Basic salary of employees	£16,500	£21,000	£30,524

Notes to percentage change in Group Chief Executive Officer to Employee Pay Ratio:

1. The 2018 ratio figures have been updated from those reported last year, as the methodology for calculating the ratio has been refined and updated to align with best practice and the 2019 calculations.
2. The Group Chief Executive Officer data used in calculating these ratios is the single figure total of £760,679 as stated on page 109.

LSL has chosen Option A (which provides a comparison of the Company's full time equivalent total remuneration for all UK employees against the LSL Group Chief Executive Officer) as the most appropriate methodology to report the ratios, in line with the recommendation from the UK Government's Department for Business, Energy and Industrial Strategy and a number of Shareholder representative and proxy-voting bodies.

The ratio above includes all UK based employees who were employed in any part of the LSL Group as at 31st December 2019. The employee remuneration data includes the full time equivalent data in respect of; basic pay, bonus, commission, taxable benefits, share-based remuneration and pension benefits, so as to provide a comparable figure to the LSL Group Chief Executive Officer's single figure total remuneration which is reported in the *Directors' Remuneration Table* on page 102.

In calculating the bonus and commission elements for employees LSL has used the bonus and commission paid to employees during 2019. In some instances employees receive bonus or commission payments in arrears, however due to a number of these elements (for example year end annual bonuses) not being finalised at the time of writing, this Report was written with these elements having not been reapportioned to the relevant financial year. In line with the legislation LSL discloses this variation in methodology; however it considers that this approach provides a similar outcome as if 2019 year end bonuses had been included.

As at 31st December 2019 LSL employed over 4,500 employees in a wide variety of different roles within its various businesses. The reward policies and practices for our employees follows those set for the Executive Directors, as detailed on page 90 of this Report. The Remuneration Committee also has responsibility for setting the remuneration of the senior management teams within the LSL Group and reviews and monitors the Group's wider remuneration policies and practices.

The Remuneration Committee notes the reduction in the ratio from 2018 and attribute this to the reduction in the Group Chief Executive Officer's earnings, as a result of the lower bonus payment awarded to Ian Crabb this year, and conversely the increase in the average earnings of the wider workforce. The increase in average earnings of the LSL workforce is largely attributable to changes in the workforce demographics; as a result of changes made to the structure of some of the Estate Agency businesses at the beginning of the year, and also the improved financial performance of the Estate Agency segment resulting in a higher average commission being paid to employees in 2019 when compared to 2018. The Remuneration Committee believes the remuneration and ratio presented above is representative of the Group Chief Executive Officer's responsibilities and contribution to the Group.

Relative importance of spend on pay

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

	2019 (£m)	2018 (£m)	Change (%)
Staff costs[1]	194.4	203.1	-4.4
Dividends (excluding any special dividend)	11.5	11.2	2.7
Profit after tax	13.0	17.9	-27.5
Adjusted profit after tax[2]	28.7	27.9	2.7

1. See Note 13 to the Group Financial Statements for calculation of staff costs.
2. See Note 10 to the Group Financial Statements.

Statement of Shareholder voting

The *Directors' Annual Statement and Report on Remuneration* for the financial year ending 31st December 2018 was presented to Shareholders at the 2019 AGM which was held on 30th April 2019. 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	90,570,041	99.99%	81,542,452	99.78%
Votes cast against	11,945	0.01%	181,004	0.22%
Total votes cast	90,581,986	100%	81,723,456	100%
Total votes withheld	285,918	-	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 71 of this Report. During 2019 the Remuneration Committee was chaired by Bill Shannon and its other members were Gaby Appleton, Kumsal Bayazit Besson, Darrell Evans and David Stewart. Kumsal Bayazit Besson retired from the Remuneration Committee at the 2019 AGM. Darrell Evans joined the Remuneration Committee on 28th February 2019 and Gaby Appleton joined the Remuneration Committee on 1st September 2019. The terms of reference of the Committee are available from the Company Secretary or LSL's website (*lslps.co.uk*).

The work of the Remuneration Committee

Set out below are those areas of the Committee's work that it is required to report under *the Code* and reporting regulation and which are not covered elsewhere in this Remuneration Report.

Engagement with stakeholders

During 2019, LSL actively engaged with Shareholders regarding Executive Directors' remuneration changes at the beginning of the year, these changes were detailed in full in last year's annual Directors' remuneration. This process involved correspondence with all of LSL's largest Shareholders and a series of calls were undertaken to detail further the changes that were being proposed. The Committee considered carefully the feedback given during this process and the previous three years in determining the *Policy* to be brought to Shareholders for approval at the 2020 AGM and operation of *Policy* for the financial year 2020. The Committee has also actively engaged with all its major Shareholders and consulted with them on this proposed new *Policy* in advance of this being brought forward. Shareholder support for the LSL *Remuneration Policy* brought forward at the 2017 AGM and the subsequent *Remuneration Reports* brought for Shareholders' approval at the 2018 and 2019 AGM has exceeded 99% and there were no material concerns for the Committee to consider from the AGM voting outcomes.

As set out in the *Employee Engagement Arrangements* and *Corporate Governance* sections of this Report, the Company has a number of different channels for engaging with its workforce. This includes the appointment of Darrell Evans who was appointed to the Board in 2019 and is the designated Non Executive Director in relation to workforce engagement. Darrell also is a member of the Remuneration Committee and provides a route for the Remuneration Committee to engage with the wider workforce on remuneration matters.

Policy and operation of the new Policy

In determining the *Policy* and its operation the Remuneration Committee has considered the following six factors which are referred to in *the Code*:

- *Clarity* – *the Policy* is well understood by LSL's Management Team and has been clearly articulated to Shareholders through direct engagement and remuneration reporting. A key part of the Group HR Director's role and responsibilities and the designated workforce engagement Non Executive Director is to engage with the wider employee base on all our "People Matters" (including remuneration). This engagement is conducted through a series of employee engagement forums and also via LSL's staff survey, the results of which are reviewed annually by the Board.
- *Simplicity* – the Remuneration Committee is mindful of the need to avoid overly complex remuneration structures. The Remuneration Committee's focus is to ensure that the *Policy* and practices are simple and straightforward and that the objectives and deliverables are clear. LSL only operates two incentive plans, an annual bonus and long-term incentive. Metrics are set and based on business KPIs and measure performance against them, tracking and rewarding progress toward achieving LSL's strategies and longer term sustainable growth.
- *Risk* – the *Policy* is designed to ensure that reputational, behavioural and other risks are managed and will not be rewarded via (i) a balanced use of fixed and variable pay, of both short and long-term incentive plans which employ a blend of financial, and non-financial and shareholder return targets, (ii) the significant role played by equity in the incentive plans (together with executive Shareholding guidelines in service and post-service policy) and (iii) the inclusion of malus/clawback provisions.
- *Predictability* – LSL's incentive plans are subject to individual caps, with share plans also subject to market standard dilution limits. The scenario charts on page 97 illustrate how the rewards potentially receivable by the Executive Directors vary based on performance delivered and share price growth. The Remuneration Committee also has the discretion to adjust any vesting outcomes if they are not considered appropriate.
- *Proportionality* – there is a clear link between individual awards, delivery of strategy and our long-term performance. In addition, the significant role played by incentive/"at-risk" pay, together with the structure of the Executive Directors' service contracts, ensures that poor performance is not rewarded.
- *Alignment to culture* – the incentive schemes drive behaviours consistent with our purpose, values and strategy by using metrics in both the annual bonus and LTIP that underpin the delivery of LSL's strategies. Employee personal success is directly linked to the success of the Group's clients and business through the short and long-term incentive plans and targets which are operated.

Determining Executive Director remuneration

The Remuneration Committee considers the appropriateness of the Executive Directors' remuneration not only in the context of overall business performance and environmental, governance and social matters but also in the context of wider workforce pay conditions (taking into account workforce policies and practices as well as the ratio of Group Chief Executive Officer pay to all-employee pay) and external market data to ensure that it is fair and appropriate for the role, experience of the individual, responsibilities and performance delivered.

Further the Remuneration Committee has concluded that it is comfortable, in reviewing the remuneration for 2019 against performance that there has been an appropriate link between reward and performance and that discretion did not need to be used. The Remuneration Committee also considered whether there were any relevant environmental, social, and governance matters that it needed to take account of when reviewing the remuneration outcomes and concluded that there were no such factors that needed to be taken into account.

The Remuneration Committee also concluded that it is comfortable that the *Policy* has operated as intended, that there was a strong link between pay and performance and that no changes to the *Policy* are needed as a result of the review of operation in 2019.

Wider workforce matters

As set out in the policy section of this *Directors' Remuneration Report*, the Remuneration Committee under its wider remit considers workforce remuneration policy and practices.

Remuneration Committee advisers

The Remuneration Committee took independent advice during the year from Korn Ferry on matters relating to Executive Director and senior manager's remuneration. No other services are provided to the Group by Korn Ferry. Korn Ferry were selected and appointed by the Remuneration Committee and 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 new *Directors' Remuneration Policy*, the subsequent Shareholder consultation and the disclosures required in the Annual Report and Accounts. Their fees (which are based on an hourly rate) charged for 2019 were £36,731 (excluding VAT). 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 this 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
Chair of the Remuneration Committee
10th March 2020

Financial Statements

In this section

Independent Auditor's Report

for the year ended 31st December 2019

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 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- 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, which comprise:

Group	Parent company
Group Income Statement	Parent company Balance Sheet as at 31 December 2019
Group Statement of Comprehensive Income	Parent company Statement of Cash-Flows
Group Balance Sheet as at 31 December 2019	Parent company Statement of Changes in Equity
Group Statement of Cash-Flows	Related notes 1 to 18 to the parent company financial statements including a summary of significant accounting policies
Group Statement of Changes in Equity	
Related notes 1 to 35 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.

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 set out on pages 32 to 41 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 34 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 set out on page 58 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 set out on page 32 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	• Risk of inappropriate recognition of revenue (including valuation of lapse provision) • Risk of inappropriate valuation of professional indemnity provision • Risk of inappropriate valuation of goodwill • Risk of inappropriate valuation of contingent consideration liabilities
Audit scope	• We performed an audit of the complete financial information of eight components and audit procedures on specific balances for a further three components. • The components where we performed full or specific audit procedures accounted for 97% of profit before tax excluding branch and restructuring costs, 94% of revenue and 98% of total assets.
Materiality	• Overall Group materiality of £1.5m which represents 5% of profit before tax excluding branch closure and restructuring costs.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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 and Risk Committee
Inappropriate recognition of revenue (including valuation of lapse provision). *Refer to the Audit and Risk Committee Report (page 75); Accounting policies (page 131); and Note 3 of the Group financial statements.* The Group has reported revenues of £311.1m (2018: £324.6m). We focused on revenue recognition because there could be bias or error in the timing of transactions. There is also judgement in the measurement of the value of commission income that will be clawed back. 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 scope audit location with material revenue streams: • We walk through each significant stream of revenue and confirm the existence of key controls around the recognition of revenue and measurement of the lapse provisions; • We perform cut off testing for the period before and after the year end with reference to underlying contracts and evidence of Management's assessment of the point of revenue recognition; • We perform additional substantive procedures around the existence of revenue in the year including transaction testing or data analysis procedures. Where items of revenue are not passing through the normal control system, we perform additional transactional tests; and • For the lapse provision, we examine the underlying calculations for accuracy, test the integrity of the data used in calculating the provision and review the contractual terms for the revenue streams which can be clawed back by the financial service provider. At each full scope audit location that has a significant revenue stream (eight full scope components, seven with revenue streams), we performed the audit procedures set out above which covered 84% of the Group's revenue. We also performed the walkthrough and cut off testing procedures above, as specified procedures at three specific scope components which covered a further 10% of the Group's revenue. For the lapse provision estimate we performed the following at each full scope that has a lapse provision (eight full scope locations, five with lapse provisions) and at each specific scope location: • 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 performed review procedures in ten locations which covered a further 6% of the Group's revenue. This consisted of analytical procedures over material movements in the Income Statement and Balance Sheet.	Based on the work we performed, we did not identify any evidence of material misstatement in the revenue recognised in the year nor in the valuation of the provision for lapsed policies at 31 December 2019.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Inappropriate valuation of professional indemnity provision. *Refer to the Audit and Risk Committee Report (page 75); Accounting policies (page 131); and Note 24 of the Group financial statements.* We focused on this area due to the level of judgement required to assess the liability, the size of the balance of £8.2m (2018: £12.4m) 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 £2.5m 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 providing full coverage of the professional indemnity provision: • We performed walkthroughs of each material element of the provision and assessed the design effectiveness of key controls; • We re-performed management's calculations, tracing a sample of claims to source documentation. This included 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 we built 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 the 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 to third party evidence; • 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 provision held is within the acceptable range of possible outcomes; • We traced a sample of payments for settled 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; • We inquired with legal counsel for a sample of 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.	Based on our procedures we believe that the estimate for Professional Indemnity liabilities is stated in accordance with IAS 37 and the estimate is at the conservative end of the acceptable range. We have concluded that the provision release of £2.5m recorded as an exceptional item is appropriate.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Inappropriate valuation of goodwill *Refer to the Audit and Risk Committee Report (page 75); Accounting policies (page 131); and Note 15 of the Group financial statements.* The carrying value of goodwill on the Group Balance Sheet is £159.9m (2018: £159.7m). The valuation of goodwill is considered to be a significant risk because of the high level of estimation uncertainty in assessing the future performance of the Group and in assessing the appropriate discount rate to apply in calculating the 'value in use' of the cash generating units. Management'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. There is no change in the overall risk profile of this matter.	We challenged management's assumptions used in its models for assessing the recoverability of the carrying value of goodwill. We did this by focusing on the appropriateness of the CGU identification, the methodology applied to estimate the value in use, discount rates and forecast cash flows. Specifically: • We evaluated whether the CGUs identified are at the lowest level at which management monitors goodwill consistent with the requirements of IAS36; • We tested the methodology applied in the value in use calculation as compared to the requirements of IAS 36 and the mathematical accuracy of management's model; • We obtained an understanding of, and assessed the basis for, key underlying assumptions within the model; • We confirmed that the cash flow forecasts used in the valuation are consistent with information presented to the Board and evaluated the appropriateness of the use of these forecasts in light of the historical accuracy of management's forecasts; • For the CGUs with the largest goodwill balances or the lowest headroom, we challenged management on its cash flow forecasts and the implied growth rates for 2020 and beyond by considering the evidence available that either supported or contradicted these assumptions and including it in the forecasts to assess any differences; 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.	Based on the results of our work, we agree with management's conclusion that no impairment of goodwill is required at 31 December 2019.

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
Inappropriate valuation of contingent consideration liabilities *Refer to the Audit and Risk Committee Report (page 75); Accounting policies (page 131); and Note 23 of the Group financial statements.* The Group Balance Sheet contains a £5.8m (2018: £15.0m) provision for contingent consideration that arose from acquisitions in previous periods. We have focused on this because it is subject to estimation uncertainty. There is no change in the risk profile of contingent consideration in the current year.	We have performed the following procedures across four full scope locations that have contingent consideration balances that are above our testing threshold: • We confirmed that the cash flow forecasts used in the measurement of the liability are consistent with information presented to the Board and 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 including tracing a sample of calculations to contracts; • 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 confirmed the appropriateness of the discount rate used in calculating the liability by considering the risks of the cash flows and management's application of IFRS 13.	Based on the results of our work, we conclude that the contingent consideration liabilities are calculated appropriately.

These key audit matters are consistent with those identified in the prior year with the exception of the inappropriate valuation of the Group's investment in Yopa Property Ltd which has been removed in this report. This is because of the level of judgement required in assessing the impairment has reduced.

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 consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each entity.

- In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the 21 reporting components of the Group, we performed audit procedures on 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 8 components ("full scope components"), which were selected based on their size or risk characteristics.
- For the remaining 3 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 10 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.

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

	2019				2018		
Components	Number	% Group profit before tax excluding branch closure and restructuring costs	% Group revenue	See note	Number	% Group profit before tax	% Group revenue
Full scope	8	85.1	83.7		7	69.8	86.7
Specific scope	3	12.4	10.4	1	5	21.6	10.0
Full and specific scope coverage	11	97.5	94.1		12	91.4	96.7
Remaining components	10	2.5	5.9	2	8	8.6	3.3
Total	21	100.0	100.0		20	100.0	100.0

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 for the Group audit.
2. Of the remaining ten reporting components that together represent 2.5% of the Group’s profit before tax excluding branch closure and restructuring costs, none are individually greater than 2% of the Group’s profit before tax excluding branch closure and restructuring costs. 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

One component has been designated as full scope in 2019 (2018: specific scope) on the basis that its contribution to Group profit before tax has now increased above the threshold which would warrant inclusion within the full scope category. Similarly, one further component has been designated as specific scope as it is a new component in the year. Two entities that were specific scope in the prior year have been liquidated and have therefore been removed from scope.

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 £1.5 million (2018: £1.2m million), which is 5% (2018: 5%) of profit before tax excluding branch closure and restructuring costs of £14.6m (2018: profit before tax). Profit before tax, after adding back significant, non-recurring items, provides the most appropriate measure of profitability to calculate materiality.

We determined materiality for the Parent Company to be £1.0m million (2018: £1.0 million), which is 1% (2018: 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, our judgement was that performance materiality was 50% (2018: 50%) of our Overall Group materiality, namely £0.8m (2018: £0.6m). 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 £1.5m (2018: £1.2m).

All audit work at component locations is completed by the primary team for the purpose of obtaining audit coverage over significant financial statement accounts. The audit work 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 (2018: £0.1m to £0.4m).

Reporting threshold

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

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2018: £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 pages and pages 2 to 115, 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 59 – 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 and Risk Committee reporting** set out on page 75 – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** set out on page 61 – 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 55, 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 and 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. 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 2018.

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 reappointed by the company on 30 April 2019 to audit the financial statements for the year ending 31 December 2019 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is 19 years, covering the years ending 31 December 2001 to 31 December 2019. LSL Property Services plc listed on the London Stock Exchange in 2006.

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 and Risk Committee.

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.

Mark Morritt (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Leeds

10 March 2020

Notes:

1. The maintenance and integrity of the LSL Property Services plc web site 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 2019

	Note	2019 £'000	2018 £'000
Group Revenue	3	**311,073**	324,640
Employee and subcontractor costs	13	**(194,207)**	(203,095)
Establishment costs		**(10,367)**	(20,614)
Depreciation on property, plant and equipment	16	**(14,842)**	(5,674)
Other operating costs		**(56,098)**	(60,211)
Total operating expenses		**(275,514)**	(289,594)
Other operating income	3	**887**	557
Gain on sale of property, plant and equipment		**148**	34
Income from joint ventures and associates	18	**441**	259
Group Underlying Operating Profit		**37,035**	35,896
Share-based payments	13	**(312)**	(349)
Amortisation of intangible assets	15	**(5,786)**	(5,301)
Exceptional gains	7	**2,487**	2,188
Exceptional costs	7	**(15,730)**	(5,234)
Contingent consideration	23	**2,054**	(1,783)
Group operating profit	5	**19,748**	25,417
Finance costs	6	**(3,744)**	(2,333)
Finance income		**10**	–
Net financial costs		**(3,734)**	(2,333)
Profit before tax		**16,014**	23,084
Taxation charge	14	**(3,045)**	(5,201)
Profit for the year		**12,969**	17,883
Earnings per Share expressed in pence per Share:			
Basic	10	**12.6**	17.4
Diluted	10	**12.6**	17.3

Group Statement of Comprehensive Income

for the year ended 31st December 2019

	Note	2019 £'000	2018 £'000
Profit for the year		**12,969**	17,883
Items not to be reclassified to profit and loss in subsequent periods:			
Revaluation of financial assets not recycled through income statement	17	**(3,558)**	(12,200)
		(3,558)	(12,200)
Total other comprehensive (loss) for the year, net of tax		**(3,558)**	(12,200)
Total comprehensive income for the year, net of tax		**9,411**	5,683

Group Balance Sheet

as at 31st December 2019

Company no 05114014

	Note	2019 £'000	2018 £'000
Non-current assets			
Goodwill	15	**159,863**	159,723
Other intangible assets	15	**30,906**	31,960
Property, plant and equipment	16	**49,570**	16,866
Financial assets	17	**9,326**	11,566
Investments in joint ventures and associates	18	**12,958**	13,230
Contract assets	19	**686**	959
Total non-current assets		**263,309**	234,304
Current assets			
Trade and other receivables	20	**34,391**	38,650
Contract assets	19	**253**	262
Cash and cash equivalents	21	**–**	2,405
Total current assets		**34,644**	41,317
Total assets		**297,953**	275,621
Current liabilities			
Financial liabilities	23	**(11,113)**	(10,455)
Trade and other payables	22	**(60,007)**	(63,980)
Current tax liabilities		**(1,209)**	(2,688)
Provisions for liabilities	24	**(3,575)**	(6,616)
Total current liabilities		**(75,904)**	(83,739)
Non-current liabilities			
Financial liabilities	23	**(73,951)**	(41,156)
Deferred tax liability	14	**(1,805)**	(2,189)
Provisions for liabilities	24	**(5,077)**	(5,944)
Total non-current liabilities		**(80,833)**	(49,289)
Total liabilities		**(156,737)**	(133,028)
Net assets		**141,216**	142,593
Equity			
Share capital	26	**208**	208
Share premium account	27	**5,629**	5,629
Share-based payment reserve	27	**4,429**	4,129
Shares held by EBT	2,27	**(5,224)**	(5,261)
Fair value reserve	27	**(13,584)**	(11,727)
Retained earnings		**149,758**	149,615
Total equity		**141,216**	142,593

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

Ian Crabb
Group Chief Executive Officer
10th March 2019

Adam Castleton
Group Chief Financial Officer
10th March 2019

Group Statement of Cash-Flows

for the year ended 31st December 2019

	Note	2019 £'000	2018 £'000
Profit before tax		**16,014**	23,084
Adjustments for:			
Exceptional operating items and contingent consideration		**11,189**	4,829
Depreciation of tangible assets		**14,842**	5,674
Amortisation of intangible assets	15	**5,786**	5,301
Share-based payments	13	**312**	349
(Profit) on disposal of fixed assets	8	**(148)**	(34)
(Profit) from joint ventures	18	**(441)**	(259)
Finance income		**(10)**	–
Finance costs	6	**3,744**	2,333
Realisation of non-cash consideration received for operating activities		**–**	1,529
Operating cash-flows before movements in working capital		**51,288**	42,806
Movements in working capital			
Decrease/(increase) in trade and other receivables		**5,462**	(3,815)
(Decrease) in trade and other payables		**(6,181)**	(111)
(Decrease) in provisions		**(3,908)**	(3,608)
		(4,627)	(7,534)
Cash generated from operations		**46,661**	35,272
Interest paid		**(3,289)**	(1,359)
Income taxes paid		**(5,355)**	(6,875)
Exceptional costs paid		**(8,799)**	(3,310)
Net cash generated from operating activities		**29,218**	23,728
Cash-flows used in investing activities			
Cash acquired on purchase of subsidiary undertaking	29	**–**	6,944
Acquisitions of subsidiaries and other businesses	29	**(2,711)**	(7,732)
Payment of contingent consideration		**(7,890)**	(1,392)
Investment in joint ventures and associates	18	**–**	(4,100)
Investment in financial assets	17	**(2,783)**	(13)
Cash received on sale of financial assets	17	**1,765**	–
Purchase of property, plant and equipment and intangible assets	15,16	**(4,892)**	(5,877)
Proceeds from sale of property, plant and equipment	16	**367**	156
Net cash expended on investing activities		**(16,144)**	(12,014)
Cash-flows used in financing activities			
Drawdown of loans	12	**7,383**	4,521
Refinance costs		**–**	(250)
Repayment of loan notes	23	**–**	(2,000)
Payment of deferred consideration		**(2,009)**	–
Payment of lease liabilities		**(9,761)**	–
Receipt of lease income		**76**	–
Proceeds from exercise of share options		**26**	20
Dividends paid	11	**(11,194)**	(11,600)
Net cash expended in financing activities		**(15,479)**	(9,309)
Net (decrease)/increase in cash and cash equivalents		**(2,405)**	2,405
Cash and cash equivalents at the end of the year		**–**	2,405

Group Statement of Changes in Equity

for the year ended 31st December 2019

for the year ended 31st December 2019

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Shares held by EBT £'000	Fair value reserve £'000	Retained earnings £'000	Total equity £'000
At 1st January 2019	**208**	**5,629**	**4,129**	**(5,261)**	**(11,727)**	**149,615**	**142,593**
Adjustment on initial application of IFRS 16	–	–	–	–	–	68	68
Revised opening balance at 1st January 2019	**208**	**5,629**	**4,129**	**(5,261)**	**(11,727)**	**149,683**	**142,661**
Revaluation of financial assets	–	–	–	–	(3,558)	–	**(3,558)**
Disposal of financial assets	–	–	–	–	1,701	(1,701)	–
Profit for the year	–	–	–	–	–	12,969	12,969
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**–**	**(1,857)**	**11,268**	**9,411**
Exercise of options	–	–	(12)	37	–	1	26
Share-based payments	–	–	312	–	–	–	312
Dividend payment	–	–	–	–	–	(11,194)	(11,194)
At 31st December 2019	**208**	**5,629**	**4,429**	**(5,224)**	**(13,584)**	**149,758**	**141,216**

During the year ended 31st December 2019, the Trust acquired nil LSL Shares. During the period, 10,672 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received £24,000 on exercise of these options.

for the year ended 31st December 2018

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Shares held by EBT £'000	Fair value reserve £'000	Retained earnings £'000	Total equity £'000	Non-controlling interest £'000	Total £'000
At 1st January 2018	**208**	**5,629**	**3,802**	**(5,317)**	**494**	**143,578**	**148,394**	**182**	**148,576**
Adjustment on initial application of IFRS 15	–	–	–	–	–	(434)	(434)	–	(434)
Adjustment on initial application of IFRS 9	–	–	–	–	(21)	21	–	–	–
Revised opening balance at 1st January 2018	**208**	**5,629**	**3,802**	**(5,317)**	**473**	**143,165**	**147,960**	**182**	**148,142**
Other comprehensive income for the year									
Revaluation of financial assets	–	–	–	–	(12,200)	–	(12,200)	–	(12,200)
Profit for the year	–	–	–	–	–	17,883	17,883	–	17,883
Total comprehensive (loss)/income for the year	**–**	**–**	**–**	**–**	**(12,200)**	**17,883**	**5,683**	**–**	**5,683**
Exercise of options	–	–	(22)	56	–	(15)	19	–	19
Share-based payments	–	–	349	–	–	–	349	–	349
Acquisition of minority interest	–	–	–	–	–	182	182	(182)	–
Dividend payment	–	–	–	–	–	(11,600)	(11,600)	–	(11,600)
At 31st December 2018	**208**	**5,629**	**4,129**	**(5,261)**	**(11,727)**	**149,615**	**142,593**	**–**	**142,593**

During the year ended 31st December 2018, the Trust acquired nil LSL Shares. During the period 15,966 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received £20,000 on exercise of these options.

Notes to the Group Financial Statements

for the year ended 31st December 2019

1. Authorisation of Financial Statements and statement of compliance with IFRS

The Group Financial Statements of LSL and its subsidiaries for the year ended 31st December 2019 were authorised for issue by the Board of Directors on 10th March 2020 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, listed in London, incorporated and domiciled in England and the Group operates a network of estate agencies, surveying and valuation, and financial services businesses.

The Group's Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) 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 consolidated Financial Statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The Group Financial Statements have been prepared on a going concern basis and on a historical cost basis, except for certain debt and equity 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 2019. 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

IFRS 16 Leases

IFRS 16 Leases supersedes IAS 17 Leases setting out the principles for the recognition, measurement, presentation and disclosure of leases. It was adopted by the Group with effect from 1st January 2019. Under this standard leases are defined as a contract which gives the right to use an asset for a period of time in exchange for consideration. The Group recognises three classes of leases on this basis:

- Property leases
- Motor vehicle leases
- Other leases

Property leases and motor vehicle leases have been recognised on the balance sheet, in financial liabilities, by recognising the future cash-flows of the lease obligation, discounted using the incremental borrowing rate of the Group, adjusted for factors such as swap rates available and the credit risk of the entity entering into the lease.

Corresponding right of use assets have been recognised in the Group balance sheet under property, plant and equipment and have been measured as being equal to the discounted lease liability plus any lease payments made at or before the inception of the lease and initial direct costs, less any lease incentives received. Cash-flows from these leases have been recognised by including the principle portion of the lease payments in cash-flows from financing activities and the interest portion of the lease payment recognised through operating activities.

Other leases are leases for low value items (less than $5,000) or leases whose contract term is less than 12 months. The practical expedient not to recognise right of use assets and lease liabilities for these leases has been utilised by the Group. A charge for these leases has been recognised through the Income Statement as an operating expense. The cash-flows relating to low value and short-term leases have been recognised in net cash-flows from operating activities.

For sub-leases where the Group is an intermediate lessor, the Group has assessed whether the sub-lease is an operating lease or finance lease in respect to the right of use asset generated by the head lease. It has performed this assessment on a lease-by-lease basis. The Group has both finance leases and operating leases based on this assessment, and a sub-lease asset has been recognised in financial assets at transition for finance leases.

IAS 17 Leases accounting policy

Previously, under IAS 17 Leases, operating leases were defined as a contract where substantially all of the risks and reward of ownership remain with the owner. Under the old standard, the Group recognised all of its leasing activities as operating leases, recognising no assets, and recognising lease payments as an expense through the Income Statement as they fell due.

As the Group has chosen to adopt IFRS 16 using the modified retrospective approach, comparatives have not been restated and are accounted for under the Group's previous leases accounting policy:

2. Accounting policies (continued)

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.

By adopting IFRS 16, the Group has recognised additional non-current assets representing the right of use asset that arises under the contracts to which the Group is entered, and additional financial liabilities, being the discounted future cash-flows of lease payments due under the term of the leases.

The Group has opted to adopt IFRS 16 on a modified retrospective approach, by recognising the cumulative effect of applying the standard and recognising right of use assets and lease liabilities from 1st January 2019, the "transition date".

Under this approach, prior year figures have not been restated to reflect leases that were in effect at that time. On transition to IFRS 16, the Group has taken advantage of the following practical expedients available:

- The Group has chosen to transition all leases previously identified under IAS 17 to IFRS 16 and has not reassessed whether these contracts are leases.
- Leases with less that 12 months remaining at the transition date have been not been transitioned to IFRS 16.
- Reliance on the assessment of onerous leases at the 31st December 2018 instead of performing an impairment review on transition at 1st January 2019.
- The value of the right of use asset at the transition date has been assessed as equalling the lease liability at that date adjusted for any prepaid or accrued lease payments that were recognised on balance sheet immediately before the application of IFRS 16.
- Hindsight has been used in assessing the length of the lease, where options to extend or terminate the contract exist at the transition date.

Key judgements and estimates
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Where the implicit rate of interest relating to a lease is not readily available, the Group has used an incremental borrowing rate representative of the incremental borrowing rate of interest that the entity within the LSL Group that entered into the lease would have to pay to borrow over a similar term, with a similar security. The rate applied to each lease was determined taking into account the risk free rate, adjusted for factors such as the swap rates available to the Group and the credit risk of the entity entered into the lease.

	£'000
Undiscounted operating lease obligations at 31st December 2018	**39,909**
Discounting[1]	(4,650)
Long-term leases expiring within 12 months[2]	(130)
Short-term leases[2]	(30)
Low value leases[2]	(245)
Other	354
Extension and termination options reasonably expected to be exercised[3]	8,016
Lease liabilities at 1st January 2019	**43,224**

1. Under the modified retrospective transition method, future lease payments at 1st January 2019 were discounted, on a lease-by-lease basis, using an incremental borrowing rate representative of the incremental borrowing rate of interest that the entity within the LSL Group that entered into the lease would have to pay to borrow over a similar term, with a similar security. The rate applied to each lease was determined taking into account the risk free rate, adjusted for factors such as the swap rates available to the Group and the credit risk of the entity entered into the lease. The weighted average discount rate used at initial application was 4.03%. Ranging between 2.82 - 8.82%.
2. As noted above, the Group has taken advantage of the transitional practical expedient to treat long-term leases expiring within 12 months in line with the recognition exemption available for leases whose full term is less than 12 months, denoted "short-term" leases. The Group has also applied the recognition exemption for leases of low value, being less that £5,000.
3. At the transition date, leases with extension options and early termination options available were reviewed, on a lease-by-lease basis, to assess whether such an option was reasonably likely to be exercised. The result of this review is an addition to the opening lease liability at 1st January 2019.

2. Accounting policies (continued)

The effect of adoption of IFRS 16 as at 1st January 2019 increase/(decrease) is as follows:

	£'000
Assets	
Right of use asset	43,750
Trade and other receivables	(1,460)
Financial assets	329
Total assets	**42,619**
Liabilities	
Interest-bearing loans and borrowings	43,224
Deferred tax liabilities	14
Trade and other payables	(687)
Total liabilities	**42,551**
Equity	
Reserves	68
Total equity	**68**

Judgements and estimates

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

The estimates and underlying assumptions are reviewed on an 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.

Judgements

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

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 judgements 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.

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.

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

Details of the assumptions applied to PI claims areas are disclosed in Notes 7 and 24 to these Financial Statements. A sensitivity calculation which illustrates the impact of different assumptions on the required PI Costs provision is included in Note 24.

2. Accounting policies (continued)

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

Valuation of financial assets
The Group owns non-controlling interests in three unlisted entities Yopa, Vibrant Energy Matters and NBC Property Master, in addition to a convertible loan note, which is held in Mortgage Gym. In accordance with the accounting standards, these investments are held at fair value and significant judgement is required in assessing this. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. The fair value of equity financial assets that are not traded in the open market are valued in accordance with Level 3 of the fair value hierarchy and Management Team use all relevant and up to date information (including cash-flow forecasts and financial statements) to arrive at their judgement. Where appropriate a range of potential outcomes is considered in reaching a conclusion. 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 31.

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. Brands are valued using the royalty relief method. The internally generated software from the acquisition of Personal Touch Financial Services was valued using a discounted cash-flow model.

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 recent 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 23 to these Financial Statements. A sensitivity calculation which shows the impact of changes in assumption is shown in Note 31 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's estimates of income taxes are used to determine the tax charges and provisions carried by the Group. The estimated tax charges are calculated having taken consideration of the tax impact of significant transactions within the Group during the respective accounting period, as well as having an existing knowledge of the tax profile of the Group's recurring trading activities.

Basis of consolidation
The consolidated Financial Statements comprise the Financial Statements of the Company and its subsidiaries as at 31st December 2019.

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; and
- the ability to use its power over the entity to affect its returns.

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

2. Accounting policies (continued)

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.

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 and associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associates and joint ventures are accounted for using the equity method.

Under the equity method, the investment in a joint venture or associate 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 or associate since the acquisition date. Goodwill relating to the joint venture or associate is included in the carrying amount of the investment and is not tested for impairment individually.

The Income Statement reflects the Group's share of the results of operations of the joint venture or associate. In addition, when there has been a change recognised directly in the equity of the joint venture or associate, 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 or associate are eliminated to the extent of the interest in the joint venture or associate.

The aggregate of the Group's share of profit or loss of a joint venture or associate is shown on the face of the Income Statement within Group operating profit, and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture or associate.

The Financial Statements of the associate or 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 or associates. At each reporting date, the Group determines whether there is objective evidence that the investment in the joint venture or associate 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 or associate and its carrying value.

Upon loss of joint control and significant influence over the joint venture or associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the joint venture or associate 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 at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as equity is not re-measured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the Income Statement in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

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 the Income Statement.

Intangible assets

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed).

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Intangible assets acquired separately are measured on initial recognition at costs. The cost of intangible assets acquired in a business combination is their fair value at their date of initial recognition.

Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

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.

The useful lives of intangible assets are assessed as either finite or indefinite.

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.

2. Accounting policies (continued)

A summary of the policies applied to the Group's intangible assets is, 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	– 12 months
Others:	
Franchise agreements	– ten years
In-house software	– between three and five years

Impairment

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

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

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the 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 50 years or the lease term whichever is shorter

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

Dividends

Equity dividends are recognised when they become legally payable. In the case of interim dividends to 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 OCI or equity, if it relates to items that are charged or credited in the current or prior periods to OCI 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).

Shares held by EBT

The Group has an employee share scheme (ESOT) for the granting of LSL Shares to Executive Directors and selected senior employees and an employee share incentive plan (Trust). Shares in LSL held by the ESOT and the Trusts are treated as treasury shares and presented in the balance sheet as a deduction from equity. No gain or loss is recognised in the Income Statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. The finance costs and administration costs relating to the ESOT and the Trusts are charged to the Income Statement. Dividends earned on Shares held in the ESOT and the Trusts have been waived. The ESOT and Trust Shares are ignored for the purposes of calculating the Group's EPS.

2. Accounting policies (continued)

Leases

IFRS 16 Leases supersedes IAS 17 Leases setting out the principles for the recognition, measurement, presentation and disclosure of leases and was adopted by the Group with effect from 1st January 2019. Under this standard leases are defined as a contract which gives the right to use an asset for a period of time in exchange for consideration. As a lessee, the Group recognises three classes of leases on this basis:

- Property leases
- Motor vehicle leases
- Other leases

Property leases and motor vehicle leases have been recognised on the balance sheet, in financial liabilities, by recognising the future cash-flows of the lease obligation, discounted using the incremental borrowing rate of the Group, adjusted for factors such as swap rates available and the credit risk of the entity entering into the lease.

Corresponding right of use assets have been recognised in the Group balance sheet under property, plant and equipment and have been measured as being equal to the discounted lease liability plus any lease payments made at or before the inception of the lease and initial direct costs, less any lease incentives received. Cash-flows from these leases have been recognised by including the principle portion of the lease payments in cash-flows from financing activities and the interest portion of the lease payment recognised through operating activities.

Other leases are leases for low value items (less than $5,000) or leases whose contract term is less than 12 months. The practical expedient not to recognise right of use assets and lease liabilities for these leases has been utilised by the Group. A charge for these leases has been recognised through the Income Statement as an operating expense. The cash-flows relating to low value and short-term leases have been recognised in net cash-flows from operating activities.

No leases where the Group is a lessee or a lessor contain variable lease payments.

For sub-leases where the Group is an intermediate lessor, the Group has assessed whether the sub-lease is an operating lease or finance lease in respect to the right of use asset generated by the head lease. It has performed this assessment on a lease-by-lease basis. The Group has both finance leases and operating leases based on this assessment, and a sub-lease asset has been recognised in financial assets at transition for finance leases.

IAS 17 Leases accounting policy

Previously, under IAS 17 Leases, operating leases were defined as a contract where substantially all of the risks and reward of ownership remain with the owner. Under the old standard, the Group recognised all of its leasing activities as operating leases, recognising no assets, and recognising lease payments as an expense through the Income Statement as they fell due.

As the Group has chosen to adopt IFRS 16 using the modified retrospective approach, comparatives have not been restated and are accounted for under the Group's previous leases accounting policy:

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.

2. Accounting policies (continued)

Financial instruments
Financial assets and financial liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. When financial assets are recognised initially, they are measured at fair value, being the transaction price plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. Financial assets are derecognised when the Group no longer has the rights to cash-flows, the risks and rewards of ownership or control of the asset. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires.

The subsequent measurement of financial assets depends on their classification.

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

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IFRS 9 Financial Instruments and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets designated at fair value through profit and loss
Gains and losses arising from the changes in the fair value of equity investments are recognised through the profit and loss.

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

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 30 days in the Surveying and Valuation Services business.

The expected credit loss model under IFRS 9 is applied to trade and other receivables. The chosen method of recognising the expected credit loss across the Group is the simplified approach allowing a provision matrix to be used, which is based on the expected life of trade receivables and historic default rates.

The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised 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.

2. Accounting policies (continued)

Revenue recognition

Revenue is recognised under IFRS 15. The standard is based on a single model that distinguishes between promises to a customer that are satisfied at a point in time and those that are satisfied over time. Revenue is recognised when control of a good or service transfers to a customer. IFRS 15 focuses on control with risk and rewards as an indicator of control.

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, and therefore at a point in time. Revenue from Lettings, Asset Management and Conveyancing Services is recognised on completion of the service being provided, and therefore at a point in time. Management Services relating to Lettings and Asset Management are recognised over time using the time basis approach. The costs incurred from obtaining a contract and payable to the customer are capitalised and held under contract assets in the Group balance sheet and amortised into revenue over the contract term.

Financial Services income

Revenue from mortgage procuration fees is recognised by reference to the completion date of the mortgage/remortgage on the housing transaction. Revenue from policy sales is recognised at a point in time by reference to the date that the policy is accepted by the insurer. The lapse provision is recognised as a reduction in revenue which is based on historic lapses which have occurred. Lapse provisions are recorded within trade and other payables.

Interest income

Revenue is recognised at a point in time 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 either at a point in time on a straight line basis over the lease term for operating leases or by recognising in the balance sheet a lease receivable equal to the investment in the lease for finance leases. Sub-leases are assessed as finance leases or operating leases in reference to the right of use asset the lease generates.

Dividends

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

Trade receivables generally have four to seven day payment terms in the Estate Agency businesses and 30 days in the Surveying and Valuation Services business. Obligations for refunds are recognised within the lapse provision.

Exceptional items

An exceptional item is considered to be non-recurring and unusual in nature. These items are presented within their relevant Income Statement category, but highlighted separately on the face of the Income Statement. Items that management considers fall into this category are also disclosed within a Note to the Financial Statements (see Note 7 to the Group Financial Statements).

Due to the nature and expected infrequency of these items, separate presentation helps provide a better indication of the Group's underlying business performance. This allows 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.

3. Disaggregation of revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	Year ended 31st December 2019						
	Residential Sales exchange £'000	Lettings £'000	Asset Management £'000	Financial Services £'000	Surveying and Valuation Services £'000	Other £'000	Total £'000
Timing of revenue recognition							
Services transferred at a point in time	57,676	37,782	4,311	83,353	86,358	11,098	280,578
Services transferred over time	–	29,535	960	–	–	–	30,495
Total revenue from contracts with customers	**57,676**	**67,317**	**5,271**	**83,353**	**86,358**	**11,098**	**311,073**

	Year ended 31st December 2018						
	Residential Sales exchange £'000	Lettings £'000	Asset Management £'000	Financial Services £'000	Surveying and Valuation Services £'000	Other £'000	Total £'000
Timing of revenue recognition							
Services transferred at a point in time	69,854	40,696	3,906	87,427	69,798	15,522	287,203
Services transferred over time	–	35,880	1,557	–	–	–	37,437
Total revenue from contracts with customers	**69,854**	**76,576**	**5,463**	**87,427**	**69,798**	**15,522**	**324,640**

	2019 £'000	2018 £'000
Revenue from services	311,073	324,640
Operating revenue	**311,073**	324,640
Rental income	887	557
Other operating income	**887**	557
Total revenue	**311,960**	325,197

4. Segment analysis of revenue and operating profit

To reflect the increased importance of LSL's Financial Services businesses, the LSL Board has updated the Group segmental reporting effective from 1st January 2019. For the year ended 31st December 2019 LSL has reported three segments: Estate Agency; Financial Services; and Surveying and Valuation Services:

- The Estate Agency 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 and asset management services to a range of lenders. Following the change to LSL's segment reporting, the Estate Agency Division receives a commercially agreed commission payment from the Financial Services Division (from Embrace Financial Services and First2Protect). This arrangement reflects Financial Services income generated by the Estate Agency Division.
- The Financial Services segment 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, PRIMIS, Embrace Financial Services, First2Protect, Mortgages First, Insurance First Brokers, Linear Financial Services, Personal Touch Financial Services and RSC New Homes. Following the change to LSL's segment reporting, the Financial Services Division makes a commercially agreed commission payment to the Estate Agency Division (from Embrace Financial Services and First2Protect). This arrangement reflects Financial Services income generated by the Estate Agency Division.
- The Surveying and Valuation Services segment provides a valuations and professional surveying service of residential properties to various lenders and individual customers.

The Estate Agency segment primarily incorporates the results from the Estate Agency branch networks (Your Move, Reeds Rains, LSLi and Marsh & Parsons) and Asset Management. The Financial Services segment incorporates all LSL's Financial Services businesses. The Surveying and Valuation Services segment is unchanged from the previous segment reporting.

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

Operating segments

Each reportable segment has various products and services and the revenue from these products and services is disclosed on pages 21 to 26 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 2019 and financial year ended 31st December 2018 respectively.

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

Year ended 31st December 2019

	Estate Agency £'000	Financial Services £'000	Surveying and Valuation Services £'000	Unallocated £'000	Total £'000
Income Statement information					
Revenue from external customers	141,362	83,353	86,358	–	**311,073**
Intersegment revenue	13,552	(13,552)	–	–	**–**
Total revenue	154,914	69,801	86,358	–	**311,073**
Segmental result:					
– before exceptional costs, contingent consideration, amortisation and share-based payments	14,453	11,642	16,343	(5,403)	**37,035**
– after exceptional costs, contingent consideration, amortisation and share-based payments	(2,206)	10,022	17,450	(5,518)	**19,748**
Finance income					**10**
Finance costs					**(3,744)**
Profit before tax					**16,014**
Taxation					**(3,045)**
Profit for the year					**12,969**
Balance sheet information					
Segment assets – intangible	160,942	18,088	11,739	–	**190,769**
Segment assets – other	81,934	9,078	14,822	1,350	**107,184**
Total segment assets	242,876	27,166	26,561	1,350	**297,953**
Total segment liabilities	(58,771)	(25,895)	(25,020)	(47,051)	**(156,737)**
Net assets/(liabilities)	184,105	1,271	1,541	(45,701)	**141,216**
Other segment items					
Capital expenditure including intangible assets	(3,391)	(1,303)	(198)	–	**(4,892)**
Depreciation	(14,147)	(268)	(427)	–	**(14,842)**
Amortisation of intangible assets	(3,895)	(1,432)	(459)	–	**(5,786)**
Exceptional gains	–	–	2,487	–	**2,487**
Exceptional costs	(14,218)	(59)	(943)	(510)	**(15,730)**
Share of results in joint venture	1,361	(920)	–	–	**441**
PI Costs provision	–	–	(8,212)	–	**(8,212)**
Onerous leases provision	(440)	–	–	–	**(440)**
Share-based payment	(91)	(128)	22	(115)	**(312)**

The joint venture interests of the Group are recorded in the Estate Agency segment, with the associate interest recorded in the Financial Services segment.

Unallocated net liabilities comprise plant and equipment £50,000, other assets £1,300,000, lease liabilities £(34,000), 12% loan notes £(66,000), Bank overdraft £(883,000), accruals £(1,914,000), deferred and current tax liabilities £(3,152,000), and revolving credit facility overdraft £(41,000,000).

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

Year ended 31st December 2018

	Estate Agency (Restated)[1] £'000	Financial Services (Restated)[1] £'000	**As previously reported[1] £'000**	Surveying and Valuation Services £'000	Unallocated £'000	**Total £'000**
Income Statement information						
Revenue from external customers	167,415	87,427	**254,842**	69,798	–	**324,640**
Intersegment revenue	16,424	(16,424)	**–**	–	–	**–**
Total revenue	183,839	71,003	**254,842**	69,798	–	**324,640**
Segmental result:						
– before exceptional costs, contingent consideration, amortisation and share-based payments	11,107	9,461	**20,568**	20,426	(5,098)	**35,896**
– after exceptional costs, contingent consideration, amortisation and share-based payments	3,605	7,996	**11,601**	19,022	(5,206)	**25,417**
Finance costs						**(2,333)**
Profit before tax						**23,084**
Taxation						**(5,201)**
Profit for the year						**17,883**
Balance sheet information						
Segment assets – intangible	160,944	18,568	**179,512**	12,171	–	**191,683**
Segment assets – other	59,014	9,429	**68,443**	11,659	3,836	**83,938**
Total segment assets	219,958	27,997	**247,955**	23,830	3,836	**275,621**
Total segment liabilities	(40,100)	(24,789)	**(64,889)**	(27,828)	(40,311)	**(133,028)**
Net assets/(liabilities)	179,858	3,208	**183,066**	(3,998)	(36,475)	**142,593**
Other segment items						
Capital expenditure including intangible assets	4,678	60	**4,738**	1,282	–	**6,020**
Depreciation	(5,124)	(296)	**(5,420)**	(254)	–	**(5,674)**
Amortisation of intangible assets	(3,237)	(1,660)	**(4,897)**	(404)	–	**(5,301)**
Exceptional gains	–	–	**–**	2,188	–	**2,188**
Exceptional costs	(1,994)	–	**(1,994)**	(3,240)	–	**(5,234)**
Share of results in joint venture	259	–	**259**	–	–	**259**
PI Costs provision	–	–	**–**	(12,430)	–	**(12,430)**
Onerous leases provision	(130)	–	**(130)**	–	–	**(130)**
Share-based payment	(241)	(53)	**(294)**	53	(108)	**(349)**

Note

1 The prior period has been restated to reflect the current segmental reporting which adjusts the previous Estate Agency and Related Services segment to remove all of LSL's Financial Services businesses to create the current Financial Services segment.

The joint venture interests of the Group are recorded in the Estate Agency segment, with the associate interest recorded in the Financial Services segment.

Unallocated net liabilities comprise plant and equipment £15,000, other assets £3,821,000, accruals £(921,000), deferred and current tax liabilities £(4,890,000), and revolving credit facility overdraft £(34,500,000).

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
- Adjusted Diluted EPS
- Group Adjusted EBITDA

The amortisation of intangible assets is not representative of the underlying costs of the business, and is therefore excluded from adjusted earnings.

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 the Management Team'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 to the consolidated Group Financial Statements and a reconciliation of Group Underlying Operating Profit is shown below:

	Note	2019 £'000	2018 £'000
Group operating profit	4	**19,748**	25,417
Share-based payments		**312**	349
Amortisation of intangible assets		**5,786**	5,301
Exceptional gains	7	**(2,487)**	(2,188)
Exceptional costs	7	**15,730**	5,234
Contingent consideration charge	23	**(2,054)**	1,783
Group Underlying Operating Profit		**37,035**	35,896
Depreciation on property, plant and equipment	16	**14,842**	5,674
Group Adjusted EBITDA		**51,877**	41,570

6. Finance costs

	2019 £'000	2018 £'000
Interest on RCF	**1,570**	1,359
Unwinding of discount on professional indemnity provision	**30**	42
Unwinding of discount on deferred consideration	**15**	116
Unwinding of discount on contingent consideration	**410**	816
Unwinding of discount on lease liabilities	**1,719**	–
	3,744	2,333

7. Exceptional items

	2019 £'000	2018 £'000
Exceptional costs:		
Branch/centre closure and restructuring costs including redundancy costs	14,645	1,993
Transition costs relating to surveying contracts	516	3,241
Other	569	–
	15,730	5,234
Exceptional gains:		
Exceptional gain in relation to historic PI Costs	(2,487)	(2,188)
	(2,487)	(2,188)

Exceptional costs

There were £15.7m of exceptional costs in the year (2018: £5.2m), of which £0.5m (2018: £3.2m) relate to initial non-recurring transition and integration costs for the contract to supply surveying and valuation services to Lloyds Bank plc. It is expected that further costs will be incurred in relation to this integration.

In the Estate Agency Division there were £14.6m (December 2018: £2.0m) of non-recurring and material exceptional costs relating to the planned Estate Agency branch/centre closures and restructuring costs. The most significant costs incurred are redundancy costs (£4.5m) and leasehold property costs (£7.3m) with the balance including non-cash fixed asset write-offs (£2.6m). It is expected that further costs will be incurred for leasehold property costs.

Exceptional gains

The Group continued to make positive progress in settling historic PI claims and there has been a release of £2.5m (2018: £2.2m) for the provision for professional indemnity (PI) claims.

8. Profit before tax

Profit before tax is stated after charging:

	2019 £'000	2018 £'000
Auditor's remuneration (see Note 9 to the Group Financial Statements)	480	379
Operating lease rentals – land and buildings	–	11,391
Operating lease rentals – plant and machinery	–	4,404
Short-term leases	3,474	–
Low value leases	128	–
Depreciation – owned assets	4,747	5,783
Depreciation – leased assets	10,095	–
(Gain) on sale of owned property, plant and equipment	(148)	(34)

9. Auditor's remuneration

The remuneration of the auditors is further analysed as follows:

	2019 £'000	2018 £'000
Audit of the Financial Statements	85	55
Audit of subsidiaries	370	297
Audit of transition to IFRS 16	15	–
Total audit	470	352
Audit related assurance services (interim results review fee)	18	18
Other assurance services	7	9
	495	379

The 2019 audit fee was reviewed and increased during the period. The fee increase is consistent with fee increases seen across the audit market which are the result of audit firms reviewing their fee arrangements as a consequence of the level of work needed to focus on quality.

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.

	2019 Profit after tax £'000	2019 Weighted average number of Shares	2019 per Share amount pence	2018 Profit after tax £'000	2018 Weighted average number of Shares	2018 per Share amount pence
Basic EPS	12,969	102,669,719	12.6	17,883	102,653,447	17.4
Effect of dilutive share options		425,152			839,935	
Diluted EPS	12,969	103,094,871	12.6	17,883	103,493,382	17.3

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:

	2019 £'000	2018 £'000
Group operating profit before contingent consideration, exceptional items, share-based payments and amortisation (excluding non-controlling interest):	37,035	35,896
Net finance costs (excluding exceptional and contingent consideration items and discounting on lease liabilities)	(1,600)	(1,401)
Normalised taxation	(6,733)	(6,554)
Adjusted profit after tax[1] before exceptional items, share-based payments and amortisation	28,702	27,941

10. Earnings per Share (EPS) (continued)

Adjusted basic and diluted EPS

	Adjusted profit after tax[1] £'000	Weighted average number of Shares	2019 per Share amount pence	Adjusted profit after tax[1] £'000	Weighted average number of Shares	2018 per Share amount pence
Adjusted basic EPS	28,702	102,669,719	28.0	27,941	102,653,447	27.2
Effect of dilutive share options		425,152			839,935	
Adjusted diluted EPS	28,702	103,094,871	27.8	27,941	103,493,382	27.0

Note:

1 This represents adjusted profit after tax attributable to equity holders of the parent. The normalised tax rate in 2019 is 19% (2018: 19%).

11. Dividends paid and proposed

	2019 £'000	2018 £'000
Declared and paid during the year:		
2017 Final: 7.3 pence per Share	–	7,493
2018 Interim: 4.0 pence per Share	–	4,107
2018 Final: 6.9 pence per Share	7,086	–
2019 Interim: 4.0 pence per Share	4,108	–
	11,194	11,600
Dividends on Ordinary Shares proposed (not recognised as a liability as at 31st December):		
Equity dividends on Ordinary Shares:		
Dividend: 7.2 pence per Share (2018: 6.9 pence per Share)	7,392	7,086

12. Cash-flow from financing activities

	At 1st January 2019 £'000	Initial recognition of IFRS 16 £'000	Cash-flow £'000	Acquisitions £'000	Lease liability movements £'000	Unwind £'000	At 31st December 2019 £'000
Long-term liabilities	34,500	22,084	6,500	–	5,717	–	68,801
Short-term liabilities	2,073	21,140	(10,885)	–	(1,949)	15	10,394
	36,573	43,224	(4,385)	–	3,768	15	79,195

Long-term liabilities

The bank loan totalling £41.0m (2018: £34.5m) is secured via cross guarantees issued from all of the Group's subsidiaries excluding the following subsidiaries: Lending Solutions Limited, Homefast Property Services, Linear (Linear Mortgage Network and Linear Financial Services), Templeton LPA, Group First, Personal Touch Financial Services and RSC New Homes (see Note 23 to the Group Financial Statements).

Short-term liabilities

The overdraft totalling £0.9m (2018: £nil) is secured via cross guarantees issued from all of the Group's subsidiaries excluding the following subsidiaries: Homefast Property Services, Linear (Linear Mortgage Network and Linear Financial Services) and Templeton LPA (see Note 23 to the Group Financial Statements).

Short-term liabilities also includes deferred consideration (see Note 23 to the Group Financial Statements).

13. Directors and employees

Remuneration of Directors

	2019 £'000	2018 £'000
Directors' remuneration (short-term benefits)[1]	**2,122**	2,057
Contributions to money purchase pensions schemes (post-employment benefits)	**20**	19
Share-based payments charge on current incentive schemes	**374**	449
	2,516	2,525

Note:

1 Included within this amount is accrued bonuses of £658,000 (2018: £723,000). The number of Directors who were members of Group money purchase pension schemes during the year totalled 2 (2018: 1). During the year the Directors exercised nil CSOP options (2018: nil), nil JSOP options (2018: nil), and nil SAYE options (2018: nil).

Employee numbers and costs

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

	2019 £'000	2018 £'000
Wages and salaries	**168,072**	178,407
Social security costs	**17,859**	18,490
Pension costs	**6,961**	4,398
Total employee costs	**192,892**	201,295
Subcontractor costs	**1,315**	1,800
Total employee and subcontractor costs[1]	**194,207**	203,095
Share-based payment expense (see below)	**312**	349

Note:

1 The total employee and subcontractor costs exclude employees redundancy costs of £4.3m (2018: £0.7m), which have been shown under Exceptional costs (see Note 7 to the Group Financial Statements).

The average monthly FTE staff numbers (including Directors) during the year were:

	2019	2018
Estate Agency	**2,401**	4,039
Financial Services	**938**	–
Surveying and Valuation Services	**929**	724
	4,268	4,763

Share-based payments

The Remuneration Policy on pages 90 to 96 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.

13. Directors and employees (continued)

LTIP 2019 vesting conditions

30% of the options vest based on the TSR of LSL as compared to a comparator group of 21 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 (≥) 12.0% p.a. – 100% vest;
- if growth is 5.0% p.a. – 25% vest;
- straight line vesting between 5.0% p.a. and 12.0% p.a.;
- and if growth is below 5.0% p.a. – no options vest.

LTIP 2018 vesting conditions

30% of the options vest based on the TSR of LSL as compared to a comparator group of 22 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 (≥) 13.0% p.a. – 100% vest;
- if growth is 7.5% p.a. – 25% vest;
- straight line vesting between 7.5% p.a. and 13.0% p.a.;
- and if growth is below 7.5% p.a. – no options vest.

LTIP 2017 vesting conditions

The LTIP 2017 awards will not vest in 2020 as neither the EPS performance target nor the TSR target (both measured over three years to 31st December 2019) have been met.

	2019		2018	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	–	**1,924,654**	–	1,528,435
Granted during the year	–	**887,980**	–	995,378
Exercised during the year	–	–	–	(6,262)
Lapsed during the year	–	**(817,547)**	–	(592,897)
Outstanding at 31st December	–	**1,995,087**	–	1,924,654

There were 119,260 options exercisable at the end of the year (2018: 119,260). The weighted average remaining contractual life is 1.62 years (2018: 1.69 years). The weighted average fair value of options granted during the year was £2.43 (2018: £2.18). The weighted average share price of options at the date of their exercise was £nil (2018: £2.81).

13. Directors and employees (continued)

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 (2018: 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 (2018: nil), participants can exercise their options up until 2020 and have therefore one year (2018: two years) remaining until their option lapses. No options were exercised or lapsed during the year (2018: 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.

	2019		2018	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**2.29**	**1,166,326**	3.67	1,268,718
Granted during the year	**–**	**–**	–	–
Exercised during the year	**–**	**–**	2.07	(7,751)
Lapsed during the year	**3.37**	**(149,919)**	2.72	(94,641)
Outstanding at 31st December	**2.02**	**1,016,407**	2.29	1,166,326

There were 1,016,407 options exercisable at the end of the year (2018: 883,357). The average market value at the date of exercise was £nil (2018: £2.85).

The weighted average fair value of options granted during the year was £nil (2018: £nil). The weighted average remaining contractual life is 0.00 years (2018: 0.06 years).

SAYE (save-as-you-earn) scheme

The Group has offered options under the SAYE scheme in each of 2011 to 2014 and 2016 to 2018 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.

	2019		2018	
	Weighted average exercise price £	**Number**	Weighted average exercise price £	Number
Outstanding at 1st January	**2.39**	**1,067,119**	2.35	792,705
Granted during the year	**2.65**	**652,797**	2.45	466,415
Exercised	**2.28**	**(10,672)**	2.15	(1,953)
Lapsed during the year due to employees withdrawal	**2.40**	**(334,690)**	2.40	(190,048)
Outstanding at 31st December	**2.39**	**1,374,554**	2.39	1,067,119

The weighted average fair value of options granted during the year was £1.46 (2018: £1.28) and the weighted average remaining contractual life was 1.26 years (2018: 1.40 years). The average market value at the date of exercise was £2.65 (2018: £2.46).

There were nil (2018: nil) options exercisable at the end of the year.

13. Directors and employees (continued)

BAYE (buy-as-you-earn) scheme

The matching shares element of the SIP/BAYE was introduced and provides participants with one matching share for every five partnership shares purchased. The matching shares are allocated from Ordinary Shares held by the Trust for the benefit of SIP/BAYE participants. The maximum saving under the scheme would be automatically capped at £150 per month (as per HMRC limits).

	2019		2018	
	Weighted average exercise price £	Number	Weighted average exercise price £	Number
Outstanding at 1st January	2.5	78,000	–	–
Granted during the year	–	–	2.5	78,000
Exercised	–	–	–	–
Lapsed during the year due to employees withdrawal	–	–	–	–
Outstanding at 31st December	2.5	78,000	2.5	78,000

There were 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 2019	LTIP 2018
Option pricing model used	Black Scholes	Black Scholes
Weighted average Share price at grant date (£)	2.74	2.50
Exercise price (£)	–	–
Expected life of options (years)	3	3
Expected volatility (%)	100	100
Expected dividend yield (%)	3.97	4.53
Risk free interest rate (%)	0.76	1.11

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

	2019 £'000	2018 £'000
Share-based payment expensed during the year	312	349

A charge of £115,000 (2018: £107,000) 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:

	2019 £'000	2018 £'000
UK corporation tax – current year	3,993	5,931
– adjustment in respect of prior years	(56)	(205)
	3,937	5,726
Deferred tax:		
Origination and reversal of temporary differences	(588)	(322)
Adjustment in respect of prior year	(304)	(203)
Total deferred tax (credit)	(892)	(525)
Total tax charge in the Income Statement	3,045	5,201

The UK corporation tax rate reduced to 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 (2018: 17%). Corporation tax is recognised at the headline UK corporation tax rate of 19% (2018: 19%).

The effective rate of tax for the year was 19.0% (2018: 22.5%). The effective tax rate for 2019 is equal to the headline UK tax rate for a number of reasons, but the most significant is the depreciation of assets which do not qualify for capital allowances, which are offset by non-taxable income in relation to contingent consideration.

Deferred tax credited directly to other comprehensive income is £0.1m (2018: £0.0m). Income tax credited directly to the share-based payment reserve is £0.0m (2018: £0.0m).

(b) Factors affecting tax charge for the year

The tax assessed in the profit and loss account is equal to (2018: higher than) the standard UK corporation tax rate, because of the following factors:

	2019 £'000	2018 £'000
Profit on ordinary activities before tax	16,014	23,084
Tax calculated at UK standard rate of corporation tax rate of 19% (2018: 19%)	3,043	4,386
Non-deductible expenditure/(non-taxable income) from joint ventures and associates	52	56
Other disallowable expenses	644	550
Impact of movement in contingent consideration charged/(credited) to the Income Statement	(313)	494
Share-based payment relief	(37)	73
Brought forward losses not previously recognised	(53)	–
Impact of rate change on deferred tax	69	50
Prior period adjustments – current tax	(56)	(205)
Prior period adjustment – deferred tax	(304)	(203)
Total taxation charge	3,045	5,201

A major component of the disallowable expenditure is a permanent disallowance of depreciation on assets that do not qualify for capital allowances. This is a recurring adjustment and the tax impact in the year is £321,000. Another significant adjustment is the impact of exceptional expenditure, which is not deductible for tax purposes. The impact of this non-deductible expenditure is £508,000.

14. Taxation (continued)

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

	2019 £'000	2018 £'000
Unrecognised deferred tax asset relating to:		
Losses	2,382	2,906
	2,382	2,906

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:

	2019 £'000	2018 £'000
Net deferred tax liability at 1st January	2,189	2,698
Adjustment on initial recognition of IFRS 15	–	(101)
Deferred tax liability arising on acquisitions and business combinations	588	97
Deferred tax liability recognised directly in other comprehensive income	(94)	20
Deferred tax (credit) in Income Statement for the year (Note 14a to these Financial Statements)	(892)	(525)
Deferred tax movement through opening reserves	14	–
Net deferred tax liability at 31st December	1,805	2,189

Analysed as:

	2019 £'000	2018 £'000
Accelerated capital allowances	(1,624)	(1,426)
Deferred tax liability on separately identifiable intangible assets on business combinations	4,174	4,364
Deferred tax on financial assets	23	97
Deferred tax on share options	(257)	(153)
Other short-term temporary differences	(255)	(175)
Trading losses recognised	(256)	(518)
	1,805	2,189

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

	2019 £'000	2018 £'000
Intangible assets recognised on business combinations	777	531
Accelerated capital allowance	198	205
Deferred tax on share options	85	(10)
Other temporary differences	94	(78)
Trading losses recognised	(262)	(123)
	892	525

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

	£'000
Cost	
At 1st January 2018	151,901
Arising on acquisitions	7,822
At 31st December 2018	159,723
Arising on acquisitions	140
At 31st December 2019	**159,863**
Net book value	
At 31st December 2019	**159,863**
At 31st December 2018	159,723

There has been no impairment in respect of the carrying amount of goodwill held on the balance sheet.

The carrying amount of goodwill by cash generating unit is given below:

	2019 £'000	2018 £'000
Estate Agency segment companies		
Your Move	**41,897**	41,897
Marsh & Parsons	**40,307**	40,307
LSLi	**22,512**	22,512
Reeds Rains	**16,903**	16,763
Templeton LPA	**336**	336
Others	**348**	348
	122,303	122,163
Financial Services segment companies		
Group First	**13,913**	13,913
RSC New Homes	**7,128**	7,128
First Complete	**3,998**	3,998
Advance Mortgage Funding	**2,604**	2,604
Personal Touch Financial Services	**348**	348
	27,991	27,991
Surveying and Valuation segment company		
e.surv	**9,569**	9,569
Total	**159,863**	159,723

15. Intangible assets (continued)

Impairment of goodwill and other intangibles with indefinite useful lives

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 companies
  - Your Move (including its share of cash-flows from LSL Corporate Client Department).
  - Marsh & Parsons.
  - LSLi, which includes Intercounty, Frosts, JNP, Goodfellows, Davis Tate, Lauristons, Lawlors, Hawes & Co and Thomas Morris.
  - Reeds Rains.
  - Templeton LPA.
  - St Trinity.
- Financial Services companies
  - Group First.
  - RSC New Homes.
  - First Complete.
  - Advance Mortgage Funding which includes BDS.
  - Personal Touch Financial Services.
- Surveying and Valuation Services company
  - e.surv.

Estate Agency companies

The recoverable amount of the Estate Agency companies has been determined based on a value-in-use calculation using cash-flow projections based on financial budgets approved by the Board and in the three year plan. The discount rate applied to cash-flow projections is 9.5% (2018: 9.8%) and cash-flows beyond the three year plan are extrapolated using a 1.8% growth rate (2018: 1.8%).

Financial Services companies

The recoverable amount of the Financial Services companies has been determined based on a value-in-use calculation using cash-flow projections based on financial budgets approved by the Board and in the three year plan. The discount rate applied to cash-flow projections is 9.5% (2018: 9.8%) and cash-flows beyond the three year plan are extrapolated using a 1.8% growth rate (2018: 1.8%).

Surveying and Valuation Services company

The recoverable amount of the Surveying and Valuation Services company is also determined on a value-in-use basis using cash-flow projections based on financial budgets approved by the Board and in the three year plan. The discount rate applied to the cash-flow projections is 9.5% (2018: 9.8%). The growth rate used to extrapolate the cash-flows of the Surveying and Valuation Services company beyond the three year plan is 1.8% (2018: 1.8%).

Key assumptions used in value-in-use calculations

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

- Discount rates.
- Performance in the market.

Discount rates

Discount rates reflect the Management Team'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 9.5% (2018: 9.8%); external advice has been sought for certain elements of the source data. This is the benchmark used by the Management Team to assess operating performance and to evaluate future acquisition proposals.

15. Intangible assets (continued)

Performance in the market
Performance in the market reflects how the Management Team believes 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.

Other intangible assets

	Brand names £'000	Lettings contracts £'000	Order book £'000	Other[1] £'000	Total £'000
Cost					
At 1st January 2018	19,222	15,954	–	8,379	**43,555**
Additions	–	–	–	1,139	**1,139**
Arising on acquisition	43	1,817	228	4,305	**6,393**
At 31st December 2018	19,265	17,771	228	13,823	**51,087**
Additions	–	–	–	1,273	**1,273**
Arising on acquisition	–	3,459	–	–	**3,459**
At 31st December 2019	**19,265**	**21,230**	**228**	**15,096**	**55,819**
Amortisation and impairment					
At 1st January 2018	191	9,090	–	4,545	**13,826**
Amortisation	–	2,628	228	2,445	**5,301**
At 31st December 2018	191	11,718	228	6,990	**19,127**
Amortisation	–	3,166	–	2,620	**5,786**
At 31st December 2019	**191**	**14,884**	**228**	**9,610**	**24,913**
Net book value					
At 31st December 2019	**19,074**	**6,346**	**–**	**5,486**	**30,906**
At 31st December 2018	19,074	6,053	–	6,833	31,960

Note:

1 Other relates to in-house software and Estate Agency franchise agreements.

15. Intangible assets (continued)

The carrying amount of brand by operating unit is as follows:

	2019 £'000	2018 £'000
Estate Agency companies		
Marsh & Parsons	**11,724**	11,724
Your Move	**2,510**	2,510
Reeds Rains	**1,241**	1,241
LSLi	**1,675**	1,675
	17,150	17,150
Financial Services companies		
Group First	**396**	396
Advance Mortgage Funding	**180**	180
RSC New Homes	**43**	43
	619	619
Surveying and Valuation Services company		
e.surv	**1,305**	1,305
Total	**19,074**	19,074

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 July 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;
- Group First, a financial services group which was acquired in February 2016; and
- RSC New Homes, a financial services company which was acquired in March 2018.

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

	Land and buildings £'000	Leasehold improvements £'000	Motor vehicles £'000	Fixtures, fittings and computer equipment £'000	**Total £'000**
Cost					
At 1st January 2018	2,497	8,325	96	27,441	**38,359**
Additions	–	714	–	4,218	**4,932**
Acquisitions during the year	–	23	–	138	**161**
Disposals	(130)	(64)	(81)	(151)	**(426)**
At 31st December 2018	2,367	8,998	15	31,646	**43,026**
Initial recognition of IFRS 16	37,220	–	6,530	–	**43,750**
Revised opening balance	39,587	8,998	6,545	31,646	**86,776**
Additions	4,149	715	2,394	2,880	**10,138**
Acquisitions during the year	–	–	–	–	**–**
Disposals	(4,346)	(77)	(547)	(4,877)	**(9,847)**
At 31st December 2019	**39,390**	**9,636**	**8,392**	**29,649**	**87,067**
Depreciation and impairment					
At 1st January 2018	311	3,340	70	16,875	**20,596**
Charge for the year	47	911	–	4,716	**5,674**
Accelerated depreciation	–	–	–	109	**109**
Disposals	–	(64)	(56)	(99)	**(219)**
At 31st December 2018	358	4,187	14	21,601	**26,160**
Charge for the year	6,730	947	3,418	3,747	**14,842**
Disposals	(303)	(23)	(398)	(2,781)	**(3,505)**
At 31st December 2019	**6,785**	**5,111**	**3,034**	**22,567**	**37,497**
Net book value					
At 31st December 2019	**32,605**	**4,525**	**5,358**	**7,082**	**49,570**
At 31st December 2018	2,009	4,811	1	10,045	**16,866**
Owned assets	1,719	4,525	18	7,082	**13,344**
IFRS 16 leased assets	30,886	–	5,340	–	**36,226**
	32,605	**4,525**	**5,358**	**7,082**	**49,570**

In 2019 assets with a book value of £6,342,000 were disposed in the year. This includes a leasehold property with a book value totalling £41,000 which was sold for net proceeds of £189,000 resulting in a profit on disposal of £148,000.

In 2018 assets with a book value of £207,000 were disposed in the year. This includes a leasehold property with a book value totalling £130,000 which was sold for net proceeds of £168,000 resulting in a profit on disposal of £38,000.

17. Financial assets

	2019 £'000	2018 £'000
Convertible loan notes carried at fair value		
Secured convertible loan notes - 5%	2,000	–
Investment in equity instruments – at fair value		
Unquoted shares at fair value	6,952	11,566
IFRS 16 lessor financial assets	374	–
	9,326	11,566
Opening balance	11,566	25,282
Initial recognition of IFRS 16	329	–
Revised opening balance	11,895	25,282
Additions	2,783	13
Additional sub-leases	114	–
Disposals	(1,835)	(2,266)
Fair value adjustment recorded through Income Statement	–	737
Fair value adjustment recorded through OCI	(3,558)	(12,200)
Deferred tax on fair value adjustment	(73)	–
Closing balance	9,326	11,566

Convertible loan notes at fair value

LSL has subscribed for £2,000,000 of Convertible Secured Preference Loan Notes with Mortgage Gym Limited. Interest on the Convertible Secured Preference Loan Notes is 5% per annum. The final repayment date of the Convertible Secured Preference Loan Notes is 5th June 2024. Repayment may take place before this date. The Convertible Secured Preference Loan Notes are secured by way of a debenture.

Investment in equity instruments

The financial assets include unlisted equity instruments which are carried at fair value. Fair value is judgemental given the assumptions required and have been valued using Level 3 valuation techniques (see Note 31 to the Financial Statements).

Vibrant Energy Matters Limited (VEM)

The carrying value of the Group's investment in VEM at 31st December 2019 has been assessed as £287,000 (December 2018: £722,000). The fair value of the Group's investment in VEM has been assessed by using Level 3 techniques. This has led to the recognition of a fair value impairment of £435,000 in the year (2018: £nil) which has been recognised in the Statement of Other Comprehensive Income.

NBC Property Master Limited

The carrying value of the Group's investment at 31st December 2019 has been assessed as £78,000 (December 2018: £78,000).

Global Property Ventures Limited

The carrying value of the Group's investment in Global Property Ventures Limited at 31st December 2019 has been assessed as £93,000 (December 2018: £250,000). During the year, the Group subscribed to additional shares in Global Property Ventures at a value of 10.88p per share. The fair value of the Group's existing investment in Global Property Ventures was reassessed giving rise to an impairment of £190,000 (2018: £nil) which has been recognised in the Statement of Other Comprehensive Income.

eProp Services plc

In June 2019 the Group disposed of 100% of it's holding in eProp Services plc for a consideration of £1,015,000. At the 31st December 2018 the investment was assessed as £2,716,000. There were no tax effects resulting from the disposal.

Yopa Property Limited

The carrying value of the Group's investment in Yopa at 31st December 2019 is £6,495,000 (December 2018: £7,800,000). The fair value of the Group's investment in Yopa has been assessed by using Level 3 techniques. At 30th June 2019 this led to the recognition of a fair value impairment of £1,305,000 in the year (2018: £12,200,000) which has been recognised in the Statement of Other Comprehensive Income.

18. Investments in joint ventures and associates

	2019 £'000	2018 £'000
Investment in joint ventures and associates	**12,958**	13,230
Investment in joint ventures		
Opening balance	**9,657**	9,556
Equity accounted profit	**648**	101
Closing balance	**10,305**	9,657

Along with two other entities, the Group holds an equal share of 33.33% (2018: 33.33%) interest in TM Group, a joint venture whose principal activity is to provide searches. The principal place of business of TM Group is the United Kingdom.

The Group also has a 50% (2018: 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 are as follows:

	2019 £'000	2018 £'000
Share of the joint ventures' balance sheets:		
Non-current assets	**10,704**	9,031
Current assets	**3,674**	4,584
Current liabilities	**(4,106)**	(3,958)
Non-current liabilities	**33**	–
Share of net assets	**10,305**	9,657

	2019 £'000	2018 £'000
Share of the joint ventures' results:		
Revenue	**35,193**	30,194
Operating expenses	**(34,397)**	(30,077)
Operating profit	**796**	117
Finance income	**4**	8
Profit before tax	**800**	125
Taxation	**(152)**	(24)
Profit after tax	**648**	101
Shareholder service charge	**713**	685
Income from joint ventures	**1,361**	786

Non-current assets include £5,008,000 (2018: £5,008,000) in respect of goodwill arising on the acquisition of shares in LMS. The shareholder service charge received was from TM Group.

	2019 £'000	2018 £'000
Investment in associate	**2,653**	3,573
Opening balance	**3,573**	–
Acquisitions	**–**	4,100
Equity accounted loss	**(920)**	(527)
Closing balance	**2,653**	3,573

The Group has a 34.69% (2018: 34.69%) holding in Mortgage Gym, a digital mortgage business. The principal place of business of Mortgage Gym is the United Kingdom.

18. Investments in joint ventures and associates (continued)

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

	2019 £'000	2018 £'000
Share of the associates' balance sheets:		
Non-current assets	3,170	3,186
Current assets	247	523
Current liabilities	(54)	(136)
Non-current liabilities	(709)	–
Share of net assets	2,654	3,573

	2019 £'000	2018 £'000
Share of the associates' results:		
Revenue	106	27
Operating expenses	(1,241)	(678)
Operating (loss)	(1,135)	(651)
Taxation	215	124
(Loss) after tax	(920)	(527)

19. Contract assets

	2019 £'000	2018 £'000
Non-current contract asset	686	959
Current contract asset	253	262
	939	1,221

In accordance with IFRS 15, costs relating to the reimbursement of costs associated with the award of a material surveying contract with Lloyds Bank plc has been recognised as a contract asset. This reimbursement will be amortised over the term of the contract. The amount of amortisation recognised in the Income Statement in 2019 is £251,000 (2018: £90,000).

20. Trade and other receivables

	2019 £'000	2018 £'000
Current		
Trade receivables	**19,624**	24,123
Prepayments	**14,021**	13,852
Other debtors	**746**	675
	34,391	38,650

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 2019, trade receivables with a nominal value of £3,868,000 (2018: £3,020,000) were impaired and fully provided for.

Set out below is the movement in the allowance for expected credit losses of trade receivables:

	2019 £'000	2018 £'000
At 1st January	**3,020**	2,166
Provision for expected credit losses	**977**	1,161
Amounts written off	**(129)**	(307)
At 31st December	**3,868**	3,020

The chosen method of recognising the expected credit loss across the Group is the simplified approach allowing a provision matrix to be used, which is based on the expected life of trade receivables, historic default rates and forward looking information.

As at 31st December, an analysis of trade receivables by credit risk rating grades is as follows:

	Total £'000	Neither past due nor impaired £'000	<30 days £'000	30-60 days £'000	60-90 Days £'000	90-120 days £'000	> 120 days £'000
2019	**19,624**	**9,688**	**7,374**	**1,010**	**308**	**380**	**864**
2018	24,123	14,750	5,837	1,825	752	481	478

The expected credit loss rate applied by ageing bracket for 2019 has been disclosed below:

	Total	Neither past due nor impaired	<30 days	30-60 days	60-90 Days	90-120 days	> 120 days
2019		**1.00%**	**3.60%**	**7.40%**	**12.30%**	**18.90%**	**39.40%**

In 2018 the expected credit loss rate applied ranged from 1% (Neither past due nor impaired) to 41% (> 120 days).

21. Cash and cash equivalents

	2019 £'000	2018 £'000
Cash and cash equivalents	**–**	2,405

Cash at bank earns interest at floating rates based on daily bank overnight deposit rates.

22. Trade and other payables

	2019 £'000	2018 £'000
Current		
Trade payables	**11,585**	12,819
Other taxes and social security payable	**10,896**	12,193
Other payables	**2,019**	1,512
Accruals	**35,507**	37,456
	60,007	63,980

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.

23. Financial liabilities

	2019 £'000	2018 £'000
Current		
Overdraft	**883**	–
2% and 12% unsecured loan notes	**65**	–
IFRS 16 lessee financial liabilities	**9,431**	–
Deferred consideration	**80**	1,999
Contingent consideration	**654**	8,456
	11,113	10,455
Non-current		
Bank loans – RCF	**41,000**	34,500
IFRS 16 lessee financial liabilities	**27,801**	–
Deferred consideration	**–**	75
Contingent consideration	**5,150**	6,581
	73,951	41,156

Bank loans – RCF and overdraft
A £100.0m 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 £41.0m (2018: £34.5m) and overdraft totalling £0.9m (2018: £nil) are secured via cross guarantees issued from all of the Group's subsidiaries excluding the following subsidiaries: Lending Solutions Limited, Homefast Property Services, Linear (Linear Mortgage Network and Linear Financial Services), Templeton LPA, Group First, Personal Touch Financial Services, and RSC New Homes.

The utilisation of the RCF may vary each month as long as this does not exceed the maximum £100.0m facility (2018: £100.0m). The Group's overdraft is also secured on the same facility, and the combined overdraft and RCF cannot exceed £100.0m (2018: £100.0m). The banking facility is repayable when funds permit on or by May 2022.

Interest and fees payable on the RCF amounted to £1.6m (2018: £1.4m). 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.

23. Financial liabilities (continued)

Deferred consideration

	2019 £'000	2018 £'000
RSC New Homes	–	9
Personal Touch Financial Services	–	1,990
LSLi	80	75
	80	2,074

Charge on contingent consideration

	2019 £'000	2018 £'000
(Credit)/Charge on contingent consideration	(2,054)	1,783

	2019 £'000	2018 £'000
LSLi contingent consideration	393	488
RSC New Homes	3,632	4,751
Group First	1,518	9,476
Other	261	323
	5,804	15,038
Opening balance	15,038	9,059
Cash paid	(7,890)	(1,392)
Acquisition	300	4,773
Amounts recorded through Income Statement	(1,644)	2,598
Closing balance	5,804	15,038

£393,000 (2018: £488,000) of contingent consideration relates to payments to third parties in relation to the acquisition of LSLi and certain of its subsidiaries between 2012 and 2016. This is typically payable between three and five years after the acquisition dates depending on the profitability of those subsidiaries in the relevant years.

£1,518,000 (2018: £9,476,000) of contingent consideration relates to Group First. The movement relates to payments to third parties, and assessment of the fair value of remaining contingent consideration. The remaining consideration has been calculated using earnings multiples of between five and six times EBITA (plus excess cash in the business) and has been capped at a maximum of £25.0m.

£3,632,000 (2018: £4,751,000) of contingent consideration relates to RSC New Homes. The movement relates to assessment of the fair value of the contingent consideration which has been calculated using earnings multiples of between five and six times EBITA (plus excess cash in the business) and has been capped at a maximum of £7,500,000.

During 2019 £7,890,000 (2018: £1,392,000) of contingent consideration was paid to third parties.

23. Financial liabilities (continued)

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

	2019 £'000	2018 £'000
Remuneration	–	–
Put options over non-controlling interests	–	–
Arrangement under IFRS 3	5,804	15,038
Closing balance	**5,804**	15,038
Contingent consideration charged to the Income statement is as follows:		
Put options over non-controlling interests	–	2
Arrangement under IFRS 3	(2,054)	1,781
Unwinding of discount on contingent consideration	410	815
(Credit)/charge	**(1,644)**	2,598

The contingent consideration charged to the Income Statement in the year, excluding the unwinding of discount relates to both new and previous acquisitions and relates to the acquisition of: LSLi charge of £14,000 (2018: charge of £64,000); Mortgage First charge of £641,000 (2018: charge of £1,805,000); LMS charge of £nil (2018: charge of £2,000); RSC New Homes charge of £1,408,000 (2018: credit of £79,000).

24. Provisions for liabilities

	2019			2018		
	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000	Professional indemnity claim provision £'000	Onerous leases £'000	Total £'000
Balance at 1st January	12,430	130	12,560	15,916	210	16,126
Amount utilised	(2,257)	(897)	(3,154)	(1,985)	(85)	(2,070)
Amount released	(2,489)	–	(2,489)	(2,187)	(55)	(2,242)
Unwinding of discount	30	–	30	43	–	43
Provided in financial year	498	1,207	1,705	643	60	703
Balance at 31st December	8,212	440	8,652	12,430	130	12,560
Current liabilities	3,380	195	3,575	6,525	91	6,616
Non-current liabilities	4,832	245	5,077	5,905	39	5,944
	8,212	440	8,652	12,430	130	12,560

PI Costs (professional indemnity claims) provision

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

The provision is the Directors' best estimate of the likely outcome of such claims, taking account of the incidence of such claims and the size of the loss that may be borne by the claimant, after taking account of actions that can be taken to mitigate losses. The PI Costs provision will be utilised as individual claims are settled and the settlement amount may vary from the amount provided depending on the outcome of each claim. It is not possible to estimate the timing of payment of all claims and therefore a significant proportion of the provision has been classified as non-current.

As at 31st December 2019 the total provision for PI Costs was £8.2m. The Directors have considered the sensitivity analysis on the key risks and uncertainties discussed above.

Cost per claim

A substantial element of the PI Costs 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 £0.6m would be required.

24. Provisions for liabilities (continued)

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 extended, 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 £0.2m.

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 £0.2m would be required.

25. Leases

At the year ended 31st December 2019, the Group has the following in regards to leases in the Group balance sheet:

Right of use assets

	Property £'000	Vehicles £'000	Total £'000
1st January 2019	**37,220**	**6,530**	**43,750**
Additions	4,149	2,370	6,519
Disposals	(3,798)	(150)	(3,948)
Depreciation	(6,684)	(3,411)	(10,095)
31st December 2019	**30,887**	**5,339**	**36,226**

These are included in the carrying amounts of PPE on the face of the Group balance sheet, and have been included in Note 16.

Lease liabilities

	Total £'000
1st January 2019	**43,224**
Additions	6,529
Interest expense	1,719
Disposals	(2,759)
Repayment of lease liabilities	(11,481)
31st December 2019	**37,232**

Disposals in the year relate to the restructure of Your Move and Reeds Rains branch networks in the year and consist of leases exited after negotiation with lessors.

Maturity of these lease liabilities is analysed as follows:

	Property £'000	Vehicles £'000	Total £'000
Current lease liabilities	6,745	2,686	9,431
Non-current lease liabilities	25,096	2,705	27,801
31st December 2019	**31,841**	**5,391**	**37,232**

These are included in non-current and current financial liabilities on the face of the Group balance sheet, and have been included in Note 23. Maturity analysis of the future cash-flows of lease liabilities has been included in Note 31.

25. Leases (continued)

The following shows how lease expenses have been included in the Income Statement, broken down between amounts charged to operating profit and amounts charged to finance costs:

	£'000
Depreciation of right of use assets	
Property	(6,684)
Vehicles	(3,411)
Short-term and low value lease expense	(3,602)
Sub-lease income	68
Charge to operating profit	**(13,629)**
Interest expense related to lease liabilities	(1,719)
Interest income related to sub-lease	10
Charge to profit before taxation	**(1,709)**
Cash outflow relating to operating activities	(5,321)
Cash outflow relating to financing activities	(9,761)
Total cash outflow relating to leases	**(15,082)**

At the 31st December 2019 the Group had not entered into any leases to which it was committed but had not yet commenced.

26. Share capital

	2019		2018	
	Shares	**£'000**	Shares	£'000
Authorised:				
Ordinary Shares of 0.2 pence 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

27. Reserves

Share premium
The share premium is 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.

Shares held by EBT
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 2019 the Trust held 1,430,494 (2018: 1,495,189) LSL Shares at an average cost of £3.51 (2018: £3.51). The market value of the LSL Shares at 31st December 2019 was £3,862,334 (2018: £3,281,940). The nominal value of each Share is 0.2 pence.

Fair value reserve
The fair value reserve is used to record the changes in fair value of equity financial assets that the Group has elected to recognise through OCI. Note 17 to these Financial Statements gives further details of the movement in the current year.

28. 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.

The total contributions to the defined contribution schemes in the year were £6,962,000 (2018: £4,398,000). At the 31st December 2019 there were outstanding pension contributions of £881,222 (2018: £784,180).

29. Acquisitions during the year

Year ended 31st December 2019

The Group acquired the following businesses during the year:

- **Lettings books**

During the period the Group acquired seven lettings books for a total consideration of £3,011,000. 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	3,459
Deferred tax liabilities	(588)
Total identifiable net liabilities acquired	**2,871**
Purchase consideration	3,011
Goodwill	140

	£'000
Purchase consideration discharged by:	
Cash	2,711
Contingent consideration	300
	3,011

	£'000
Analysis of cash-flow on acquisition	
Transaction costs (included in cash-flows from operating activities)	–
Net cash acquired with the subsidiaries and other businesses	–
Purchase consideration discharged in cash (included in cash-flows from investing activities)	2,711
Net cash outflow on acquisition	**2,711**

29. Acquisitions during the year (continued)

Year ended 31st December 2018

The Group acquired the following businesses during the year.

- **Lettings books**

During the prior period the Group acquired six lettings books for a total consideration of £1,853,000. The fair value of the identifiable assets and liabilities of these businesses as at the date of acquisition have been determined as below:

	Fair value recognised on acquisition £'000
Intangible assets	1,817
Deferred tax liabilities	(309)
Total identifiable net liabilities acquired	**1,508**
Purchase consideration	1,853
Goodwill	345

	£'000
Purchase consideration discharged by:	
Cash	1,670
Contingent consideration	183
	1,853

	£'000
Analysis of cash-flow on acquisition	
Transaction costs (included in cash-flows from operating activities)	–
Net cash acquired with the subsidiaries and other businesses	–
Purchase consideration discharged in cash (included in cash-flows from investing activities)	345
Net cash outflow on acquisition	**345**

- **Personal Touch Financial Services**

In January 2018, the Group acquired the entire issued share capital of Personal Touch Financial Services and its subsidiary company, Personal Touch Administration Services from Personal Touch Holdings Limited. 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. Personal Touch Financial Services is authorised by the FCA with 200 appointed representative firms and 474 advisers at 31st December 2018.

29. Acquisitions during the year (continued)

The consideration for the initial investment was £5.4m with £3.6m paid on completion in the year to 31st December 2018 and a present value deferred consideration of £1.8m paid in January 2019. The purchase price allocations for the acquisition made was finalised in 2018, with no changes made to the purchase price allocations as disclosed below:

	Fair value recognised on acquisition £'000
Intangible assets	4,305
Property, plant and equipment	121
Trade and other receivables	3,617
Cash and cash equivalents	6,795
Deferred tax asset	921
Trade and other payables	(10,010)
Deferred tax liability	(657)
Total identifiable net assets acquired	**5,092**
Purchase consideration	5,440
Goodwill	348

	£'000
Purchase consideration discharged by:	
Cash	3,562
Present value deferred consideration	1,878
	5,440

	£'000
Analysis of cash-flow on acquisition	
Transaction costs (included in cash-flows from operating activities)	518
Net cash acquired with the subsidiaries and other businesses	(6,795)
Purchase consideration discharged in cash (included in cash-flows from investing activities)	3,562
Net cash outflow on acquisition	**(2,715)**

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 in-house developed software, Toolbox.

From the date of acquisition to 31st December 2018, Personal Touch Financial Services has contributed £8.7m of revenue and £1.0m to the profit before tax from the continuing operations of the Group. If the acquisition had taken place at the beginning of 2018, revenue from continuing operations would have been £9.5m and the profit from continuing operations for 2018 would have been £0.2m.

- **RSC New Homes**

In March 2018, the Group, through a wholly owned subsidiary, acquired a 60% interest in RSC New Homes, who provide mortgage and non-investment insurance brokerage services to the purchasers of new homes. The consideration for the initial investment was £5.3m cash, with £2.5m paid on completion and the remaining subject to put and call options which are exercisable between 2022 and 2023. The contingent consideration is the Management Team's best estimation of the probable discounted pay-out (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.

29. Acquisitions during the year (continued)

The purchase price allocations for the acquisition made was finalised in 2018.

	Fair value recognised on acquisition £'000
Intangible assets	271
Property, plant and equipment	40
Trade and other receivables	403
Cash and cash equivalents	149
Trade and other payables	(619)
Current tax liability	(200)
Deferred tax liability	(46)
Total identifiable net assets acquired	**(2)**
Purchase consideration	7,126
Goodwill	7,128

	£'000
Purchase consideration discharged by:	
Cash	2,500
Present value deferred consideration	9
Contingent consideration	4,617
	7,126

	£'000
Analysis of cash-flow on acquisition	
Transaction costs (included in cash-flows from operating activities)	29
Net cash acquired with the subsidiaries and other businesses	(149)
Purchase consideration discharged in cash (included in cash-flows from investing activities)	2,500
Net cash outflow on acquisition	**2,380**

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 RSC New Homes brand and the pipeline of work acquired. As disclosed to the market on acquisition, there are strong customer relationships between RSC New Homes and key housebuilders, 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 who are confident that given that no economic benefit passes between the two parties in this relationship (the housebuilder and RSC New Homes) there is no asset that can be "separated or divided" and "sold, transferred, licensed, rented or exchanged".

From the date of acquisition to 31st December 2018, RSC New Homes contributed £3.4m of revenue and £0.6m to the net profit before tax from the continuing operations of the Group. If the acquisition had taken place at the beginning of 2018, revenue from continuing operations would have been £4.3m and the profit from continuing operations for 2018 would have been £0.5m.

The goodwill represents expected synergies and intangible assets that do not qualify for separate recognition. The maximum undiscounted contingent consideration sum payable is capped at £7.5m.

30. Client monies

As at 31st December 2019, monies held by subsidiaries in separate bank accounts on behalf of clients amounted to £102.2m (2018: £108.6m). Neither this amount, nor the matching liabilities to the clients concerned are included in the Group balance sheet.

31. 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 rate 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
2019	**+100**	**(410)**
	-100	**410**
2018	+100	(345)
	-100	345

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 £0.0m (2018: £2.4m). At 31st December 2019, the Group had available £51.3m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met (2018: £65.5m).

31. Financial instruments – risk management (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31st December 2019 based on contractual undiscounted payments:

Year ended 31st December 2019

	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)	883	276	843	42,585	–	**44,587**
Trade payables	–	11,584	–	–	–	**11,584**
Other payables	–	35,507	–	–	–	**35,507**
Contingent consideration	–	219	435	5,150	–	**5,804**
Deferred consideration	–	–	80	–	–	**80**
Lease liabilities	–	2,602	7,807	21,753	9,885	**42,047**
	883	**50,188**	**9,165**	**69,488**	**9,885**	**139,609**

Year ended 31st December 2018

	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)	–	252	770	36,968	–	37,990
Trade payables	–	12,259	–	–	–	12,259
Other payables	–	36,452	–	–	–	36,452
Contingent consideration	–	8,195	388	8,346	–	16,929
Deferred consideration	–	2,009	–	80	–	2,089
	–	59,167	1,158	45,394	–	105,719

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.

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.

31. Financial instruments – risk management (continued)

The Group has a current ratio of Net Bank Debt to EBITDA of 0.8 (2018: 0.8), based on Net Bank Debt of £41.9m (2018: £32.1m) and operating profit before exceptional costs, amortisation and share-based payment charge of £37.0m (2018: £35.9m). The business is cash generative with a low capital expenditure requirement. The Group remains committed to its stated dividend policy of 30% to 40% of Group Underlying Operating Profit after interest and tax. The Board has reviewed the policy in line with the risks and capital management decisions facing the Group.

Net Bank Debt is defined as follows:

	2019 £'000	2018 £'000
Interest-bearing loans and borrowings (including loan notes, overdraft, IFRS 16 lease liabilities, contingent and deferred consideration)		
– Current	11,113	10,456
– Non-current	73,951	41,156
	85,064	51,612
Less: unsecured loan notes	(65)	–
Less: cash and short-term deposits	–	(2,405)
Less: IFRS 16 lessee financial liabilities	(37,232)	–
Less: deferred and contingent consideration	(5,884)	(17,112)
Net Bank Debt (excluding loan notes)	41,883	32,095

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. This minimises 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.

Financial instruments are grouped on a subsidiary basis to apply the expected credit loss model.

The chosen method of recognising the expected credit loss across the Group is the simplified approach allowing a provision matrix to be used, which is based on the expected credit life of trade receivables, historic default rates and forward looking information. Trade receivable balances are written off when the probability of recovery is assessed as being remote.

Interest rate risk profile of financial assets and liabilities

LSL's treasury policy is described 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 2019 are as follows:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	Total £'000
Floating rate					
Cash and cash equivalents	(883)	–	–	–	(883)
Loan notes	(66)	–	–	–	(66)
RCF	–	–	(41,000)	–	(41,000)

The effective interest rate and the actual interest rate charged on the loans in 2019 are as follows:

	Effective rate	Actual rate
RCF	3.0%	2.0%

31. Financial instruments – risk management (continued)

The interest rate profile of the financial assets and liabilities of the Group as at 31st December 2018 are as follows:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	Total £'000
Floating rate					
RCF	–	–	–	(34,500)	(34,500)

The effective interest rate and the actual interest rate charged on the loans in 2018 are as follows:

	Effective rate	Actual rate
RCF	3.1%	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.

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.

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:

2019	**Total £'000**	**Level 1 £'000**	**Level 2 £'000**	**Level 3 £'000**
Assets measured at fair value				
Financial assets	**9,326**	**–**	**–**	**9,326**
Liabilities measured at fair value				
Contingent consideration	**5,804**	**–**	**–**	**5,804**

2018	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	11,566	–	–	11,566
Liabilities measured at fair value				
Contingent consideration	15,038	–	–	15,038

The fair value of equity financial assets that are not traded in the open market is £0.4m (2018: £3.8m) are valued using Level 3 techniques in accordance with the fair value hierarchy and the Management Team use all relevant and up to date information (including cash-flow forecasts and financial statements) to arrive at their judgement. Where appropriate a range of potential outcomes is considered in reaching a conclusion. If this was to drop by 10%, the implied valuation is likely to also drop by around 10%, £1.2m.

The contingent consideration relates to amounts payable in the future on acquisitions. The amounts payable are based on the amounts agreed in the contracts and based on the future profitability of each entity acquired. In valuing each provision, estimates have been made as to when the options are likely to be exercised and the future profitability of the entity at this date. Further details of these provisions are shown in Note 23.

If the future profitability of the entities was to decline by 10%, the size of the contingent consideration would decrease by approximately £0.8m.

32. Analysis of Net Bank Debt

Net Bank Debt is defined as follows:

	2019 £'000	2018 £'000
Interest-bearing loans and borrowings (including loan notes, overdraft, IFRS 16 Leases, contingent and deferred consideration)		
– Current	**11,113**	10,456
– Non-current	**73,951**	41,156
	85,064	51,612
Less: unsecured loan notes	**(65)**	–
Less: cash and short-term deposits	**–**	(2,405)
Less: IFRS 16 lessee financial liabilities	**(37,232)**	–
Less: deferred and contingent consideration	**(5,884)**	(17,112)
Net Bank Debt (excluding loan notes)	**41,883**	32,095

33. Related party transactions

As disclosed in Note 18 to these Financial Statements LSL has two joint ventures, LMS and TM Group and an associate Mortgage Gym.

Transactions with LMS and its subsidiaries

	2019 £'000	2018 £'000
Sales	**–**	3

Transactions with TM Group and its subsidiaries

	2019 £'000	2018 £'000
Sales	**910**	1,000
Purchases	**(754)**	(204)
Creditor at 31st December 2019	**(80)**	–

Transactions with Mortgage Gym

	2019 £'000	2018 £'000
Purchases	**(375)**	(67)
Creditor at 31st December 2019	**–**	(20)

34. Capital commitments

	2019 £'000	2018 £'000
Capital expenditure contracted for but not provided	**–**	67

35. 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, with the exception of Albany Insurance Company (Guernsey) Limited, which is incorporated in Guernsey, 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 Limited	1	Direct	LSL Property Services plc	100%	Holding Company
Lending Solutions Limited	1	Indirect	Lending Solutions Holdings Limited	100%	Non Trading
Estate Agency – Asset Management					
LSL Corporate Client Services Limited	1	Direct	LSL Property Services plc	100%	Asset Management
St Trinity Limited	1	Direct	LSL Property Services plc	100%	Asset Management
Templeton LPA Limited	1	Indirect	First Complete Limited	100%	Asset Management
Estate Agency – Residential Sales and Lettings					
Airport Lettings Stansted Limited^	2	Indirect	ICIEA Limited	100%	Non Trading
Appleton Estates and Property Management Limited	2	Indirect	Davis Tate Ltd	100%	Non Trading
Bawtry Lettings and Sales Limited	2	Indirect	your-move.co.uk Limited	100%	Non Trading
Beldhamland Limited	3	Indirect	Marsh & Parsons Limited	100%	Non Trading
Brown North East Lettings Ltd	2	Indirect	your-move.co.uk Limited	100%	Non Trading
Charterhouse Management (UK) Limited	2	Indirect	your-move.co.uk Limited	100%	Non Trading
David Frost Estate Agents Limited	2	Indirect	Vitalhandy Enterprises Limited	100%	Residential Sales and Lettings
Davis Tate Ltd	2	Indirect	LSLi Limited	100%	Residential Sales, Lettings and Holding Company
EA Student Lettings Ltd	2	Indirect	your-move.co.uk Limited	100%	Non Trading
Eastside Property Developments Ltd	2	Indirect	your-move.co.uk Limited	100%	Non Trading
Elliott & Freeth Limited	2	Indirect	Davis Tate Ltd	100%	Non Trading
Fourlet (York) Limited	2	Indirect	Reeds Rains Limited	100%	Non Trading
Front Door Property Management Ltd	2	Indirect	ICIEA Limited	100%	Non Trading
GFEA Limited	2	Indirect	LSLi Limited	100%	Residential Sales, Lettings and Holding Company
Guardian Property Lettings Limited	2	Indirect	Reeds Rains Limited	100%	Non Trading
Hawes & Co Limited	2	Indirect	LSLi Limited	100%	Residential Sales, Lettings and Holding Company
Hawes & Co (Thames Ditton) Limited	2	Indirect	Hawes & Co Limited	100%	Non Trading

35. 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
Headway Property Management Limited	2	Indirect	Reeds Rains Limited	100%	Non Trading
Holloways Residential Ltd	2	Indirect	your-move.co.uk Limited	100%	Non Trading
Home and Student Link Limited	2	Indirect	your-move.co.uk Limited	100%	Non Trading
Homefast Property Services Limited	2	Indirect	Lending Solutions Holdings Limited	77.5%	Non Trading
Hydegate Limited^	2	Indirect	JNP Estate Agents Limited	100%	Non Trading
ICIEA Limited	2	Indirect	LSLi Limited	100%	Residential Sales, Lettings and Holding Company
Inter County Lettings Limited	2	Indirect	ICIEA Limited	100%	Non Trading
IQ Property (Hull) Limited	2	Indirect	Reeds Rains Limited	100%	Non Trading
JNP Estate Agents Limited	2	Indirect	LSLi Limited	100%	Residential Sales, Lettings and Holding Company
JNP Estate Agents (Princes Risborough) Limited	2	Indirect	JNP Estate Agents Limited	100%	Non Trading
JNP (Residential Lettings) Limited	2	Indirect	JNP Estate Agents Limited	100%	Non Trading
JNP (Surveyors) Limited	2	Indirect	LSLi Limited	100%	Non Trading
Kent Property Solutions Limited	2	Indirect	your-move.co.uk Limited	100%	Non Trading
LSL Land & New Homes Limited	2	Indirect	your-move.co.uk Limited	100%	Residential Sales
Lauristons Limited	2	Indirect	LSLi Limited	100%	Residential Sales, Lettings and Holding Company
Lawlors Property Services Limited	2	Indirect	LSLi Limited	100%	Residential Sales and Lettings
LetCo Group Limited	2	Indirect	Your-move.co.uk Limited	100%	Residential Lettings
LetCo Limited	2	Indirect	LetCo Group Limited	100%	Residential Lettings
Lets Move Property Limited	2	Indirect	your-move.co.uk Limited	100%	Non Trading
Longshoot Properties Limited^	2	Indirect	your-move.co.uk Limited	100%	Non Trading
LSLi Limited	1	Direct	LSL Property Services plc	100%	Residential Sales, Lettings, Financial Services and Holding Company
Marsh & Parsons Limited	3	Indirect	Marsh & Parsons (Holdings) Limited	100%	Residential Sales, Lettings and Holding Company
Marsh & Parsons (Holdings) Limited	2	Direct	LSL Property Services plc	100%	Holding Company
Marshcroft Properties Limited	3	Indirect	Marsh & Parsons Limited	100%	Non Trading
New Daffodil Limited	2	Direct	LSL Property Services plc	100%	Non Trading
New Let Limited	2	Indirect	your-move.co.uk Limited	100%	Non Trading
Oakley Lettings Limited^	2	Indirect	ICIEA Limited	100%	Non Trading
Paul Graham Lettings & Management Ltd	2	Indirect	GFEA Limited	100%	Non Trading
Philip Green Lettings Limited	2	Indirect	JNP Estate Agents Limited	100%	Non Trading
PHP Lettings Scotland Limited	4	Indirect	your-move.co.uk Limited	100%	Non Trading
Prestons Lettings Ltd	2	Indirect	Reeds Rains Limited	100%	Non Trading
Pygott & Crone Lincoln Lettings Limited^	2	Indirect	your-move.co.uk Limited	100%	Non Trading

35. 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
Reeds Rains Limited	2	Direct	LSL Property Services plc	100%	Residential Sales, Lettings, Financial Services and Holding Company
Reeds Rains Cleckheaton Limited	2	Indirect	Reeds Rains Limited	100%	Non Trading
Thomas Morris Limited	1	Indirect	LSLi Limited	93.33%	Residential Sales and Lettings
Top Let Limited	2	Indirect	LetCo Group Limited	100%	Residential Lettings
Vanstons (Barnes) Limited	3	Indirect	Marsh & Parsons Limited	100%	Non Trading
Vanstons Commercial Limited	3	Indirect	Marsh & Parsons Limited	100%	Non Trading
Vanstons Lettings Limited	3	Indirect	Marsh & Parsons Limited	100%	Non Trading
Vanstons Limited	3	Indirect	Marsh & Parsons Limited	100%	Non Trading
Vitalhandy Enterprises Limited	2	Indirect	LSLi Limited	100%	Holding Company
Warners Letting Agency Limited	2	Indirect	ICIEA Limited	100%	Non Trading
Woollens of Wimbledon Limited	2	Indirect	Lauristons Limited	100%	Non Trading
Yates Lettings Limited	2	Indirect	Davis Tate Ltd	100%	Non Trading
your-move.co.uk Limited	1	Indirect	Lending Solutions Holdings Limited	100%	Residential Sales, Lettings, Financial Services and Holding Company
Zenith Properties Limited	2	Indirect	ICIEA Limited	100%	Non Trading
Financial Services					
Embrace Financial Services Ltd	2	Direct	LSL Property Services plc	100%	Financial Services
First2Protect Limited	2	Indirect	your-move.co.uk Limited	100%	Financial Services
Group First Ltd	2	Indirect	your-move.co.uk Limited	95%	Holding Company
Insurance First Brokers Ltd	2	Indirect	Group First Ltd	100%	Financial Services
Mortgages First Ltd	2	Indirect	Group First Ltd	100%	Financial Services
Reeds Rains Financial Services Limited	2	Indirect	Reeds Rains Limited	100%	Financial Services
RSC New Homes Limited	2	Indirect	your-move.co.uk Limited	60%	Financial Services
RSC Protect Limited^^^	2	Direct	RSC New Homes Limited	100%	Non Trading
Advance Mortgage Funding Limited	1	Direct	LSL Property Services plc	100%	Financial Services
BDS Mortgage Group Limited	1	Indirect	Advance Mortgage Funding Limited	100%	Financial Services
First Complete Limited	1	Indirect	Lending Solutions Holdings Limited	100%	Financial Services and Holding Company
Linear Financial Services Limited	2	Indirect	Linear Financial Services Holdings Limited	100%	Non Trading
Linear Financial Services Holdings Limited	2	Indirect	First Complete Limited	100%	Holding Company
Linear Mortgage Network Holdings Limited	2	Indirect	First Complete Limited	100%	Holding Company
Linear Mortgage Network Limited	2	Indirect	Linear Mortgage Network Holdings Limited	100%	Financial Services

35. 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
Personal Touch Administration Services Limited	2	Indirect	Personal Touch Financial Services Limited	100%	Financial Services
Personal Touch Financial Services Limited	2	Direct	LSL Property Services plc	100%	Financial Services
Qualis Wealth Limited^^	2	Direct	LSL Property Services plc	100%	Financial Services
Surveying and Valuation Services					
Albany Insurance Company (Guernsey) Limited	9	Direct	LSL Property Services plc	100%	Captive Insurer
Barnwoods Limited^^^^	2	Direct	LSL Property Services plc	100%	Non Trading
Chancellors Associates Limited^^^^	5	Indirect	e.surv Limited	100%	Non Trading
e.surv Limited	5	Direct	LSL Property Services plc	100%	Chartered Surveyors
Joint Ventures and Associates					
Cybele Solutions Holdings Limited#	6	Direct	LSL Property Services plc	49.63% (50% voting)	Joint Venture – Holding Company
Cybele Solutions Limited#	6	Indirect	Cybele Solutions Holdings Limited	49.63% (50% voting)	Joint Venture – Conveyancing Panel Manager
Mortgage Gym Limited#	8	Direct	LSL Property Services plc	34.69%	Associate – Financial Services
TM Group (UK) Limited#	7	Direct	LSL Property Services plc	33.33%	Joint Venture - Property Searches

Registered office addresses:

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. Bickerton House, Lloyd Drive, Ellesmere Port, Cheshire, CH65 9HQ
7. 1200 Delta Business Park, Swindon, Wiltshire, England, SN5 7XZ
8. Fourth Floor Abbots House, Abbey Street, Reading, Berkshire, RG1 3BD
9. The Albany, South Esplanade, St Peters Port, Guernsey, GY1 4NF

Notes:

^ Lettings book acquired by way of asset purchase in 2019.

^^ Qualis Wealth Limited was incorporated on 23rd January 2019. The company's name changed from LSL-Two Limited to Qualis Wealth Limited on 28th October 2019.

^^^ energy-assessors.com Limited on 14th January 2019 was re-named RSC Protect Limited and its shares were transferred from being held directly by LSL Property Services plc to indirectly by RSC New Homes.

^^^^ Barnwoods Limited and Chancellors Associates Limited were struck off the Companies House register on 31st December 2019.

Joint Ventures/Associates.

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 IFRS 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 IFRS, subject to any material departures disclosed and explained in the Financial Statements; and
- make judgements and accounting estimates that are reasonable and prudent.

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

Parent Company Balance Sheet

as at 31st December 2019

	Note	2019 £'000	2018 £'000
Non-current assets			
Other intangible assets	3	**7**	7
Property, plant and equipment	4	**50**	14
Investment in subsidiaries	5	**187,055**	187,807
Financial assets	6	**8,588**	10,766
Investment in joint ventures and associates	7	**11,335**	11,335
Deferred tax asset	11	**153**	120
		207,188	210,049
Current assets			
Trade and other receivables	8	**41,811**	46,533
Total assets		**248,999**	256,582
Current liabilities			
Trade and other payables	9	**(96,933)**	(105,287)
Financial liabilities	10	**(14,806)**	(18,552)
		(111,739)	(123,839)
Non-current liabilities			
Financial liabilities	10	**(41,000)**	(34,500)
Total liabilities		**(152,739)**	(158,339)
Net assets		**96,260**	98,243
Equity			
Share capital	12	**208**	208
Share premium account	13	**5,629**	5,629
Share-based payment reserve	13	**4,429**	4,129
LSL Shares held by the EBT	13	**(5,224)**	(5,261)
Fair value reserve	13	**(13,695)**	(12,200)
Retained earnings	14	**104,913**	105,738
Total equity		**96,260**	98,243

The profit after tax for the year, attributable to the Company, was £13.0m (2018: £6.5m).

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

Ian Crabb
Group Chief Executive Officer
10th March 2020

Adam Castleton
Group Chief Financial Officer
10th March 2020

Parent Company Statement of Cash-Flows

for the year ended 31st December 2019

	Note	2019 £'000	2018 £'000
Parent operating profit before tax and interest		**11,777**	5,462
Adjustments for:			
Exceptional gain on sale of financial assets		**–**	(1)
Depreciation of tangible assets	4	**60**	1
Share-based payments		**141**	105
Finance income		**10**	–
Finance costs		**1,691**	1,627
Dividend income/rebates received via non-cash consideration		**(18,171)**	(10,000)
Realisation of non-cash consideration received for operating activities		**–**	1,529
Operating cash-flows before movements in working capital		**(4,492)**	(1,277)
Movements in working capital			
Decrease in trade and other receivables	8	**12,482**	20,331
(Decrease) in trade and other payables	9	**(8,576)**	(5,716)
		3,906	14,615
Cash generated from operations		**(586)**	13,338
Interest paid		**(1,690)**	(1,494)
Income taxes paid		**(5,159)**	(6,985)
Net cash generated from operating activities		**(7,435)**	4,859
Cash-flows used in investing activities			
Acquisitions of subsidiaries and other businesses		**–**	(3,562)
Payment of deferred consideration		**(2,000)**	–
Investment in joint ventures and associates	7	**–**	(4,100)
Investment in financial assets	6	**(2,783)**	–
Cash received on sale of financial asset		**1,765**	–
Dividends received from subsidiaries		**17,000**	10,000
Purchases of property, plant and equipment		**(6)**	(7)
Net cash generated/(expended) on investing activities		**13,976**	2,331
Cash-flows used in financing activities			
Proceeds from borrowings		**6,500**	7,500
Repayment of overdraft		**(1,856)**	(3,110)
Proceeds from exercise of share options		**–**	20
Issue of unsecured loan notes	10	**66**	–
Payment of lease liabilities		**(57)**	–
Dividends paid to equity holders of the parent		**(11,194)**	(11,600)
Net cash generated/(expended) in financing activities		**(6,541)**	(7,190)
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 2019

For the year ended 31st December 2019

	Issued capital £'000	Share premium £'000	Share-based payment reserve £'000	Shares held by EBT[1] £'000	Fair value reserve £'000	Retained earnings £'000	Total £'000
As at 1st January 2019	**208**	**5,629**	**4,129**	**(5,261)**	**(12,200)**	**105,738**	**98,243**
Other comprehensive income for the year							
Disposal of subsidiary	–	–	–	–	–	(950)	(950)
Revaluation of financial assets	–	–	–	–	(3,196)	–	(3,196)
Disposal of financial assets	–	–	–	–	1,701	(1,701)	–
Profit for the year	–	–	–	–	–	13,019	13,019
Total comprehensive income for the year	–	–	–	–	(1,495)	10,368	8,873
Exercise of options	–	–	(12)	37	–	1	26
Share-based payment transactions	–	–	312	–	–	–	312
Dividends	–	–	–	–	–	(11,194)	(11,194)
As at 31st December 2019	**208**	**5,629**	**4,429**	**(5,224)**	**(13,695)**	**104,913**	**96,260**

During the year ended 31st December 2019, the Trust acquired nil LSL Shares. During the period 10,672 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received £24,000 on exercise of these options.

Note:

1 Treasury shares have been renamed to Shares held by EBT.

For the year ended 31st December 2018

	Issued capital £'000	Share premium £'000	Share- based payment reserve £'000	Shares held by EBT[1] £'000	Fair value reserve £'000	Retained earnings £'000	Total £'000
As at 1st January 2018	208	5,629	3,802	(5,317)	21	110,816	115,159
Adjustment on initial application of IFRS 9	–	–	–	–	(21)	21	–
Revised opening balance at 1st January 2018	**208**	**5,629**	**3,802**	**(5,317)**	**–**	**110,837**	**115,159**
Other comprehensive income for the year							
Revaluation of financial assets	–	–	–	–	(12,200)	–	(12,200)
Profit for the year	–	–	–	–	–	6,516	6,516
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(12,200)**	**6,516**	**(5,684)**
Exercise of options	–	–	(22)	56	–	(15)	19
Share-based payment transactions	–	–	349	–	–	–	349
Dividends	–	–	–	–	–	(11,600)	(11,600)
As at 31st December 2018	**208**	**5,629**	**4,129**	**(5,261)**	**(12,200)**	**105,738**	**98,243**

During the year ended 31st December 2018, the Trust acquired nil LSL Shares. During the period 15,966 share options were exercised relating to LSL's various share option schemes resulting in the Shares being sold by the Trust. LSL received £20,000 on exercise of these options.

Note:

1 Treasury shares have been renamed to Shares held by EBT.

Notes to the Parent Company Financial Statements

for the year ended 31st December 2019

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, certain debt and financial assets and liabilities 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 2019. The Company's Financial Statements are presented in pounds sterling and all values are rounded to the nearest thousand pounds (£'000) except when otherwise indicated.

Summary of significant accounting policies

Except as described below, the accounting policies adopted in the preparation of the Parent Company Financial Statements are consistent with those followed in the preparation of the Parent Company Annual Financial Statements for the year ended 31st December 2018.

The Parent Company has initially adopted IFRS 16 Leases from 1st January 2019, replacing the current lease guidance including IAS 17.

Previously all of the Parent Company's leases were accounted for as operating leases (see Note 25 to the Group Financial Statements). The whole of the leasing liability in the Parent Company represents a property lease. The Parent Company does not act as a lessor.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The Parent Company has adopted the standard using the modified retrospective approach which means the cumulative impact of the adoption is recognised in retained earnings as of 1st January 2019 and the comparatives are not restated.

As a lessee

Under IFRS 16 Leases are accounted for using the right of use model. The Income Statement presentation and expense recognition pattern is similar to that required for finance leases by IAS 17 previously adopted by the Company.

At inception, the Company has assessed whether a contract contains a lease. This assessment involved the exercise of judgement about whether the Company obtains substantially all the economic benefits from the use of that asset, and whether the Group has the right to direct the use of the asset. The Company has chosen to transition all leases previously identified under IAS 17 to IFRS 16 and has not reassessed whether these contracts are leases.

The following reconciliation to the opening balance for IFRS 16 lease liabilities as at 1st January 2019 is based upon the operating lease obligations at 31st December 2018:

	£'000
Lease liabilities	
Operating lease obligations at 31st December 2018	**92**
Discounted using the incremental borrowing rate at 1st January 2019	(2)
Lease liabilities recognised at 1st January 2019	**90**

Leases are shown as follows in the balance sheet and Income Statement for the period ending 31st December 2019:

	£'000
Balance sheet	
Non-current assets	
Property, plant and equipment	33
Current liabilities	
Financial liabilities	34
Non-current liabilities	
Financial liabilities	–
Income Statement	
Depreciation	57
Finance income	–
Finance costs	2

1. Accounting policies (continued)

Judgements and estimates

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

The estimates and underlying assumptions are reviewed on an 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.

• Judgements

There are no areas of judgement that have a significant effect on the amounts recognised in the Financial Statements of the Company.

• Estimates

The key assumption affected by future uncertainty that has significant risks of causing material adjustment to the carrying value of assets and liabilities within the next financial year is:

Valuation of financial assets

The Company owns non–controlling interests in a number of listed and unlisted entities. In accordance with the accounting standards, these investments are held at fair value and judgement and assumptions are required in assessing this.

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 and associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments in joint ventures and associates 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.

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;

1. Accounting policies (continued)

- 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.

Employee Benefit Trust

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

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. All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the Company commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place.

The subsequent measurement of financial assets depends on their classification.

1. Accounting policies (continued)

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

Financial assets designated at fair value through OCI (equity instruments)
Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IFRS 9 Financial Instruments and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, except when the Company benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Financial assets designated at fair value through profit and loss
Gains and losses arising from the changes in the fair value are recognised through the profit and loss.

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 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.

Leases
IFRS 16 Leases supersedes IAS 17 Leases setting out the principles for the recognition, measurement, presentation and disclosure of leases and was adopted by the Company with effect from 1st January 2019. Under this standard leases are defined as a contract which gives the right to use an asset for a period of time in exchange for consideration. As a lessee, the Company recognises three classes of leases on this basis:

- Property leases
- Motor vehicle leases
- Other leases

Other leases are leases for low value items (less than £5,000) or leases whose contract term is less than 12 months. The practical expedient not to recognise right of use assets and lease liabilities for these leases has been utilised by the Company.

Previously, under IAS 17 Leases, operating leases were defined as a contract where substantially all of the risks and reward of ownership remain with the owner. Under the old standard, the Company recognised all of its leasing activities as operating leases, recognising no assets, and recognising lease payments as an expense through the Income Statement as they fell due.

1. Accounting policies (continued)

IAS 17 Leases accounting policy
As the Company has chosen to adopt IFRS 16 using the modified retrospective approach, comparatives have not been restated and are accounted for under the Group's previous leases accounting policy:

Company 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.

Company 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.

2. Cash-flow from financing activities

	At 1st January 2019 £'000	Cash–flow £'000	Acquisitions £'000	Foreign exchange £'000	Unwind of discount £'000	At 31st December 2019 £'000
Short-term liabilities	18,552	(3,746)	–	–	–	14,806
Long-term liabilities	34,500	6,500	–	–	–	41,000
	53,052	**2,754**	**–**	**–**	**–**	**55,806**

Short-term liabilities
At the 31st December 2019 short-term liabilities were made up of the bank overdraft of £14.7m (2018: £16.6m), unsecured loan notes £0.1m (2018: nil) and deferred consideration of nil (2018: £2.0m) (see Note 10 to these Financial Statements).

Long-term liabilities
At the 31st December 2019 the long-term liabilities were made up of the bank loan of £41.0m (2018: £34.5m) (see Note 10 to these Financial Statements).

3. Intangible assets

	Software £'000	Total £'000
Cost		
At 1st January 2019	7	7
Additions	–	–
As at 31st December 2019	**7**	**7**
Impairment		
At 1st January 2019	–	–
Amortisation	–	–
As at 31st December 2019	**–**	**–**
Net book value		
As at 31st December 2019	**7**	**7**
As at 31st December 2018	7	7

4. Property, plant and equipment

	Land and buildings £'000	Leasehold improvements £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost				
At 1st January 2018	–	74	107	**181**
Additions	–	–	7	**7**
At 31st December 2018	–	74	114	**188**
Initial recognition of IFRS 16	90	–	–	**90**
Revised opening balance	90	74	114	**278**
Additions	–	–	6	**6**
At 31st December 2019	**90**	**74**	**120**	**284**
Depreciation				
At 1st January 2018	–	67	106	**173**
Charge for the year	–	–	1	**1**
At 31st December 2018	–	67	107	**174**
Charge for the year	57	–	3	**60**
At 31st December 2019	**57**	**67**	**110**	**234**
Net book value				
At 31st December 2019	**33**	**7**	**10**	**50**
At 1st January 2019	–	7	7	**14**
Owned assets	–	7	10	**17**
IFRS 16 leased assets	33	–	–	**33**
	33	**7**	**10**	**50**

5. Investment in subsidiaries

Details of the subsidiaries held directly and indirectly by the Company are shown in Note 35 to the Group Financial Statements.

	2019 £'000	2018 £'000
At 1st January	**187,807**	182,144
Disposals	**(950)**	–
Additions	**–**	5,419
Adjustments for share-based payment	**198**	244
At 31st December	**187,055**	187,807

In 2019 there was an increase of £198,000 (2018: increase of £244,000) 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 £7,803,000 (2018: £7,605,000). During 2019 Barnwoods was struck off with a reduction in investment of £950,000 (2018: £nil) resulting in a dividend of £1,171,000 paid to the Parent Company.

6. Financial assets

	2019 £'000	2018 £'000
Convertible loan notes – at fair value		
Secured convertible loan notes – 5%	2,000	–
Investment in equity instruments – at fair value		
Unquoted shares at fair value	6,588	10,766
	8,588	10,766
At 1st January	10,766	24,495
Additions	2,783	–
Disposals	(1,765)	(2,266)
Fair value adjustment recorded through OCI	–	(12,200)
Revaluation uplift	(3,196)	737
At 31st December	8,588	10,766

Convertible loan notes at fair value

LSL has subscribed for £2,000,000 of Convertible Secured Preference Loan Notes with Mortgage Gym Limited. Interest on the Convertible Secured Preference Loan Notes is 5% per annum. The final repayment date of the Convertible Secured Preference Loan Notes is 5th June 2024. Repayment may take place before this date. The Convertible Secured Preference Loan Notes are secured by way of debenture.

LSL has subscribed for £750,000 of Unsecured Convertible Loan Notes with Yopa Property Limited. The Unsecured Convertible Loan Notes do not receive any interest. The Loan Notes were redeemed during the year.

Investment in equity instruments

The financial assets include unlisted equity instruments which are carried at fair value. Fair value is judgemental given the assumptions required and have been valued using a Level 3 valuation techniques (see Note 31 to the Group Financial Statements).

eProp Services plc

In June 2019 the Group disposed of 100% of its holding in eProp Services plc for a consideration of £1,015,000. At the 31st December 2018 the investment was assessed as £2,716,000. There were no tax effects resulting from the disposal of eProp Services plc.

Yopa Property Limited

The carrying value of the Group's investment in Yopa at 31st December 2019 is £6,495,000 (December 2018: £7,800,000). The fair value of the Group's investment in Yopa has been assessed by using Level 3 techniques. At 30th June 2019 this led to the recognition of a fair value impairment of £1,305,000 in the year (2018: £12,200,000) which has been recognised in the Statement of Other Comprehensive Income.

7. Investment in joint ventures and associates

	2019 £'000	2018 £'000
At cost		
At 1st January	11,335	7,235
Additions	–	4,100
At 31st December	11,335	11,335

Along with two other entities, the Company holds an equal share of 33.33% (2018: 33.33%) interest in TM Group, a joint venture whose principal activity is to provide searches. The principal place of business of TM Group is the United Kingdom.

The Company also has a 50% interest in LMS, a joint venture whose principal activity is to provide conveyancing panel management services.

The Company has a 34.69% (2018: 34.69%) holding in Mortgage Gym, a digital mortgage business. The principal place of business of Mortgage Gym is the United Kingdom.

8. Trade and other receivables

	2019 £'000	2018 £'000
Group relief receivable	10,974	13,067
Prepayments	1,315	1,077
Other taxes and social security	47	83
Amounts owed by Group undertakings	29,475	32,306
	41,811	46,533

9. Trade and other payables

	2019 £'000	2018 £'000
Trade payables	316	166
Accruals	2,392	2,126
Amounts owed to Group undertakings	94,225	102,995
	96,933	105,287

10. Financial liabilities

	2019 £'000	2018 £'000
Current liabilities		
Deferred consideration	–	1,990
IFRS 16 lessee financial liabilities	34	–
Unsecured loan notes	66	–
Bank overdraft	14,706	16,562
	14,806	18,552
Non-current liabilities		
Bank loans – RCF	41,000	34,500
	41,000	34,500

Deferred consideration
During 2019 £2.0m (2018: £nil) of deferred consideration was paid to third parties.

Contingent consideration
During 2019 £nil (2018: £1,000) of contingent consideration was paid to third parties.

Bank loans – RCF and overdraft
The Company's bank loan totals £41.0m (2018: £34.5m) and the Company's overdraft totals £14.7m (2018: £16.6m). The bank loan is secured via a cross guarantee issued from all of the Group's subsidiaries excluding the following subsidiaries, Lending Solutions Limited, Homefast Property Services, Linear (Linear Mortgage Network and Linear Financial Services), Templeton LPA, Group First, Personal Touch Financial Services, and RSC New Homes.

The utilisation of the RCF may vary each month as long as this does not exceed the maximum £100.0m facility (2018: £100.0m). The Group's overdraft is also secured on the same facility, and the combined overdraft and RCF cannot exceed £100.0m (2018: £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

	2019 £'000	2018 £'000
Deferred tax asset		
Deferred tax asset at 1st January	**120**	112
Deferred tax credit/(charge) in profit and loss account for the year	**22**	11
Deferred tax credit/(charge) to other comprehensive income	**11**	(3)
Deferred tax asset at 31st December	**153**	120

	2019 £'000	2018 £'000
Deferred tax liability		
Deferred tax liability at 1st January	**–**	4
Deferred tax (charge)/credit to other comprehensive income	**–**	–
Deferred tax on disposals	**–**	(4)
Deferred tax asset/(liability) at 31st December	**–**	–

At 2019 a deferred tax asset is recognised in relation to timing differences on fixed assets of £3,000 and share-based payments of £150,000. No deferred tax liability is recognised in respect of equity financial assets. At 2018 a deferred tax asset is recognised in relation to timing differences on fixed assets of £4,000 and share-based payments of £116,000. No deferred tax liability is recognised in respect of equity financial assets.

The 2015 summer budget announced that the headline rate of corporation tax in the UK would be further reduced from the current rate of 20% to 19% effective from 1st April 2017, and further reduced to 18%, effective from 1st April 2020. The budget of March 2016 announced that from 1st April 2020, the proposed UK corporation tax will be lowered further still to 17%. For the full year ended 31st December 2019, current tax is measured at a headline rate of 19.00% (2018: 19.00%).

Following the substantive enactment of the Finance Bill 2016 in September 2016, the corporation tax rate of 17.0% was confirmed. Accordingly, this is the rate at which deferred tax has been provided (2018: 17.0%).

12. Called up share capital

	2019 Shares	2019 £'000	2018 Shares	2018 £'000
Authorised:				
Ordinary Shares of 0.2 pence 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 27 to the Group Financial Statements.

Share premium
The share premium is 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 £115,000 (2018: charge of £107,000).

Fair value reserve
The fair value reserve is used to record the changes in fair value of equity financial assets.

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 £13.0m (2018: £6.5m).

Remuneration paid to Directors of the Company is disclosed in Note 13 to the Group Financial Statements.

The Company paid £236,714 (2018: £131,375) 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 9 to the Group Financial Statements.

15. Pensions costs and commitments

Total contributions to the defined contribution schemes in the year were £40,071 (2018: £40,505). The amount outstanding in respect of pensions as at 31st December 2019 was £nil (2018: £nil).

The Parent Company headcount at 31st December 2019 was nil (2018: 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 2019 (2018: 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				
2019	**–**	**–**	**29,476**	**93,683**
2018	–	–	32,129	102,311

	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				
2019	**–**	**–**	**–**	**542**
2018	–	–	64	571

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.

Policy for managing these risks is set up by the Board following recommendations from the Group Chief Financial Officer. The policy for each of the above risks is described in more detail below.

18. Financial instruments – risk management (continued)

Cash-flow interest rate risk

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

The majority of external Company borrowings are variable interest based and this policy is managed centrally.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings. With all other variables held constant, the 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
2019	**+100**	**(410)**
	-100	**410**
2018	+100	(345)
	-100	345

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 2019 based on contractual undiscounted payments:

Year ended 31st December 2019

	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)	**14,706**	**276**	**843**	**42,585**	**–**	**58,410**
Trade payables	**–**	**94,494**	**–**	**–**	**–**	**94,494**
	14,706	**94,770**	**843**	**42,585**	**–**	**152,904**

Year ended 31st December 2018

	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)	16,562	252	770	36,968	–	54,552
Trade and other payables	–	103,078	–	–	–	103,078
Deferred consideration	–	1,990	–	–	–	1,990
	16,562	105,320	770	36,968	–	159,620

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.

18. Financial instruments – risk management (continued)

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 interest rate profile of the financial assets and liabilities of the Group as at 31st December 2019 are as follows:

	Within 1 year £'000	1–2 years £'000	2–3 years £'000	3–4 years £'000	Total £'000
Floating rate					
Cash and cash equivalents	(14,706)	–	–	–	(14,706)
Loan notes	(66)	–	–	–	(66)
RCF	–	–	(41,000)	–	(41,000)

The effective interest rate and the actual interest rate charged on the loans in 2019 are as follows:

	Effective rate	Actual rate
RCF	3.0%	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 2018 are as follows:

	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	Total £'000
Floating rate					
RCF	–	–	–	(51,062)	(51,062)

The effective interest rate and the actual interest rate charged on the loans in 2018 are as follows:

	Effective rate	Actual rate
RCF	4.1%	2.0%

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.

18. Financial instruments – risk management (continued)

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:

2019	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	8,588	–	–	8,588

2018	£'000	Level 1 £'000	Level 2 £'000	Level 3 £'000
Assets measured at fair value				
Financial assets	10,766	–	–	10,766
Liabilities measured at fair value				
Deferred consideration	1,990	–	–	1,990

The fair value of equity financial assets that are not traded in the open market of £0.093m (2018: £2.966m) are using Level 3 techniques in accordance with the fair value hierarchy and the Management Team use all relevant and up to date information (including cash-flow forecasts and financial statements) to arrive at their judgement. Where appropriate a range of potential outcomes is considered in reaching a conclusion.

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 10 to the Group Financial Statements.

"Adjusted EBITDA" is Group Underlying Operating Profit (Note 5 to the Group Financial Statements) 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" 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 10 to the Group Financial Statements.

"Board" / **"Board of Directors"** 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" or **"Chair"** Simon Embley.

"Chair of the Audit & Risk Committee" David Stewart.

"Chair of the Remuneration Committee" Bill Shannon.

"Code" UK Code of Corporate Governance published by the Financial Reporting Council (FRC) (July 2018 edition).

"Company Secretary" Sapna B FitzGerald.

"CCAS" Consumer Codes Approval Scheme.

"CSOP" company share ownership plan.

"CSR" corporate social responsibility.

"Data and Information Security Committee" or **"DISC"** – LSL's Data and Information Security Committee (formally the Information Security and Governance Committee (ISGC)).

"Davis Tate" trading name of Davis Tate Limited.

"Deputy Chair" refers to Bill Shannon.

"Director" an Executive Director or Non Executive Director of LSL.

"Divisions" LSL's Estate Agency, Financial Services, and Surveying and Valuation Services divisions.

"DPO" Data Protection Officer.

"EBITDA" earnings, before interest, taxes, depreciation and amortisation.

"Elsevier" Elsevier Limited.

"Embrace Financial Services" Embrace Financial Services 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 scheme.

"ESOT Trustees" Apex Financial Services (Trust Company) Limited.

"Estate Agency Division" or **"Estate Agency"** or **"EA"** in relation to the financial year commencing 1st January 2018, included LSL's Residential Sales, Lettings, Financial Services and Asset Management businesses. In relation to the financial year commencing 1st January 2019 it includes LSL's Residential Sales, Lettings 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.

"Eveclo Holdings" – Eveclo Holdings 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.

"EU" European Union.

"FCA" Financial Conduct Authority.

"Financial Services" or **"FS"** refers to LSL's financial services division (including mortgage, non-investment insurance brokerage services and the operation of LSL's intermediary networks).

"First2Protect" First2Protect Limited.

"First Complete" First Complete Limited.

"Financial Statements" financial statements contained in this Report.

"FRC" Financial Reporting Council.

"Frosts" trading name of David Frost Estate Agents Limited.

"FSCS" Financial Services Compensation Scheme.

"FSMA" Financial Services and Markets Act 2000.

"General Data Protection" or **"GDPR"** General Data Protection Regulation.

"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.

"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.

"ICSA" ICSA: The Governance Institute.

"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" LSL Land & New Homes Ltd.

"Lauristons" trading name of Lauristons Limited.

"Lawlors" trading name of Lawlors Property Services Limited.

"Legal Marketing Services", **"LMS"**, **"LMS Direct Conveyancing"** or **"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.

"LexisNexis" 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 subsidiary companies (during 2019 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.

"MAR" the Market Abuse Regulation.

"Marsh & Parsons" trading name of Marsh & Parsons Limited.

"Mortgages First" Mortgages First Ltd.

"Mortgage Gym" Mortgage Gym Limited.

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

"**NBC Property Master"** NBC Property Master Limited.

"Net Bank Debt" see Note 32 to the Group Financial Statements.

"Non Executive Director" refers to Gaby Appleton, Darrell Evans, Bill Shannon, David Stewart and Simon Embley.

"Notice of Meeting" the circular made available to Shareholders setting out details of the AGM.

"Note" refers to Notes to the Group Financial Statements.

"OCI" refers to other comprehensive income.

"Openwork" trading name of Openwork Limited.

"Ordinary Shares" or **"Shares"** 0.2 pence 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.

"Personal Touch Financial Services" or **"PTFS"** Personal Touch Financial Services Limited.

"Personal Touch Administration Services" or **"PTAS"** Personal Touch Administrations Services Limited.

"PI" professional indemnity.

"PI Costs" costs relating to on-going 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, First Complete Limited and as of 31st January 2019 Personal Touch Financial Services Limited.

"RCF" revolving credit facility.

"Reeds Rains" trading name of Reeds Rains Limited.

"Reeds Rains Financial Services" trading name of Reeds Rains Financial Services Limited.

"Registered Office" Newcastle House, Albany Court, Newcastle Business Park, Newcastle upon Tyne, NE4 7YB.

"Report" LSL's Annual Report and Accounts 2019.

"Residential Sales" refers to LSL's services for residential property sales.

"RICS" Royal Institution of Chartered Surveyors.

"Road to Health" – RoadtoHealth Group Ltd.

"RSC New Homes" or **"RSC"** RSC New Homes Limited.

"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 Advance Mortgage Funding Limited's mortgage club.

"TM Group" TM Group Limited.

"TPO" The Property Ombudsman.

"TPOS" The Property Ombudsman Scheme.

"Trust" LSL's SIP trust.

"Trustees" Link Market Services (Trustees) Limited.

"TSI" Trading Standards Institute.

"TSR" total shareholder return.

"UKLA" UK Listing Authority.

"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" or **"Vibrant Energy Matters"** Vibrant Energy Matters Limited.

"Walker Fraser Steele" a trading name 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.

"Zoopla" or **"ZPG"** ZPG Limited (previously ZPG plc).

Shareholder Information

Company details
LSL Property Services plc
Registered in England (company number 5114014)
LEI Number 213800T4VM5VR3C7S706

Registered office
Newcastle House, Albany Court, Newcastle Business Park, Newcastle upon Tyne, NE4 7YB

Head office
1 Sun Street, London, EC2A 2EP
Telephone: 0203 215 1015
Facsimile: 0207 920 9443
Email: investorrelations@lslps.co.uk
Website: 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 0.2 pence 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: 0371 664 0300

Calls are charged at the standard geographic rate and will vary by provider. Calls outside the United Kingdom will be charged at the applicable international rate. Link Asset Services is open between 09:00 - 17:30, Monday to Friday excluding public holidays in England and Wales.

Website: linkassetservices.com
Email: 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 **10th March 2020**

LSL intends to hold the 2020 AGM at its office at 1 Sun Street, London, EC2A 2EP. When a date for the AGM has been set, the Notice of Meeting will be sent to Shareholders, and it will include details of all 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, 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 (lslps.co.uk).

If a Shareholder wishes to continue to receive hard copy documents they should contact Link Asset Services (details above).

Forward looking statements
By their nature, all forward looking statements involve risk and uncertainty because they relate to future events and circumstances and are subject to assumptions 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 and 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 is intended to or 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 32 to 41.

Any forward looking statements in this document speak only at the date of this document and LSL undertakes no obligation to update publicly or review any forward looking statement to reflect new information or events, circumstances or developments after the date of this document.

lslps.co.uk

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(Company number 5114014)
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LSL Property Services plc