



CLS Holdings plc  
Annual Report & Accounts

# 2014





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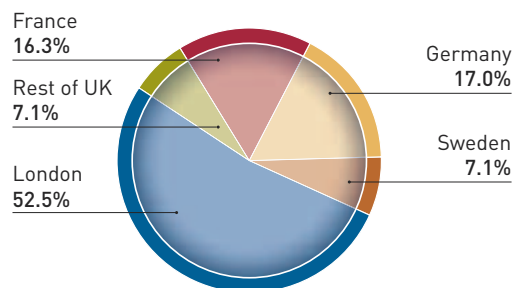
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PROPERTY INVESTMENTS BY VALUE



## WHO WE ARE

CLS IS A FTSE 250 PROPERTY INVESTMENT COMPANY WITH A £1.3BN PORTFOLIO IN THE UK, GERMANY, FRANCE AND SWEDEN OFFERING GEOGRAPHICAL DIVERSIFICATION WITH LOCAL PRESENCE AND KNOWLEDGE



- Our strategy combines long-term capital appreciation with a strong emphasis on cash generation and an opportunistic approach to acquisition, development and disposal
- The Company's core business is owning and managing high-yielding offices in good, non-prime locations close to major transportation links
- We are an active manager which repositions properties through lease restructuring, refurbishments and developments, working closely with our customers
- We finance our activities through diverse and flexible structures, multiple sources of finance and active cash management



# OUR GOAL IS TO CREATE LONG-TERM SHAREHOLDER VALUE



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## **A year of substantial progress:**

completion of two important developments, opportunistic acquisitions and selective disposals, the extension of our development pipeline, and our lowest ever vacancy rate.

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## **KEY PERFORMANCE INDICATORS**

- **Total Shareholder Return**

Aim – to provide a TSR of over 12% p.a. over the medium term

Achievement – 2010-2014: 206.6%, or 25.1% p.a. compound

- **Effective management of balance sheet**

Aim – to sell assets with limited growth potential and invest in high yielding alternatives and provide a return on equity of over 12% p.a.

Achievement – 2014: Sales of £37.5 million at a net initial yield of 2.9%

– 2014: acquisitions of £29.7 million at a net initial yield of 6.7%

– 2014: return on equity 38.9%

- **Administration cost ratio**

Aim – to maintain administration costs below 16% of net rental income

Achievement – 2014: 15.7%

– 2013: 16.3%

– 2012: 15.9%

- **Occupancy rate**

Aim – to maintain an occupancy level of over 95.0%

Achievement – 2014: 97.0%

– 2013: 95.6%

– 2012: 96.2%

# A RECORD YEAR

At 31 December 2014, EPRA net assets per share, EPRA net assets, net assets per share, net assets and investment properties were all higher than at any time in the Group's history, and the vacancy rate was at an all time low. Likewise, EPRA earnings per share, earnings per share, profit before tax and profit after tax in 2014 also reached record highs.

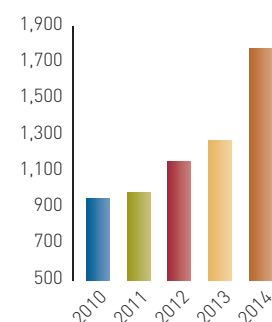
## FINANCIAL HIGHLIGHTS

- **EPRA net assets per share: up 39.9%** to 1,774.1 pence (2013: 1,268.4 pence)
- **EPRA net assets: up 36.6%** to £761.5 million (2013: £557.5 million)
- **EPRA earnings per share: up 16.9%** to 77.4 pence (2013: 66.2 pence)
- **Net assets per share: up 39.0%** to 1,521.1 pence (2013: 1,094.1 pence)
- **Net assets: up 35.8%** to £652.9 million (2013: £480.9 million)
- **Earnings per share: up 205.7%** to 449.0 pence (2013: 146.9 pence)
- **Profit before tax: up 231.7%** to £236.8 million (2013: £71.4 million)
- **Profit after tax: up 208.4%** to £194.9 million (2013: £63.2 million)
- **Distributions to shareholders: up 6.4% in the year, with a proposed £10.4 million** (2013: £10.0 million) by way of tender offer buy-back: 1 in 80 at 1,950 pence, equivalent to 24.38 pence per share
- **Low weighted average cost of debt: 3.64%** (2013: 3.64%)
- **Interest cover 3.3 times** (2013: 3.2 times)
- **Adjusted gearing 76.7%** (2013: 107.8%)
- **Adjusted solidity: 48.0%** (2013: 39.9%)

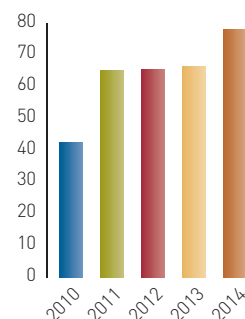
## OTHER KEY DATA

- **Total Shareholder Return in 2014: 10.9%**
- **Total Shareholder Return over 5 years: 206.6%**
- **Portfolio value: £1,310.1 million** (2013: £1,132.9 million)
- **Loan to value of property loans: 49.7%** (2013: 56.3%)
- **Proportion of Government occupiers: 46.8%**
- **Occupancy rate: 97.0%**
- **Indexation applies to 58.2% of contracted rent**
- **Liquid resources: £162.0 million**

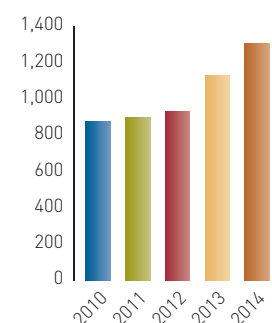
EPRA NET ASSETS PER SHARE  
(pence)



EPRA EARNINGS PER SHARE  
(pence)



INVESTMENT PROPERTIES  
(£ million)



## CHAIRMAN'S STATEMENT

# SUBSTANTIAL PROGRESS

**OVERVIEW** In 2014 we continued to make substantial progress in a number of areas. These included the completion of two important developments in central London, opportunistic acquisitions in Germany and London and selective disposals in London and Paris. Furthermore, we extended our development pipeline, and the benefits from our active in-house asset management resulted in our lowest ever vacancy rate across the Group.

At the year end our property portfolio benefited from a 15.8% annual revaluation uplift to £1.31 billion, the highest ever level in our history. EPRA NAV rose 39.9% to a record 1,774.1 pence per share and following a five year compound Total Shareholder Return of over 25% per annum, in December 2014 we entered the FTSE 350 index.

The Group places a strong emphasis on cash generation. Our portfolio produces a net initial yield of 6.5% and is financed by debt with a weighted average cost of 3.64%. In 2014 our rental income rose 11.1% to £84.4 million (2013: £76.0 million), benefiting from the effect of a full year's income from the Neo portfolio which was acquired last year, and EPRA earnings per share rose 16.9% to 77.4 pence (2013: 66.2 pence).

Our strategy of running a diversified, modern and efficient property portfolio with in-house asset management has continued to prove successful. We operate in close cooperation with our customers to meet their occupational needs, and this is reflected in a Group vacancy rate of 3.0%, well below the sector average.

During the year we selectively acquired investments in Germany and the UK at an aggregate cost of £29.7 million, generating a net initial yield of 6.7% and financed by debt at 1.97%. We also made some opportunistic disposals in London and Paris at low yields, thereby recycling our capital for an enhanced return.

The UK market continued to grow in 2014. In London, demand from overseas investors searching for prime yielding properties remained robust, with increasing interest beyond the traditional West End and City locations. In Germany and France the markets were characterised by low interest rates, a low level of new completions and improvement in occupier demand. Germany continued to offer the more attractive opportunities. The Swedish market displayed lower yields and a high level of activity, driven mainly by domestic property investors, and we continued to find better value elsewhere.

**PROPERTY PORTFOLIO** The increase in EPRA net assets per share was driven by a significant increase in values across our London portfolio, particularly in our Vauxhall heartland. The Group's property portfolio grew by £177.2 million or 15.6% over the period to £1.31 billion, due predominantly to a revaluation uplift of £186.5 million. France and Germany contributed positively, but the vast majority of the increase came from the London portfolio, particularly from developments and long leases with secure Government income.

At the year end the contracted rent roll was £87.5 million (2013: £85.6 million), of which 68% came from governments and major corporations and 58% was index-linked.

At Spring Mews SE11, our first student and hotel development scheme reached completion. The student accommodation was completed in September, in time for the start of the academic year, and all 378 rooms were let. We have already started letting rooms for 2015/16. At Clifford's Inn, Fetter Lane EC4, construction was completed at the end of 2014 and we are actively marketing the 2,769 sqm of new office space in a very strong mid-town office market. We have also secured detailed planning consent to convert and extend Westminster Tower SE1, providing luxury riverside apartments overlooking the Houses of Parliament, with a small amount of office space to be retained on the lower floors.

At Vauxhall Square we have secured further planning consent for design enhancements, and agreed commercial terms to acquire additional adjoining land and properties. In January 2014 we entered into a conditional agreement to grant a long lease in relation to the student site in Miles Street, on which an enhanced planning consent has also been achieved. These enhancements have contributed positively to the uplift in value. During 2015 we will explore all our available options for this major regeneration project to make a constructive start in 2017.

In the second half of the year, the Group acquired Berkeley House in Datchet, Berkshire for £2.2 million on a net initial yield of 10.75%. We also unconditionally exchanged contracts to acquire two modern, multi-let, office buildings in Harburg, a waterfront district in the southern part of Hamburg, Germany for €32.4 million before costs. We completed the acquisitions shortly after the year end. These high-quality offices are located in a district which is seeing significant investment in infrastructure and is developing into a popular mixed-use location.

In April the Group took advantage of a strong demand for development opportunities, and disposed of Cambridge House W6 for £29.5 million. The price was 32% above the December 2013 valuation and corresponded to an initial yield of 2.34%. Part of Le Quatuor in Montrouge, Paris was sold for €9.9 million, 23% above the June 2014 valuation, to accommodate the Grand Paris Express project to improve the railway system. The station will be a major transportation hub which will benefit our remaining holding.

**RESULTS** EPRA net assets per share have risen by 39.9% to 1,774.1 pence (2013: 1,268.4 pence), and net assets per share by 39.0% to 1,521.1 pence (2013: 1,094.1 pence). Profit after tax grew by 208.4% to £194.9 million (2013: £63.2 million) and shareholders' funds rose by 35.8% to £652.9 million, after distributions to shareholders of £15.5 million. The balance sheet remains strong, with cash and liquid resources of £162.0 million.

Recurring interest cover increased to 3.3 times (2013: 3.2 times), as the Group continued to enjoy a very low weighted average cost of debt of just 3.64% (2013: 3.64%), one of the lowest in the listed property sector. At 31 December 2014 the weighted average loan to value of our secured debt was 49.7% (2013: 56.3%).

**FINANCING** The Group continues its strategy of having a wide variety of financing from banks and other debt providers, and of ring-fencing debt against individual properties where appropriate. We secured financing for the Harburg acquisitions with a seven-year fixed interest rate loan below 2% for the first time. Since the end of 2014 we have refinanced our largest individual property loan on Spring Gardens in Vauxhall for 6 years, and this, together with the Harburg loan, has reduced our pro forma weighted average cost of debt further to 3.58%. Diversity of financing is important to reduce risk and we enjoy active lending relationships with 23 debt providers. Interest rates have remained very low, with further reductions in the Eurozone. We expect this will remain the case for an extended period and as a consequence, 68% of our debt is at floating rates, with 41% being protected against rising interest rates through interest rate caps.

The Group's corporate bond portfolio has continued to be a valuable part of our cash management strategy. The portfolio outperformed the bond market during the year, delivering a total return of £7.7 million, or 8.7% on capital. At the year end the portfolio consisted of 27 bonds valued at £61.8 million with a running yield of 7.4% on market value, and a weighted average duration of 15 years.

**SUSTAINABILITY** During the past twelve months we have continued our objective to further improve the quality of our portfolio through carbon reduction programmes, investments in renewable technology and social engagement within the communities in which we invest. We have achieved two SKA Gold ratings and three BREEAM Very Good ratings through our refurbishment programme, and we have reduced the consumption of electricity, gas and water in our properties.

More details of these initiatives are set out in the Corporate Social Responsibility Report on page 29. In addition we have, in line with our Green Charter established in 2011, committed additional resources to our in-house sustainability team to help minimise the impact the Group and its customers have on the environment.

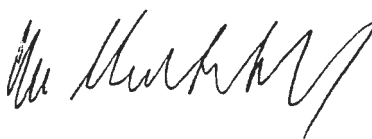
**BOARD CHANGES** During the year Tom Thomson, Brighth Terry and Claes-Johan Geijer retired as non-executive directors and I wish to record our thanks for their contribution to our success. We have welcomed Lennart Sten and Elizabeth Edwards who have joined us in their place. Richard Tice resigned as Chief Executive Officer in February and, following a successful search by an executive search firm, we were pleased to welcome Fredrik Widlund as his replacement in November. Fredrik joins us after a long career at GE Capital.

**DISTRIBUTIONS TO SHAREHOLDERS** In 2014, the Group distributed through tender offer buy-backs £10.0 million in May, equivalent to 22.65 pence per share, and £5.5 million in September, equivalent to 12.61 pence per share. Similarly, the Board is proposing a tender offer buy-back of 1 in 80 shares at 1,950 pence per share in April 2015, to distribute £10.4 million to shareholders, equivalent to 24.4 pence per share. This will bring total distributions for the year to £15.9 million, an annual increase of 6.4% and corresponding to an implied yield of 2.7%, based on the average market capitalisation for the Group in the year. A circular setting out the details will be sent to shareholders with the Annual Report and Accounts.

**OUTLOOK** Although its forthcoming general election may cause some temporary political uncertainty, we expect the UK's economy to continue to grow and the commercial property market to continue to perform well in 2015.

We also believe that the positive trends seen in London, including increasing rents and declining vacancies, will cascade into other parts of the country during the year. The Group's portfolio is well-positioned to benefit from a continuing strong UK market.

Even though we expect economic growth in the Eurozone to remain slow, we believe our overseas assets will continue to benefit from record low interest rates and a pick-up in demand. Our strategy, to invest in attractive, high-yielding office properties in secondary areas of major cities, should continue to serve the Group well in 2015.



**Sten Mortstedt**  
Executive Chairman

4 March 2015

## CORPORATE OBJECTIVE, BUSINESS MODEL AND STRATEGY

# A PROVEN AND CONSISTENT STRATEGY

### CORPORATE OBJECTIVE

Our objective is to create long-term shareholder value...

...which is measured through total shareholder returns and net assets per share KPI

### BUSINESS MODEL

Investments are required to make a high cash-on-cash return

We invest in modern, high quality, well-let properties in good locations

We operate in diverse locations

We utilise diversified sources of finance to reduce risk

The customer base is diversified, but underpinned by a strong core income stream

We maintain low vacancy rates

We maintain strict cost control

We retain high levels of liquid resources

### STRATEGY

KPI We focus on cash returns, specialising in predominantly high-yielding office properties

The cost of debt is kept well below the net initial yield of the properties to enhance the return on equity

Our investment strategy is opportunistic, its approach cautiously entrepreneurial

Local teams are required to compete for an allocation of the Group's capital on a case-by-case basis

We create extra value via developments when letting risk and financing risk have in large part been mitigated, and at the appropriate time in the cycle

We invest in the UK, France, Germany and Sweden, and in sterling, the euro and the Swedish krona

We have 60 loans from a range of lenders, including 23 banks, 2 public bonds and other financial institutions

Most properties are owned by single purpose vehicles and financed by non-recourse bank debt in the currency used to purchase the asset

Usually several banks are approached for each refinancing to achieve the most advantageous terms, and no one bank provides over 20% of the Group's debt

During periods of low, benign interest rates, debt is hedged using caps and allowed to float; at 31 December 2014, 68% of debt was at floating rates

We avoid a heavy reliance on any one customer or business sector, and actively seek rent indexation; we have some 517 customers; 46.8% of rental income is derived from government occupiers, and a further 21.3% from major corporations; the weighted average unexpired lease term is 6.4 years; 58.2% of rental income is subject to indexation

KPI In-house local property managers maintain close links with occupiers to understand their needs

We focus on the quality of service and accommodation for our customers

KPI We perform as many back office functions as possible in-house, and monitor our performance against our peer group; our administration cost per employee, and as a percentage of rents, is one of the lowest in the sector

We operate an in-house Treasury team which manages cash and corporate bonds to maximise their returns





**A focus on providing well-managed, cost-effective offices** for cost-conscious occupiers in big European cities.



**PERFORMANCE AGAINST CORPORATE OBJECTIVE**

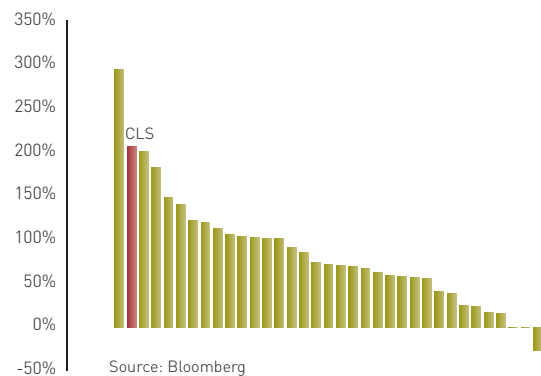
Anticipating a fall in real estate values, CLS sold 40% of its property portfolio into an over-heated market between 2006 and 2008.

In 2008, the fall of Lehman Brothers and its adverse impact on the banking sector led to falls in property values.

In 2008/09 whilst virtually all UK listed property companies were having to conduct rights issues, CLS returned cash to shareholders.

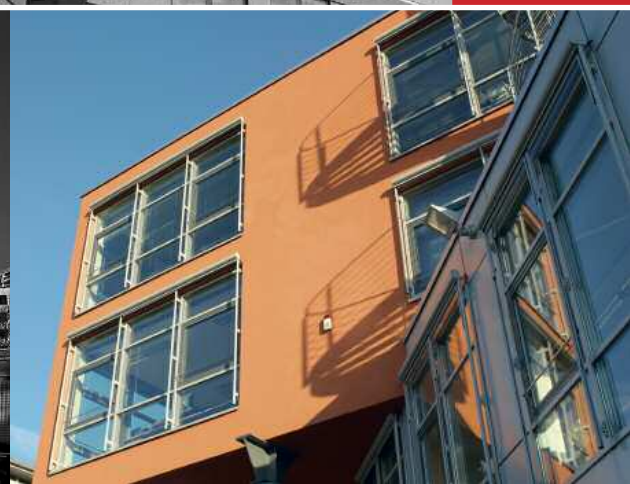
Consequently starting from a significantly higher point than its peer group, in the five years from 1 January 2010, CLS has nevertheless provided a total shareholder return of 206.6%, or 25.1% per annum compound, representing one of the best performances in the real estate sector.

**TSR OF UK LISTED PROPERTY COMPANIES FIVE YEARS TO 31 DECEMBER 2014 (%)**



**PERFORMANCE AGAINST OTHER KPIS**

See page 2.



## PRINCIPAL RISKS AND UNCERTAINTIES

THERE ARE A NUMBER OF POTENTIAL RISKS AND UNCERTAINTIES which could have a material impact on the Group's performance and could cause the results to differ materially from expected or historical results. The management and mitigation of these risks are the responsibility of the Board.

Risk	Areas of impact	Mitigation
<b>PROPERTY INVESTMENT RISKS</b>		
Underperformance of investment portfolio due to:	Cash flow Profitability Net asset value Banking covenants	Senior management has detailed knowledge of core markets and experience gained through many market cycles. This experience is supplemented by external advisors and financial models used in capital allocation decision-making.
<ul style="list-style-type: none"> <li>Cyclical downturn in property market</li> <li>Inappropriate buy/sell/hold decisions</li> </ul>		
<ul style="list-style-type: none"> <li>Changes in supply of space and/or occupier demand</li> </ul>	Rental income Cash flow Vacancy rate Void running costs Bad debts Net asset value	The Group's property portfolio is diversified across four countries. The weighted-average unexpired lease term is 6.4 years and the Group's largest occupier concentration is with the Government sector (46.8%).
<ul style="list-style-type: none"> <li>Poor asset management</li> </ul>	Rental income Cash flow Vacancy rate Void running costs Property values Net asset value	Property teams proactively manage customers to ensure changing needs are met, and review the current status of all properties weekly. Written reports are submitted monthly to senior management on, inter alia, vacancies, lease expiry profiles and progress on rent reviews.
<b>OTHER INVESTMENT RISKS</b>		
Corporate bond investments:	Net asset value Liquid resources	In assessing potential investments, the Treasury department undertakes research on the bond and its issuer, seeks third-party advice, and receives legal advice on the terms of the bond, where appropriate. The Treasury department and Executive Directors receive updates on bond price movements and third party market analysis on a daily basis, and reports on corporate bonds to the full Board on a monthly basis. The Executive Directors formally review the corporate bond strategy monthly.
<ul style="list-style-type: none"> <li>Underperformance of portfolio</li> <li>Insolvency of bond issuer</li> </ul>		
<b>DEVELOPMENT RISK</b>		
Failure to secure planning permission	Abortive costs Reputation	Planning permission is sought only after engaging in depth with all stakeholders.
Contractor solvency and availability	Reduced development returns Cost overruns Loss of rental revenue	Only leading contractors are engaged. Prior to appointment, contractors are the subject of a due diligence check and assessed for financial viability.
Downturn in investment or occupational markets	Net asset value Cash flow Profitability	Developments are undertaken only after an appropriate level of pre-lets have been sought.

Risk	Areas of impact	Mitigation
<b>SUSTAINABILITY RISKS</b>		
Increasing building regulation and obsolescence	Rental income, cash flow, vacancy rate, net asset value, profitability, liquid resources	Continual assessment of all properties against emerging regulatory changes. Fit-out and refurbishment projects benchmarked against third party schemes.
Climate change	Net asset value, profitability, liquid resources	Board responsibility for environment. Dedicated specialist personnel. Increased due diligence when making acquisitions. Investment in energy efficient plant and building mounted renewable energy systems.
Increasing energy costs and regulation	Net asset value, profitability, liquid resources	Investment in energy efficient plant and building mounted renewable energy systems.
<b>FUNDING RISKS</b>		
Unavailability of financing at acceptable prices	Cost of borrowing Ability to invest or develop	The Group has a dedicated Treasury department and relationships are maintained with some 23 banks, thus reducing credit and liquidity risk. The exposure on refinancing debt is mitigated by the lack of concentration in maturities.
Adverse interest rate movements	Cost of borrowing Cost of hedging	The Group's exposure to changes in prevailing market rates is largely hedged on existing debt through interest rate swaps and caps, or by borrowing at fixed rates.
Breach of borrowing covenants	Cost of borrowing	Financial covenants are monitored by the Treasury department and regularly reported to the Board.
Foreign currency exposure	Net asset value Profitability	Property investments are partially funded in matching currency. The difference between the value of the property and the amount of the financing is generally unhedged and monitored on an ongoing basis.
Financial counterparty credit risk	Loss of deposits Cost of rearranging facilities Incremental cost of borrowing	The Group has a dedicated Treasury department and relationships are maintained with some 23 banks, thus reducing credit and liquidity risk. The exposure on refinancing debt is mitigated by the lack of concentration in maturities.
<b>TAXATION RISK</b>		
Increases in tax rates or changes to the basis of taxation	Cash flow Profitability Net asset value	The Group monitors legislative proposals and consults external advisors to understand and mitigate the effects of any such change.
<b>POLITICAL AND ECONOMIC RISK</b>		
Break-up of the Euro	Net asset value Profitability	Euro-denominated liquid resources are kept to a minimum. Euro property assets are largely financed with euro borrowings.
Economic downturn	Cash flow Profitability Net asset value Banking covenants	The Group's property portfolio is diversified across four countries. The weighted-average unexpired lease term is 6.4 years and the Group's largest customer concentration is with the Government sector (46.8%). 58.2% of rental income is subject to indexation.
<b>GOING CONCERN</b>		
The Group will not have adequate working capital to remain a going concern for the next 12 months	Pervasive	The Directors regularly stress-test the business model to ensure the Group has adequate working capital.

## BUSINESS REVIEW

# STRONG ASSET GROWTH AND CASH GENERATION

The main activity of the Group is the investment in commercial real estate across five European regions – London, the rest of the United Kingdom, France, Germany and Sweden – with a focus on providing well-managed, cost-effective offices for cost-conscious occupiers in key European cities.

The Group's total property interests have increased to £1,382.1 million at 31 December 2014, comprising the wholly-owned property investment portfolio valued at £1,310.1 million, a hotel with a value of £21.3 million, vacation sites valued at £20.5 million (the Group's share), and a 13.5% interest in Swedish listed property company Catena AB, valued at £30.2 million.

### PROPERTIES

**OVERVIEW** At 31 December 2014, the directly held investment property portfolio was independently valued at £1,310.1 million (31 December 2013: £1,132.9 million). This increase of £177.2 million primarily comprised new acquisitions and development expenditure of £79.8 million in aggregate, and a £186.5 million valuation uplift; the effects of these were mitigated by disposals of £28.6 million, the transfer of the recently-completed Spring Mews hotel to Property, Plant and Equipment, and the £37.8 million negative impact of exchange rate movements. In local currencies, the portfolio rose by 15.8%, after acquisitions and development expenditure.

The driver was the outstanding performance of the London portfolio, which increased in value by 34.1%; Germany rose by 2.9% and France by 1.7%, whilst the rest of UK fell by 0.3% and Sweden by 15.8%.

Over 40% of the uplift in the value of the London portfolio came from four development schemes, of which two reached practical completion in the second half of the year, a third, Westminster Tower SE1, gained planning consent, and the fourth, Vauxhall Square, moved twelve months closer to our gaining vacant possession in early 2017. The medium-term development programme was extended during the year, with the planning consent gained on Westminster Tower, and with two French properties providing the opportunity for redevelopment.

Of the £31.6 million spent on acquisitions in the year, £27.4 million related to two modern, multi-let office buildings in a suburb of Hamburg. Cambridge House, Hammersmith was sold in April for £29.5 million, 32% above its valuation four months earlier. Contracted rent rose in the twelve months by 1.7% on a like-for-like basis, whilst the annualised rent rose by 2.3%, including £3.5 million of income from the completed developments. The increase in the capital values of the London properties far outstripped the increase in their rents, reducing the net initial yield of the overall investment property portfolio (excluding developments) at 31 December 2014 to 6.5% (2013: 7.0%). The average rent across the Group remained very affordable at £158 per sqm, and the average capital value was also low at just £2,352 per sqm.





**The driver was the outstanding performance of the London portfolio which increased in value by 34.1%.**



This was very close to replacement cost, meaning that the land element of our investments in key European cities was minimal. This also highlights how successful the Group can be in attracting occupiers with cost-effective rents.

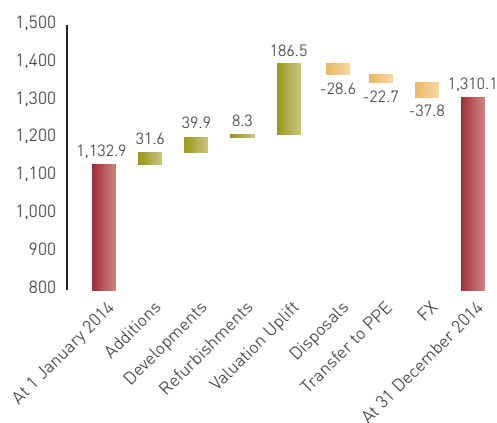
The bedrock of the Group's rental income is strong, with 47% being paid by government occupiers and 21% from major corporations, and 58% of our rents are subject to indexation. The weighted average lease length at 31 December 2014 was 6.4 years, or 5.1 years to first break. Some over-rented leases expire in 2015, notably in Sweden, and thereafter the portfolio is broadly let at current market rents.

The overall vacancy rate reached an all-time low at just 3.0% (2013: 4.4%), including a reduction in France of more than a half, from 10.6% to 5.1%. This is testament to the benefit of active in-house asset and property management, and of maintaining strong links with our occupiers to ensure we understand and respond to their needs.

The benefits of the Group's geographical diversification remain self-evident: there is strong growth in the London portfolio, at a time when there are good investment opportunities and readily available debt in Germany.

The Group maintains its strong commitment to sustainability, which has benefited both occupiers and the Group. The Corporate, Social and Environmental Responsibility Statement on page 29 provides more detail.

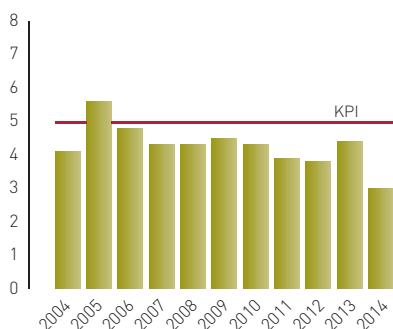
**MOVEMENT IN INVESTMENT PROPERTIES 2014**  
(£ million)



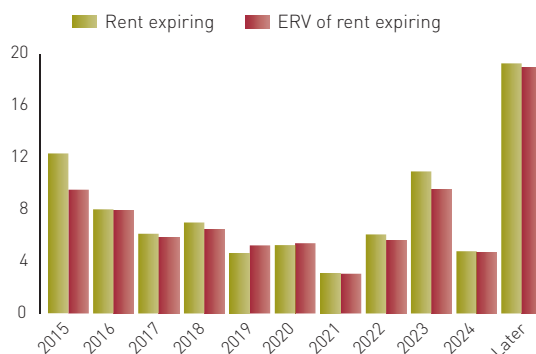
**AVERAGE UNEXPIRED LEASE TERM**  
(Years)



**VACANCY RATE HISTORY**  
(%)



**EFFECT OF RENT EXPIRIES**  
(£ million)



## BUSINESS REVIEW CONTINUED

### LONDON

The UK economy remains relatively robust – GDP growth was 2.6% in 2014 and a similar level is forecast for 2015, unemployment is 5.7% and set to fall, and inflation is under control – and London is the engine which drives it. The property market in London benefits from these conditions. It continues to show an imbalance of demand exceeding supply, in both the investment and the occupancy markets, and this has manifested in a fall in investment yields and in a rise in rental values, both within Central London and across its suburbs.

In the two years to 31 December 2013, the Group took advantage of buying opportunities in suburban London, investing £40.9 million at an average net initial yield of 9.9%. A subsequent significant increase in competition for such offices, coupled with more readily available bank finance, has since reduced yields by some 200 basis points. Whilst we continued actively to compete in these markets in 2014, we restricted our attention to opportunities in which we could see the better returns, and acquired Berkeley House, Datchet for £2.2 million plus costs, generating a net initial yield of 10.75%.

We have, however, taken the opportunity to dispose selectively of certain types of property. Following the sale in late 2013 of Ingram House, John Adam Street, WC2 for £13.2 million at a capital value before refurbishment costs of over £10,000 per sqm, in April we sold Cambridge House W6 for £29.5 million at a net initial yield of 2.34%, which, considered a development site, reflected its 50% vacancy.

The London occupancy market strengthened in 2014, and with a lack of new developments to satisfy this demand, rental values rose. On average, new lettings were achieved at 8.2% above the ervs of 31 December 2013. During 2014 ervs of the London portfolio rose by 9.7%, and at 31 December 2014 the London portfolio was net reversionary. Those leases which were reversionary were £4.1 million or 11.6% under-rented; of the £1.3 million (3.7%) of over-renting in London, more than £0.9 million was on leases which expire in 2022 or later. The vacancy rate for London remains very low at just 3.3%, excluding development stock (2013: 3.2%). During 2014, 6,365 sqm became vacant and we let or renewed leases on 5,661 sqm.

Of the developments in Central London, two have completed, a third continues to make good progress, and a fourth was added during the year. At Spring Mews, Vauxhall SE11, practical completion was reached on the 20,800 sqm mixed-use scheme, comprising a 378 bed student accommodation building, and a 93 bedroom suite hotel, together with retail and office space. The student accommodation was ready for the start of the academic year in September and achieved full occupancy in its first year. At the hotel a franchise agreement is in place with Intercontinental Hotel Group for a Staybridge branded suite hotel, run by specialist franchise operator, Cycas Hospitality. Following the fit-out, the hotel opened for business shortly after the year end. The 245 sqm of retail and 1,000 sqm of offices within the scheme are expected to be let in 2015. Under IFRS, the hotel element of the scheme is carried in the balance sheet at market value within Property, Plant and Equipment.

	Investment Properties	Spring Mews hotel
Value	£705.0 million	£21.3 million
Group's property interests	51%	2%
No. of properties	34	1
Lettable space	158,892 sqm	93 rooms
EPRA net initial yield <sup>1</sup>	5.2%	n/a
Vacancy rate	3.3%	n/a
Valuation uplift	34.1%	n/a
Government and major corporates	72%	n/a
Average unexpired lease length	7.0 years	n/a
To first break	6.1 years	n/a

<sup>1</sup> excluding developments



The comprehensive refurbishment of Clifford's Inn, EC4 was completed towards the end of the year to provide 2,769 sqm of top quality office space and eight new residential apartments. The offices were launched on the occupational market in January 2015 and the eight apartments are to be marketed later in the year.

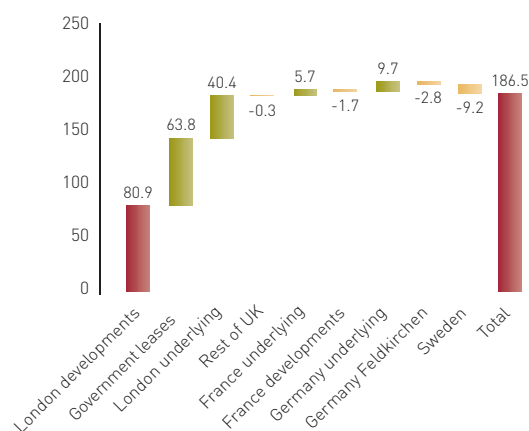
The Nine Elms/Vauxhall district of London continues to be the most industrious development area in the capital. The developments of the new American and Dutch embassies are well advanced, as is the demolition of Market Towers by Chinese developer Dalian Wanda Group, in preparation for the development of One Nine Elms, a five star hotel and high-end residential scheme. Developments are well advanced at Riverlight, Embassy Gardens and Battersea Power Station, other developers have started on site in the past twelve months, such as Sainsbury's/Barratt Homes and Bellway Homes, both on Wandsworth Road, and Keybridge House on South Lambeth Road was bought by developer Mount Anvil/A2 Dominion in November.

In early 2017 we are due to gain vacant possession of the site which comprises Vauxhall Square, SW8, which, adjacent to the main transport hub, is the gateway into Nine Elms/Vauxhall. We have continued to make good progress during the year on this 143,000 sqm mixed-use development scheme in the heart of Vauxhall. In January 2014 we entered into a conditional long lease with a specialist student housing developer/operator to build and manage the 359 student room building adjacent to the main Vauxhall Square site, and we continue to make progress to satisfy the conditionality. Planning consent was granted during the year to reconfigure this building to provide 454 student rooms. Consent was also granted to upgrade one of the hotels in our scheme from a mid-market offer to a four-star hotel with conferencing facilities.

At Westminster Tower, SE1, on the south side of Lambeth Bridge, detailed planning consent was granted for a major refurbishment of the existing 14 storey building, the addition of three further stories, and the conversion from an office building to 34 residential units (of which 11 will be of shared ownership) and 1,441 sqm of offices. Vacant possession is expected to be secured in the medium term.

The 34.1% uplift in the values of the London portfolio reflected both strong growth in the value of underlying investment properties and very strong growth in the values of the four developments. The let investment properties benefited from an uplift of 9.7% in ervs in the twelve months, and from a reduction in the true equivalent yields of 90 bps, which together contributed to a 27.8% uplift in values. The increase in value of the developments reflected profits recognised for the first time on completed developments, the granting of planning consent on Westminster Tower, and the continued strength of the Nine Elms/Vauxhall area. The valuation of Vauxhall Square benefited from a 5.5% increase in residential values reflecting price movements across the Nine Elms/Vauxhall area, office yields tightened by 50 bps and rents rose by over 15%. In total the four developments of Spring Mews, Clifford's Inn, Westminster Tower and Vauxhall Square shared an uplift of 48.3% in the twelve months after capital expenditure, representing 44% of the total uplift in London in the year. Of the remaining £104.2 million of London's uplift, two properties with long leases to Central Government departments added £63.8 million – an uplift of 30.6% – and the rest of the London portfolio rose by 16.4%. At 31 December 2014 the valuation of the London portfolio, except Vauxhall Square, was undertaken by DTZ for the first time; Vauxhall Square continued to be valued by Knight Frank.

**REVALUATION UPLIFT IN INVESTMENT PROPERTIES 2014**  
(£ million)



## BUSINESS REVIEW CONTINUED

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Value	<b>£97.6 million</b>
Group's property interests	<b>7%</b>
No. of properties	<b>32</b>
Lettable space	<b>98,086 sqm</b>
EPRA net initial yield	<b>12.8%</b>
Vacancy rate	<b>0.9%</b>
Valuation fall	<b>-0.3%</b>
Government and major corporates	<b>100%</b>
Average unexpired lease length	<b>6.6 years</b>
To first break	<b>4.1 years</b>

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### REST OF UK

The Rest of UK portfolio was acquired in September 2013 as part of the Neo portfolio of government-occupied offices across the UK.

The portfolio is 99% let to 14 government departments. In 2014, we renewed two leases, at 12.2% above their ervs of 31 December 2013, and agreed five index-linked rent reviews at an average of 17.7% above previous rents; in aggregate £265,000 was added to the rent roll.

The UK economic recovery driven by London has begun to reach other areas around the UK, and in 2014 ervs rose in the Rest of UK portfolio. However, the portfolio has a concentration of lease expiries and breaks in March 2018 and the external valuers are required by their professional rules to assume that each event affects the value as if it will be exercised. This negatively affected the value of the Rest of UK portfolio, increasing its true equivalent yield by 97 bps, which offset the impact of new lettings and erv growth, and the portfolio fell marginally in the year by 0.3%. At 31 December 2014 the valuation of the Rest of UK portfolio was undertaken by DTZ for the first time.







## FRANCE

The French economy stagnated in the first half of 2014 before picking up slightly over the summer. GDP growth is projected to continue at a slow pace in 2015, helped by lower energy prices, a favourable exchange rate and improvements in the global environment.

With an undersupply of new developments, and an increase in the number of projects on hold, headline rents in Paris stabilised following their fall in 2013. However, vacancy rates in the markets of La Defense and the Western Crescent of Paris now stand at 12%.

It is in these difficult conditions that the French team managed to more than halve our vacancy rate in France to only 5.1% (2013: 10.6%). Whilst 15,949 sqm of space was subject to expiries or vacancies in the year, 19,317 sqm was let. This was achieved at a weighted average rent of less than 1.5% below ervs at 31 December 2013.

In August we disposed of Blocks C and D of Le Quatuor, 168 Avenue Jean Jaurès, Montrouge under a compulsory purchase order to facilitate the expansion of the local train station to accommodate the Grand Paris project. The disposal was made at a gain of £1.7 million above the 2013 external valuation, and Blocks A and B which remain in our ownership will benefit in the fullness of time from the improvements to the area which this new railway line will bring.

<b>Value</b>	<b>£225.1 million</b>
<b>Group's property interests</b>	<b>16%</b>
<b>No. of properties</b>	<b>26</b>
<b>Lettable space</b>	<b>92,147 sqm</b>
<b>EPRA net initial yield<sup>1</sup></b>	<b>6.2%</b>
<b>Vacancy rate</b>	<b>5.1%</b>
<b>Valuation uplift</b>	<b>1.7%</b>
<b>Government and major corporates</b>	<b>56%</b>
<b>Average unexpired lease length</b>	<b>5.2 years</b>
<b>To first break</b>	<b>2.6 years</b>

<sup>1</sup> excluding developments

The French portfolio valuation rose by 1.7% in the year in local currency, but fell by 4.9% in sterling. The underlying portfolio of 24 of our 26 properties rose in value by 2.7%, reflecting the fall in vacancies across the portfolio, offset by a fall in ervs in the year of 1.1%. The values of the other two properties fell by 9.1% in aggregate. These properties were the Group's most central property in Paris, 1,800 sqm of offices directly opposite the Banque de France in Rue Croix des Petits Champs, and 3,700 sqm of offices in Rue Eugène Ruppert in Luxembourg. Both became empty during the year and provide excellent opportunities to carry out significant refurbishments or developments in the next few months.

### TOP 10 CUSTOMERS

The ten customers which contribute most rental income to the Group account for 48.7% of the rent roll, and comprise:

#### LONDON

- National Crime Agency                      Government
- Trillium    Government
- Cap Gemini                                         Major Corporation
- BAE Systems                                     Major Corporation

#### REST OF UK

- Secretary of State                             Government

#### GERMANY

- City of Bochum                                 Government
- BrainLab                                         Major Corporation
- E.ON     Major Corporation

#### SWEDEN

- Västra Götaland Country Council         Government
- Vänersborg Kommun                         Government

## BUSINESS REVIEW CONTINUED

### GERMANY

In 2014, Germany's GDP growth of 1.5% remained relatively weak and it is projected to grow only gradually, its otherwise robust labour market and expansionary monetary policy being constrained by weakness in its trading partners.

We continue to see good investment value in German real estate, supported by favourable financing conditions. Last year we bought Bismarckallee 18/20 in Freiburg, and in December 2014 we unconditionally exchanged on the acquisition of Schellerdamm 2 and Schellerdamm 16, two modern, multi-let office buildings in the Harburg district of Hamburg providing 18,665 sqm of lettable space and 287 car parking spaces. Completion took place shortly after the year end at a price of €32.35 million plus costs, generating a net initial yield of 6.4%, which we financed with a seven-year loan from a local Sparkasse bank at a cost fixed at less than 2% per annum.

During 2014, lettings and renewals totalled 6,023 sqm whilst only 2,256 sqm were vacated by occupiers, and as a consequence the vacancy rate fell to 2.6% (2013: 3.5%); two years ago the German portfolio was 7.4% vacant. New leases and renewals were achieved at an average of 4.1% above ervs at the end of 2013.

The valuation of the German portfolio rose by 2.9% in local currencies, but fell by 3.4% in sterling. However, the underlying portfolio of 16 out the 18 properties rose in value by 4.8%, partly due to the reduction in voids, and partly because the equivalent yield fell by 20 bps; ervs were virtually unchanged in the year. Of the other two properties, Harburg was acquired at the end of the year and rose by 1.4% after costs, and Kapellenstrasse 12, Feldkirchen fell by 16.6% after the sole tenant announced its intention to vacate the building when its lease expires at the end of 2016. The value of this building is unlikely to fall significantly further in value before then.

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<b>Value</b>	<b>£235.5 million</b>
<b>Group's property interests</b>	<b>17%</b>
<b>No. of properties</b>	<b>19</b>
<b>Lettable space</b>	<b>170,743 sqm</b>
<b>EPRA net initial yield</b>	<b>6.7%</b>
<b>Vacancy rate</b>	<b>2.6%</b>
<b>Valuation uplift</b>	<b>2.9%</b>
<b>Government and major corporates</b>	<b>39%</b>
<b>Average unexpired lease length</b>	<b>7.1 years</b>
<b>To first break</b>	<b>7.0 years</b>

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### SWEDEN

#### INVESTMENT PROPERTY

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<b>Value</b>	<b>£46.9 million</b>
<b>Group's property interests</b>	<b>3%</b>
<b>No. of properties</b>	<b>1</b>
<b>Lettable space</b>	<b>45,354 sqm</b>
<b>EPRA net initial yield</b>	<b>8.5%</b>
<b>Vacancy rate</b>	<b>0.8%</b>
<b>Valuation fall</b>	<b>-15.8%</b>
<b>Government and major corporates</b>	<b>96%</b>
<b>Average unexpired lease length</b>	<b>2.8 years</b>
<b>To first break</b>	<b>2.8 years</b>

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#### FINANCIAL INVESTMENT

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<b>Value in Catena</b>	<b>£30.2 million</b>
<b>Group's property interests</b>	<b>2%</b>
<b>Interest in Catena</b>	<b>13.5%</b>

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#### PROPERTY, PLANT & EQUIPMENT

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<b>Value in First Camp</b>	<b>£5.9 million</b>
<b>Group's property interests</b>	<b>2%</b>
<b>Interest in First Camp</b>	<b>58.0%</b>
<b>Gross value of assets</b>	<b>£35.4 million</b>
<b>Share of gross value of assets</b>	<b>£20.5 million</b>

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The Group's interests in Sweden consist of two operating segments: Investment Properties and Other Investments. The Other Investments are an equity stake in a financial investment and a subsidiary, both of which invest in Swedish real estate, and as they operate against the same economic backdrop, are considered together with the directly-held Swedish investment property in this Strategic Review.



Sweden's economy has continued to show signs of robustness. Inflation is running at marginally below 0%, unemployment is around 7%, and the Riksbank has reduced its Repo rate to 0% and expects GDP growth of 2.6% in 2015. The direct property market in Sweden has remained dominated by domestic demand with readily available finance, and in 2014 we have been able to find better returns elsewhere in the areas in which we invest.

At the 45,354 sqm office complex, Vänerparken, near Gothenburg, negotiations have progressed with the main local government occupier on lease renewals in mid-2015 which currently account for SEK 47.0 million of the SEK 71.3 million rental income from the property. It is likely that this occupier will remain only in part of the building complex, vacating in particular much of the basement and storage areas, and at a rent per square metre well below the current over-rented levels. Ervs at 31 December 2014 have fallen by 24.5% from their levels twelve months earlier and this is the primary reason for the fall in the property's market value by 15.8% in local currency (25.6% in sterling) in the year.

Catena AB's share price rose by 5.8% in 2014 to SEK 105.75 per share, but as sterling appreciated against the krona by 12.4% the sterling carrying value of the investment fell by a net 7.4%. Catena remains very profitable and we received a dividend of £0.7 million in the year.

At 31 December 2013, the Group held a 44.2% interest in its associate, Cood Investments AB. During the year the interest in Cood was sold, and certain income-producing assets of Cood were acquired by First Camp Sverige Holding AB, a newly-formed subsidiary in which the Group holds a 58% interest. The assets, predominantly camp sites in Sweden, were valued at £35.4 million (Group's share: £20.5 million) at 31 December 2014, and the Group's share in the net assets of First Camp at that date was £5.9 million.

#### EXCHANGE RATES TO THE £

	EUR	SEK
At 31 December 2012	1.2317	10.5677
2013 average rate	1.1779	10.1926
At 31 December 2013	1.2041	10.6562
2014 average rate	1.2410	11.2984
At 31 December 2014	1.2876	12.1654

#### RESULTS FOR THE YEAR

**HEADLINES** Profit after tax of £194.9 million (2013: £63.2 million) generated EPRA earnings per share of 77.4 pence (2013: 66.2 pence), and basic earnings per share of 449.0 pence (2013: 146.9 pence). Gross property assets at 31 December 2014 were £1,310.1 million (2013: £1,132.9 million), EPRA net assets per share were 39.9% higher at 1,774.1 pence (2013: 1,268.4 pence), and basic net assets per share rose by 39.0% to 1,521.1 pence (2013: 1,094.1 pence).

A key feature of the Group is its ability to generate cash through the yield on its portfolio far exceeding its cost of debt, and the low vacancy rate driven by in-house asset management. Net cash flow from operating activities, including interest received, was £34.5 million which represented a cash return of 7.2% on opening net assets.

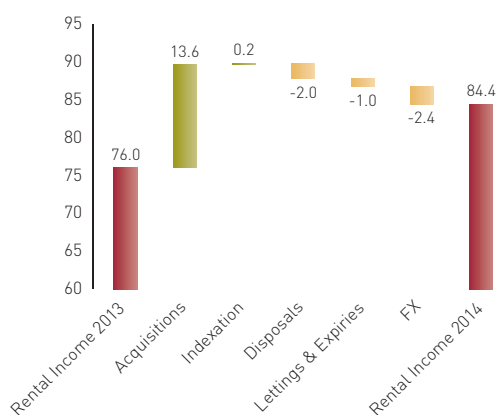
Approximately 50% of the Group's business is conducted in the reporting currency of sterling, around 45% in euros, and the balance is in Swedish kronor. Compared to last year, sterling strengthened against the euro by 5.4% and against the krona by 10.8%, reducing profits accordingly. Likewise, at 31 December 2014 the euro was 6.9% weaker and the krona 14.2% weaker against sterling than twelve months previously, reducing the sterling equivalent value of non-sterling net assets.

**INCOME STATEMENT** At £84.4 million, rental income in 2014 was £8.4 million higher than in 2013, largely through a full year's impact of acquisitions made in 2013, which added £13.6 million, offset by disposals of £2.0 million, and the strength of the sterling which lowered rent by £2.4 million. First Camp added £0.7 million of income for the first time, and net rental income of £82.2 million was 12.4% higher than last year (2013: £73.1 million).

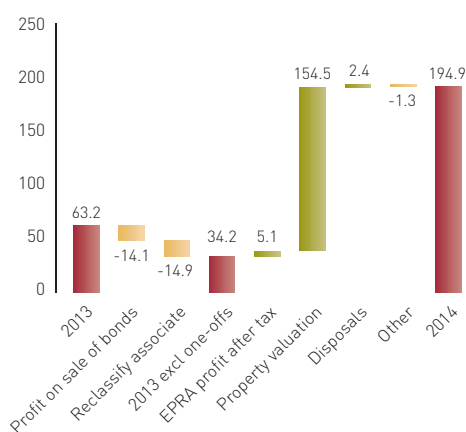
We monitor the administration expenses incurred in running the property portfolio by reference to the income derived from it, which we call the administration cost ratio, and this is a key performance indicator of the Group. In 2014, retaining key staff whilst expanding staff levels for the development programme and property purchases, drove the increase in administration expenses of the property segment of the Group to £12.8 million (2013: £11.9 million). As a proportion of net rental income, the administration cost ratio reduced to 15.7% (2013: 16.3%).

## BUSINESS REVIEW CONTINUED

### MOVEMENT IN RENTAL INCOME 2014 v 2013 (£ million)



### MOVEMENT IN PROFIT AFTER TAX (£ million)



The net surplus on revaluation of investment properties of £186.0 million was predominantly generated by the London portfolio, which rose in value by £185.1 million. £80.9 million (an uplift of 48.3%) of this reflected increases in the value of the four developments mentioned above, £63.8 million (an uplift of 30.6%) was generated on Spring Gardens, SE11 and 214/236 Gray's Inn Road, WC1, both of which have long leases with Central Government departments, and £40.4 million (an uplift of 16.4%) came from the rest of the let portfolio.

The majority of the profit on sale of investment properties was generated by the disposals of Cambridge House W6 and Blocks C and D of Le Quatuor in Paris, which realised a gain of £8.5 million after costs over their aggregate valuation at 31 December 2013 of £28.6 million.

In August, the Group increased its interest in its associate, Cood investments AB, from 44.2% to 58.0%, whereupon Cood was reclassified as a subsidiary at fair value, generating a gain on reclassification of £0.2 million. The increase of 13.8% was acquired for a price below the fair value of the share of net assets acquired, which produced a gain on acquisition of £1.2 million.

The majority of finance income of £7.7 million (2013: £7.6 million) was interest income of £6.1 million (2013: £6.3 million) from our corporate bond portfolio. At 31 December 2014, this had a value of £61.8 million, and remained an important cash management tool of the Group, earning a return on capital of 8.7% in the year.

Finance costs of £28.1 million (2013: £23.7 million) were higher than last year as they contained a £1.3 million loss on redeeming 25% of the zero coupon note, and non-cash items – an adverse movement in the fair value of derivatives of £0.9 million (2013: favourable £3.3 million) – added £4.2 million. The underlying interest cost, excluding these items, fell to £24.8 million (2013: £25.2 million), after capitalising interest of £2.9 million (2013: £0.9 million) on Spring Mews and Clifford's Inn, which will not recur next year. A full year of interest on the £80 million secured notes issued in December 2013 to finance the Neo acquisition added £2.9 million to gross interest costs in 2014. However, 68% of our debt is at floating rates to take advantage of the low interest rate environment, and the fall in Libor and its European equivalents reduced the cost of bank loans by £0.6 million compared to 2013.

Investments in associates have been largely sold or written down during the year, and at 31 December 2014 stood at only £1.5 million. We received a dividend from Bulgarian Land Development Plc of £0.8 million, and provided £2.2 million for the full impairment of the rest of the carrying value of the investment to reflect the difficult conditions likely to prevail in the Bulgarian residential holiday market.



Once again this year the tax charge of 17.7% was significantly below the weighted average rate of the countries in which we do business (22.1%), primarily due to indexation allowances available on United Kingdom properties.

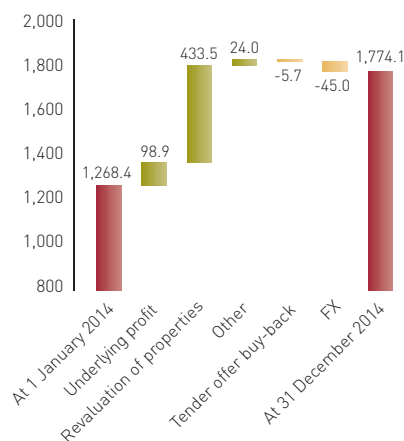
Overall, profit after tax attributable to owners of the Company of £194.9 million (2013: £63.2 million) was £131.7 million above that of last year. In 2013, the underlying profit after tax, before gains on the sale of bonds (£14.1 million) and on the reclassification of an associate (£14.9 million), was £34.2 million. EPRA profit after tax of £33.6 million (2013: £28.5 million) was 17.9% or £5.1 million higher in 2014, and the property valuation, net of deferred tax, was £154.5 million higher.

**EPRA NET ASSET VALUE** At 31 December 2014, EPRA net assets per share (a diluted measure which highlights the fair value of the business on a long-term basis) were 1,774.1 pence (2013: 1,268.4 pence), a rise of 39.9%, or 505.7 pence per share. The main reasons for the increase were the uplift in the valuation of the investment property portfolio which added 433.5 pence, and underlying profit after tax which added 98.9 pence. Sundry fair value uplifts of property, plant and equipment, equities and bonds added 24.0 pence, but the strength of sterling against the euro and krona reduced EPRA net assets per share by 45.0 pence.

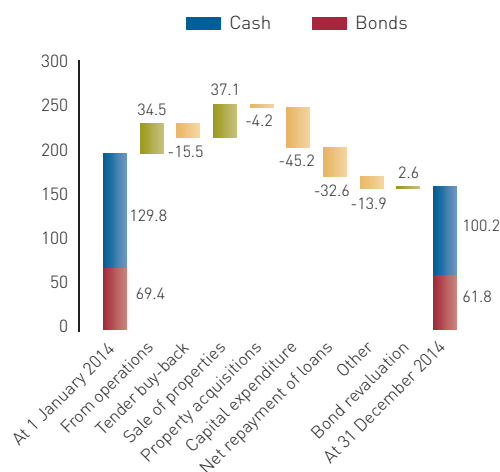
**CASH FLOW, NET DEBT AND GEARING** At 31 December 2014, the Group's cash balances of £100.2 million were £29.6 million lower than twelve months previously. Operating activities generated £34.5 million, of which £15.5 million was returned to shareholders, and proceeds from property disposals added £37.1 million. £45.2 million was spent on capital expenditure, particularly on the developments at Spring Mews and Clifford's Inn, and repayment of loans exceeded the proceeds from new ones by £32.6 million.

Gross debt fell by £54.3 million in a relatively quiet year for completing financing deals, and half of the fall was through retranslating non-sterling debt. One new loan of £22.5 million was taken out to replace £18.7 million repaid, and £13.4 million of loans were acquired by First Camp. £24.8 million was returned to the banks through amortisation, and a net £18.7 million of overdrafts were repaid. At the end of the year the weighted average unexpired term of the Group's debt was 3.9 years. Since the year end, the Harburg acquisition was financed with €24.0 million for seven years at a fixed cost of 1.915% p.a., and Spring Gardens was refinanced with £97 million for six years.

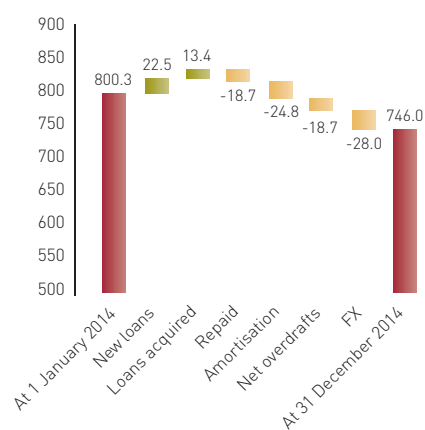
**MOVEMENT IN EPRA NAV 2014**  
(Pence per share)



**MOVEMENT IN LIQUID RESOURCES 2014**  
(£ million)

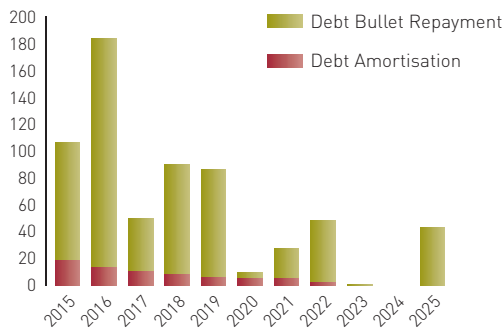


**MOVEMENT IN GROSS DEBT 2014**  
(£ million)



## BUSINESS REVIEW CONTINUED

### DEBT PROFILE AT 31 DECEMBER 2014 (£ million)

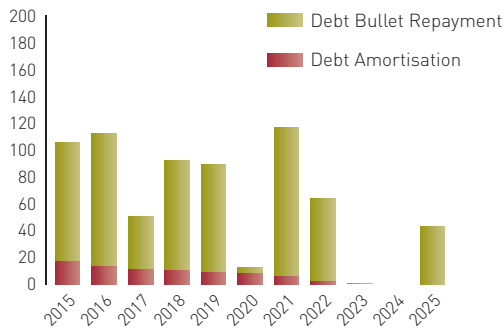


Balance sheet loan-to-value (net debt to gross assets less cash) fell to 43.4% (2013: 52.8%), and the weighted average loan-to-value on borrowings secured against properties was a comfortable 49.7% (2013: 56.3%). Adjusted solidity was 48.0% (2013: 39.9%).

The weighted average cost of debt at 31 December 2014 was 3.64%, which fell to a pro forma 3.58% after the financings of Harburg and Spring Gardens in February 2015, and it remains one of the lowest in the property sector. The cost of new bank financing has fallen in the past few months, particularly in the UK, but notwithstanding low medium-term rates, refinancing existing debts as they fall due will probably gradually increase the average cost of debt of the Group.

In 2014, our low cost of debt led to recurring interest cover of a comfortable 3.3 times (2013: 3.2 times).

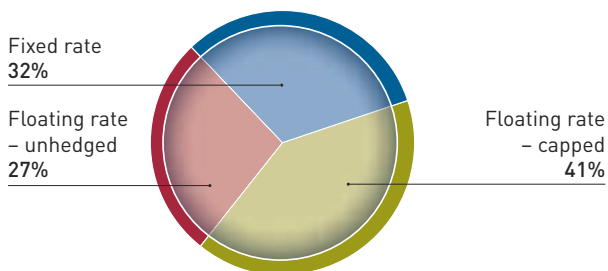
### DEBT PROFILE AT END FEBRUARY 2015 (£ million)



**FINANCING STRATEGY** The Group's strategy is to hold its investment properties predominantly in single-purpose vehicles financed primarily by non-recourse bank debt in the currency used to purchase the asset. In this way credit and liquidity risk can most easily be managed, around 75% of the Group's exposure to foreign currency is naturally hedged, and the most efficient use can be made of the Group's assets. Bank debt ordinarily attracts covenants on loan-to-value and on interest and debt service cover. The Group had 60 loans across the portfolio from 23 banks, plus a debenture, a zero coupon note, secured notes and two unsecured bonds.

To the extent that Group borrowings are not at fixed rates, the Group's exposure to interest rate risk is mitigated by the use of financial derivatives, particularly interest rate caps and swaps. Since 2009, the Board has believed that interest rates were likely to remain low longer than the forward interest curve would imply, and, therefore, its policy has been to allow a majority of debt to remain subject to floating rates. To mitigate the risk of interest rates increasing more sharply than the Board expected, the Group entered into interest rate caps. This policy has served the Group well. At 31 December 2014, 32% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 41% were subject to caps and 27% of debt costs were unhedged. With long-term rates now at historically low levels, particularly for the euro, the Board may seek to fix rates over the medium term with interest rate swaps when the opportunity arises, such as on the recent Harburg acquisition.

### DEBT HEDGING



The Group's financial derivatives – predominantly interest rate caps and interest rate swaps – are marked to market at each balance sheet date. At 31 December 2014 they represented a net liability of £7.3 million (2013: £5.2 million).



**DISTRIBUTIONS TO SHAREHOLDERS** In May 2014, £10.0 million was distributed to shareholders by means of a tender offer buy-back of 1 in 66 shares at 1,495 pence per share. In September, a further £5.5 million was distributed by means of a tender offer buy-back of 1 in 119 shares at 1,500 pence per share, and a proposed tender offer buy-back of 1 in 80 shares at 1,950 pence per share to return £10.4 million will be put to shareholders at the Annual General Meeting in April 2015. This represents a 7.6% uplift in distribution per share over the equivalent distribution last year.

**SHARE CAPITAL** At 1 January 2014, there were 46,856,893 shares in issue, of which 2,903,103 were held as treasury shares. Shares were cancelled during the year under the distribution policy of tender offer buy-backs: in May, 665,966 shares were cancelled in exchange for £10.0 million distributed to shareholders, and in September, 363,763 shares were cancelled in exchange for a distribution of £5.5 million.

Consequently, at 31 December 2014, 42,924,061 shares were listed on the London Stock Exchange, and 2,903,103 shares remained held in Treasury.

### TOTAL RETURNS TO SHAREHOLDERS

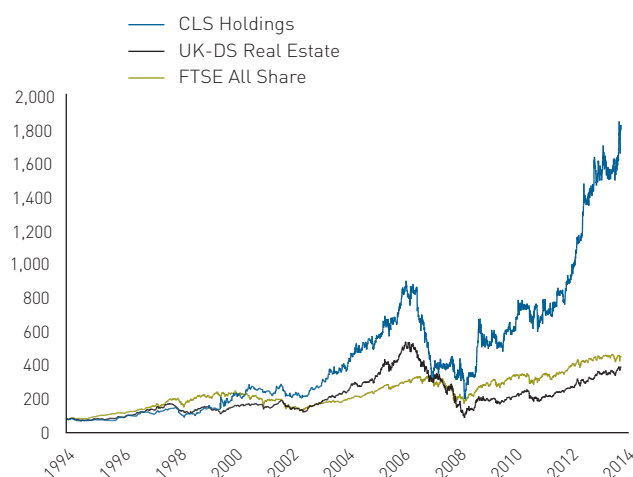
In addition to the distributions and share cancellations associated with the tender offer buy-backs, shareholders benefited from a rise in the share price in the year from 1,379 pence on 31 December 2013 to 1,529 pence at 31 December 2014. Accordingly, the total shareholder return in 2014 was 10.9%. In the five years to 31 December 2014, our total shareholder return of 206.6%, which represented a compound annual return of 25.1%, was one of the best performances in the listed real estate sector.

Since the Company listed on the London Stock Exchange, it has outperformed the FTSE Real Estate and FTSE All Share indices.

### KEY PERFORMANCE INDICATORS

Our performance against our key performance indicators is set out on page 2.

### TOTAL RETURNS TO SHAREHOLDERS 1995-2014



## PORTFOLIO UPDATE

# REPOSITIONING PROPERTIES THROUGH DEVELOPMENTS

OF THE DEVELOPMENTS IN CENTRAL LONDON, two have completed, a third continues to make good progress, and a fourth was added during the year.

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### Spring Mews SE11

**Completed in 2014**

- A mixed-use student and hotel development scheme which reached practical completion in 2014
- 378 student rooms were 100% let and operational for September 2014 term start
- 93 bed suite hotel opened in January 2015
- Built on land previously occupied by offices and light industrial units and owned by the Group for over 20 years
- Development cost (excluding land) £55 million

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Value uplift in 2014 **29.8%**

Net income **£5.5 million p.a.**

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### Clifford's Inn EC4

**Completed in 2014**

- Office and residential development launched to the market in 2015
- 2,769 sqm of Grade A offices over lower ground to second floor and eight private apartments
- In addition a new Portland stone façade was installed
- Owned by the Group for over 20 years

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Value uplift in 2014 **42.3%**

Net income **£1.6 million p.a.**

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## Vauxhall Square SW8

### Enhanced planning consent gained in 2014

- 143,000 sqm mixed-use scheme at the gateway to Nine Elms/Vauxhall
- 520 apartments: 410 in two 50 storey towers; 110 affordable
- 22,732 sqm offices; 3,119 sqm retail; multi-screen cinema; four-star 278 bedroom hotel; 123 bedroom suite hotel; 454 student bedrooms
- £500 million development cost
- Enhanced hotel and student planning gained in 2014
- Student site conditionally sold in 2014

Value uplift in 2014 **65.7%**

Vacant possession **January 2017**



## Westminster Tower SE1

### Planning consent gained in 2014

- 14 storey office building owned by the Group for over 20 years
- Consent gained for a major refurbishment, including:
  - Three additional storeys
  - 23 privately-owned residential units and 11 shared ownership units
  - 1,441 sqm of office space
  - Residents' gym and amenity space
  - 16 parking spaces and 66 cycle spaces
  - New Portland stone façade
- Located on Albert Embankment overlooking the Palace of Westminster

Value uplift in 2014 **67.5%**

Vacant possession **Medium term**



## SCHEDULE OF GROUP PROPERTIES

### LONDON

at 31 December 2014	Tenure	Area sqm	Use
<b>EC4</b> Clifford's Inn, Fetter Lane	Freehold	3,042	Offices
<b>SE1</b> Westminster Tower, 3 Albert Embankment	Freehold	4,457	Offices
<b>SW6</b> Quayside, William Morris Way	Freehold	3,064	Offices
<b>SW8</b> Cap Gemini House, 95 Wandsworth Road & 72/78 Bondway & 22 Miles Street	Freehold	10,427	Offices/Industrial
80/84 Bondway	Freehold	1,622	Offices
86 Bondway*	Freehold	891	Offices
18/20 Miles Street	Freehold	152	Offices
101/103/107 Wandsworth Road	Freehold	476	Residential
131/137 Wandsworth Road	Freehold	1,546	Offices
<b>SE11</b> 35 Albert Embankment Western House, 5 Glasshouse Walk	Freehold	527	Leisure
Gateway House, Milverton Street	Freehold	589	Community Centre
Spring Gardens, Tinworth Street	Freehold	1,844	Offices
Spring Mews, Tinworth Street	Freehold	19,519	Offices
	Freehold	11,021	Student accommodation/ Offices
Spring Gardens Court, 79 Vauxhall Walk	Leasehold	115	Residential
92/98 Vauxhall Walk	Freehold	415	Offices
405 Kennington Road	Freehold	1,680	Offices
<b>WC1</b> 214/236 Gray's Inn Road	Freehold	26,295	Offices
<b>W3</b> Armstrong Road	Freehold	4,039	Offices
<b>W10</b> Buspace Studios, 10 Conlan Street	Freehold	3,006	Studios/ Workshops/Offices
<b>NW10</b> Chancel House, Neasden Lane	Freehold	6,940	Offices
<b>Brentford</b> Great West House, Great West Road, TW8	Freehold	14,212	Offices
<b>Bromley</b> King's House, 32/40 Widmore Road, BR1	Freehold	2,244	Offices/Retail
Unicorn House, 29 Elmfield Road, BR1	Freehold	5,456	Offices
<b>Chertsey</b> Melita House, 124 Bridge Road, KT16	Freehold	1,257	Offices
<b>Coulsdon</b> Sentinel House, 163 Brighton Road, CR5	Freehold	3,411	Offices
<b>Datchet</b> 18 Horton Road†	Freehold	945	Offices
<b>Harrow</b> Hygeia, College Road, HA1	Freehold	6,757	Offices
<b>Hayes</b> The Grange, 501 Uxbridge Road, UB4	Freehold	1,042	Offices

\* Owner-occupied

† Acquired in 2014

at 31 December 2014	Tenure	Area sqm	Use
<b>Hounslow</b> 115/123 Staines Road, TW3	Freehold	2,314	Offices
125/135 Staines Road, TW3	Freehold	2,340	Offices
<b>New Malden</b> Cl Tower, High Street, KT3	Freehold	7,568	Offices
Apex Tower, High Street, KT3	Freehold	10,217	Offices/Retail
<b>Staines</b> 62 London Road, TW18	Freehold	1,272	Offices
<b>Sunbury-on-Thames</b> Benwell House, Green Street, TW16	Freehold	2,377	Offices
<b>Wallington</b> Crosspoint House, 28 Stafford Road, SM6	Freehold	1,963	Offices
		<b>165,042</b>	

### REST OF UK

#### SOUTH

<b>Basildon</b> Great Oaks House, SS14	Leasehold	5,057	Offices
<b>Bridgwater</b> Hanover House, Northgate, TA6	Freehold	2,007	Offices
<b>Cardiff</b> Rivers House, Fortran Road, St Mellons, CF3	Leasehold	2,109	Offices
29 Newport Road, CF24	Freehold	3,135	Offices
<b>Chippenham</b> Cyppa Court, Avenue La Fleche, SN15	Freehold	1,143	Offices
<b>Plymouth</b> Foliot House			
Brooklands Office Campus, PL6	Freehold	1,160	Offices
Units 3, 4 & 5 Brooklands Office Campus, PL6	Freehold	687	Offices
<b>Southampton</b> St Cross House, 18 Bernard Street, SO14	Freehold	3,993	Offices
<b>Swansea</b> Unit 5, Sandringham Park, Swansea Vale, SA6	Leasehold	2,775	Offices

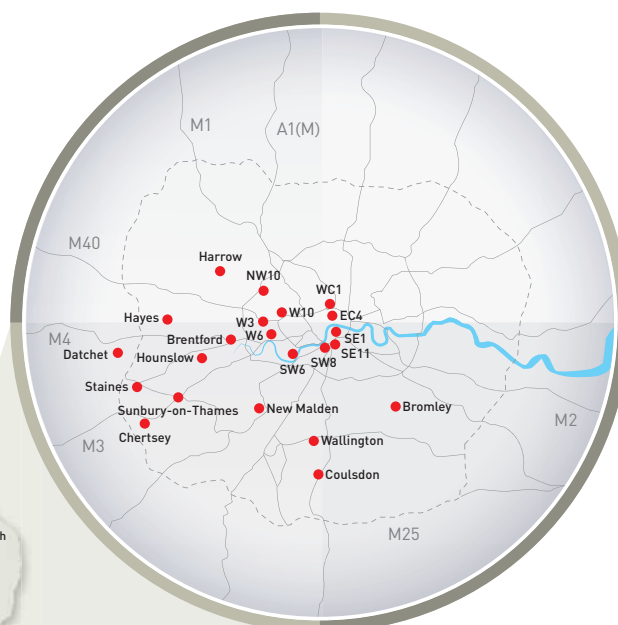
#### MIDLANDS

<b>Bedford</b> Chailey House, 30 Cardington Street, MK42	Freehold	1,534	Offices
<b>Birmingham</b> Aqueous 2, Aston Cross, Chester Street, B6	Leasehold	3,434	Offices
<b>Ipswich</b> Zest Nightclub, Princes Street, IP1	Freehold	1,951	Leisure
<b>Northampton</b> St Katherine's House, 21/27 St Katherine's Street, NN1	Freehold	2,578	Offices
<b>Norwich</b> Blackburn House, 1 Theatre Street, NR2	Leasehold	864	Retail
<b>Peterborough</b> Clifton House, 84 Broadway & 126/128 Park Road, PE1	Freehold	5,344	Offices
<b>Wolverhampton</b> Temple House, Temple Street, WV2	Freehold	2,557	Offices

at 31 December 2014	Tenure	Area sqm	Use
<b>NORTH</b>			
<b>St Asaph</b>			
Netcom House, St Asaph Business Park LL17	Leasehold	1,972	Offices
<b>Billingham</b>			
Theatre Buildings, Kingsway, TS23	Freehold	675	Offices
<b>Birkenhead</b>			
Great Western House, Woodside Ferry Approach, CH41	Freehold	7,445	Offices
<b>Bradford</b>			
Centenary Court, Forster Square, BD1	Freehold	9,774	Offices
Phoenix House, Rushton Avenue, BD3	Freehold	3,498	Offices
<b>Chester</b>			
Chantry House, 55/59 City Road, CH1	Freehold & leasehold	3,237	Offices
<b>Manchester</b>			
1009 Oldham Road, Newton Heath, M40	Leasehold	1,412	Offices

at 31 December 2014	Tenure	Area sqm	Use
<b>Redcar</b>			
Portland House, West Dyke Road, TS10	Freehold	892	Offices
<b>Rotherham</b>			
Bradmarsh Business Park, Bow Bridge Close, S60	Freehold	1,120	Offices
<b>Salford Quays</b>			
Units 1 & 2 Dallas Court, South Langworthy Road, M50	Leasehold	1,491	Offices
<b>St Helens</b>			
Gregson House, 2 Central Street, WA10	Leasehold	2,799	Offices
<b>SCOTLAND</b>			
<b>Aberdeen</b>			
Atholl House, 84/88 Guild Street, AB11	Leasehold	5,058	Offices
Lord Cullen House, Causeway End, AB25	Feuhold	2,995	Offices
<b>Dundee</b>			
Lindsay House, 18/30 Ward Road, DD1	Freehold	3,605	Offices
Sidlaw House, 4 Explorer Road, DD2	Freehold	5,690	Offices
<b>Edinburgh</b>			
Ladywell House, Ladywell Road, EH12	Freehold	4,807	Offices
<b>Paisley</b>			
Phase 1, 47/51 High Street, PA12	Freehold	1,288	Offices
			<b>98,086</b>

UK

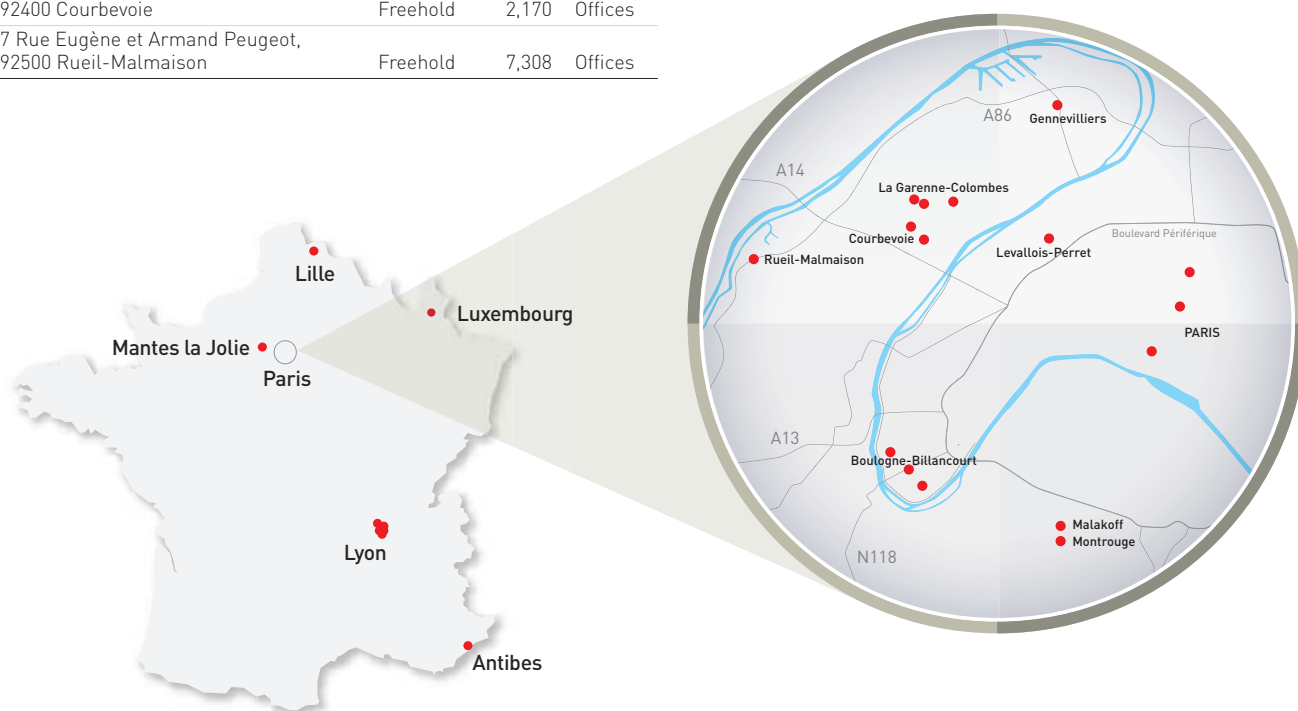


## SCHEDULE OF GROUP PROPERTIES CONTINUED

### FRANCE AND LUXEMBOURG

at 31 December 2014	Tenure	Area sqm	Use
<b>Paris</b>			
48 Rue Croix des Petits Champs, 75001	Freehold	1,800	Offices
20/22 Rue des Petits Hôtels, 75010	Freehold	2,080	Offices
18 Rue Stephenson, 75018	Freehold	563	Offices
Le Sully, Ilôt 2, Rue Georges Bizet, 78200 Mantes la Jolie	Freehold	2,798	Offices
95/97 Bis Rue de Bellevue, 92100 Boulogne	Freehold	2,477	Offices
16 Rue de Solférino, 92100 Boulogne	Freehold	1,020	Offices
58 Avenue Général Leclerc, 92100 Boulogne	Freehold	525	Offices
Le Quatuor, 168 Avenue Jean Jaurès, 92120 Montrouge	Freehold	2,459	Offices
2 Rue Pierre Timbaud, 92230 Gennevilliers	Freehold	3,118	Offices
23/27 Rue Pierre Valette, 92240 Malakoff	Freehold	10,778	Offices
Le Sigma, Place de Belgique, 90 Bld de L'Europe, 92250 la Garenne-Colombes	Freehold	6,690	Offices
Le Debussy, 77/81 Boulevard de la République, 92250 la Garenne-Colombes	Freehold	4,198	Offices
62 Avenue Foch, 92250 la Garenne-Colombes	Freehold	181	Offices
120 Rue Jean Jaurès, 92300 Levallois Perret	Freehold	4,029	Offices
56 Boulevard de la Mission Marchand, 92400 Courbevoie	Freehold	2,784	Offices
53/55 Rue du Capitaine Guynemer, 92400 Courbevoie	Freehold	2,170	Offices
7 Rue Eugène et Armand Peugeot, 92500 Rueil-Malmaison	Freehold	7,308	Offices

at 31 December 2014	Tenure	Area sqm	Use
<b>Lyon</b>			
Forum, 27/33 Rue Maurice Flandin, 69003	Freehold	6,806	Offices
D'Aubigny, 27 Rue de la Villette, 69003	Leasehold	4,316	Offices
Rhône Alpes, 235 Cours Lafayette, 69006	Freehold	3,147	Offices
Park Avenue, 81 Boulevard de Stalingrad, Villeurbanne, 69100	Freehold	4,249	Offices
Front de Parc, 109 Boulevard de Stalingrad, 69100	Leasehold	5,373	Offices
<b>Lille</b>			
96 Rue Nationale, 59000	Freehold	2,599	Offices
La Madeleine, 105 Avenue de la République, 59110	Freehold	4,446	Offices
<b>Antibes</b>			
Le Chorus, 2203 Chemin de St Claude, Nova Antipolis, 06600	Freehold	4,334	Offices
<b>Luxembourg</b>			
16 Rue Eugène Ruppert, L2453	Freehold	3,698	Offices
		<b>93,946</b>	



## GERMANY

at 31 December 2014	Tenure	Area sqm	Use
<b>Munich</b>			
BrainLAB, Kapellenstrasse 12, Feldkirchen D-85622	Freehold	16,313	Offices
Planegg, Maximilian Forum, Lochhamer Strasse 11/15, D-82152	Freehold	13,835	Offices
Gräfelfing, Lochhamer Schlag 1	Freehold	8,527	Offices
Rüdesheimer Strasse 9, D-80686	Freehold	2,588	Offices
Unterschleissheim, Lise-Meitner-Strasse 4, D-85716	Freehold	2,960	Offices
<b>Hamburg</b>			
Harburger Ring 33, D-21073	Freehold	3,330	Offices
Fleethaus, Schellerdamm 2, D-21079 <sup>†</sup>	Freehold	5,167	Offices
Silo, Schellerdamm 16, D-21079 <sup>†</sup>	Freehold	13,242	Offices
Fangdieckstrasse 75, 75a, b, 22547	Freehold	13,151	Offices
Jarrestrasse 8/10, D-22303	Freehold	5,569	Offices
Merkurring 33/35, D-22143	Freehold	5,605	Offices
Frohbösestrasse 12, D-22525	Freehold	1,941	Offices
<b>Berlin</b>			
Rudowerchausee 12, D-12489, Adlershofer Tor	Freehold	19,991	Offices/ Retail
Bismarckstrasse 105 & Leibnitzstrasse 11/13, Charlottenburg D-10625	Freehold	6,045	Offices
<b>Bochum</b>			
Hans-Böckler-Strasse 19, D-44787	Freehold	25,007	Offices
<b>Düsseldorf</b>			
Schanzenstrasse 76, D-40549	Freehold	3,095	Residential
<b>Freiburg</b>			
Bismarckallee 18/20, D-79098	Freehold	7,138	Offices
<b>Landshut</b>			
1, 3, 5 E.on Allee, Roider-Jackl-Strasse & 1 Kiem-Pauli-Strasse	Freehold	16,054	Offices
<b>Süderhastedt</b>			
Dorfstrasse 14, D-25727	Freehold	1,185	Nursing home
		<b>170,743</b>	

<sup>†</sup> Acquired in 2014



## SWEDEN

at 31 December 2014	Tenure	Area sqm	Use
<b>Vänerparken</b>			
Lasarettet No. 2, 6/8, Vänerparken, Vänersborgs Kommun	Freehold	45,354	Offices/ Education/ Residential/ Leisure/ Hospital
		<b>45,354</b>	
<b>Total Portfolio at 31 December 2014</b>		<b>573,171</b>	



## PROPERTY PORTFOLIO

### RENTAL DATA

	Gross rental income for the year £m	Net rental income for the year £m	Lettable space sqm	Contracted rent at year end £m	ERV at year end £m	Contracted rent subject to indexation £m	Vacancy rate at year end
London	32.4	31.7	158,892	34.9	38.9	6.0	3.3%
Rest of UK	13.3	13.3	98,086	13.3	9.8	6.1	0.9%
France	17.1	17.0	92,147	15.9	15.8	15.9	5.1%
Germany	15.3	14.9	170,743	17.5	16.9	17.1	2.6%
Sweden	6.3	4.6	45,354	5.9	3.7	5.9	0.8%
<b>Total Portfolio</b>	<b>84.4</b>	<b>81.5</b>	<b>565,222</b>	<b>87.5</b>	<b>85.1</b>	<b>51.0</b>	<b>3.0%</b>

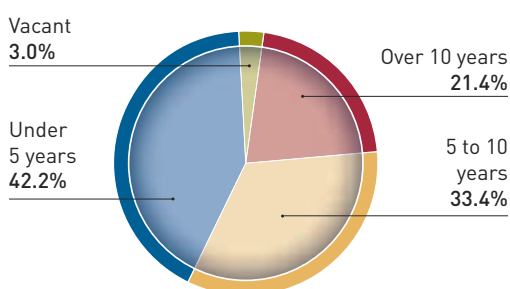
### VALUATION DATA

	Market value of property £m	Valuation movement in the year						True equivalent yield
		Underlying £m	Foreign exchange £m	EPRA net initial yield	EPRA topped up net initial yield	Reversion	Over-rented	
London	705.0	185.1	-	5.2%	5.2%	11.6%	3.7%	6.1%
Rest of UK	97.6	(0.3)	-	12.8%	12.9%	2.6%	30.3%	10.0%
France	225.1	4.0	(15.6)	6.2%	6.7%	3.0%	9.4%	6.6%
Germany	235.5	6.9	(15.2)	6.7%	6.8%	2.0%	8.1%	5.9%
Sweden	46.9	(9.2)	(7.0)	8.5%	8.5%	2.3%	39.3%	7.0%
<b>Total Portfolio</b>	<b>1,310.1</b>	<b>186.5</b>	<b>(37.8)</b>	<b>6.5%</b>	<b>6.6%</b>	<b>6.1%</b>	<b>12.0%</b>	

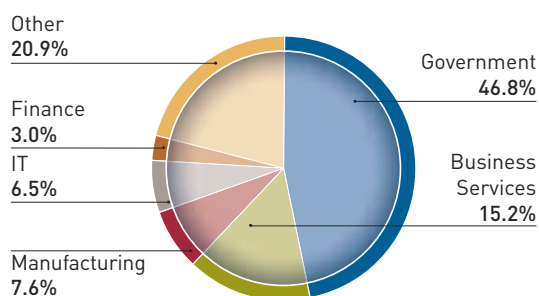
### LEASE DATA

	Average lease length		Passing rent of leases expiring in:				ERV of leases expiring in:			
	To break years	To expiry years	Year 1 £m	Year 2 £m	Year 3 to 5 £m	After year 5 £m	Year 1 £m	Year 2 £m	Year 3 to 5 £m	After year 5 £m
London	6.1	7.0	3.3	3.1	5.7	22.9	3.8	3.3	6.7	23.9
Rest of UK	4.1	6.6	1.6	0.8	2.1	8.9	0.9	1.0	1.4	6.3
France	2.6	5.2	1.6	0.8	5.6	8.0	1.2	0.7	5.0	8.0
Germany	7.0	7.1	1.9	3.3	4.0	8.3	1.9	2.8	3.9	7.8
Sweden	2.8	2.8	3.9	0.2	0.5	1.3	1.7	0.2	0.5	1.3
<b>Total Portfolio</b>	<b>5.1</b>	<b>6.4</b>	<b>12.3</b>	<b>8.2</b>	<b>17.9</b>	<b>49.4</b>	<b>9.5</b>	<b>8.0</b>	<b>17.5</b>	<b>47.3</b>

#### RENT BY LEASE LENGTH



#### RENT BY SECTOR



# A FOCUS ON DELIVERING SUSTAINABILITY

THE GROUP'S STRATEGIC AND ORGANISATIONAL COMMITMENT TO A SUSTAINABLE ETHOS OF CORPORATE, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY IS KNOWN TO ALL STAKEHOLDERS. The Directors actively encourage its integration into the business by employees across the Group.

## CHIEF EXECUTIVE OFFICER'S STATEMENT

Our focus on sustainability remains a key element in the way in which we conduct the activities of the Group, with our ongoing commitment to sustainability in a corporate, social and environmental setting.

During the past twelve months we have continued to make significant progress in our energy reduction programmes. For example, under our lighting programme we have converted 60% of all landlord areas in the French portfolio and 25% of all landlord areas in the UK portfolio to LED lighting.

We have installed three additional solar photovoltaic (PV) arrays in the UK which, together with the existing array, now accounts for 1% of our annual energy demands. We intend to increase this in 2015 with a further five solar PV arrays.

We also achieved a 10.9% Group-wide energy reduction in our managed buildings as a result of energy efficiency projects and active property management.

I am also pleased to report that across all UK buildings we diverted 100% of our waste from landfill to renewable sources, which helps us to minimise our impact on the environment.

We encourage our staff to engage with and support the communities in which we invest and are active, and I am proud that this year we have been involved in 12 social and charitable events, contributing over £28,000.

Our commitment to setting high standards throughout our development and refurbishment projects continues to earn us recognition. We have achieved 2 SKA 'Gold' and 2 SKA "Silver" ratings and 3 BREEAM 'Very Good' ratings. This provides efficient and sustainable space for our occupiers, whilst reducing their energy costs.

We have recently added to our sustainability team, enhancing our ability to deliver sustainability throughout the Group.

**Fredrik Widlund**

Chief Executive Officer

4 March 2015

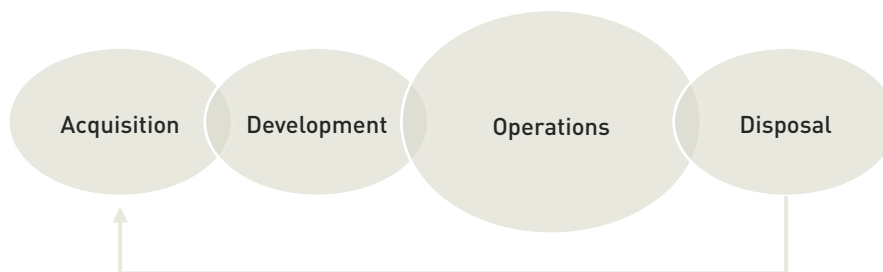
## KEY AREAS OF SUSTAINABILITY

### SUSTAINABILITY GREEN CHARTER

The Sustainability Green Charter (the "Charter") was set up in 2011 to promote our sustainability aspirations through continuous improvements which can influence and mitigate our impact on the environment, the local community, the economy and key stakeholders. The Group undertakes:

- to mitigate our impact on climate change by reducing our carbon footprint
- to be accountable for our performance relating to climate change by reporting regularly against measurable indicators
- to make the most effective use of our duties, powers and resources to minimise the impact of our actions on the environment, and to enhance the environment, community and economy wherever possible
- to monitor our progress by carrying out regular assessments against the key actions of the Charter
- to use our Charter to influence the behaviour of our partners, tenants, suppliers and other stakeholders, to promote the principles on which it is based

### PORTFOLIO SUSTAINABILITY



The Charter underpins our core business strategy through the asset lifecycle.

**Acquisition** – We commit significant time and resource to environmental due diligence when assessing where to invest in a building. We seek to identify all environmental risk factors, including physical and legislative risks, that may affect the operations of the asset or its value.

**Development** – Through our development and refurbishment programmes, we set the highest standards in environmental efficiency. We aim to provide better buildings for the future, going beyond standard requirements. We also believe in working with all stakeholders within our communities to help meet local needs, while considering urban biodiversity and the wider infrastructure.

**Operations** – We work closely with all our customers to manage our overall impact on the environment. We offer a range of services which benefit our customers in different ways, such as improving the energy efficiency of Landlord areas, customer engagement in sustainability projects and energy reports for each customer. Where we control energy usage we provide purchasing strategies to mitigate excessive energy price volatility. As part of our procurement processes, we also seek to ensure that our contractors consider the environment.

**Disposal** – Where we decide to dispose of an asset, we help the purchaser understand how the asset operates so as to ensure continued environmental and sustainability performance.



YEAR BY NUMBERS

**10.9%**

We achieved a 10.9% reduction in electricity across the Group

**7.2%**

We reduced our carbon (CO<sub>2</sub>e) by 7.2% across the Group

**100%**

We diverted 100% of UK office waste from landfill

**36%**

36% of landlord areas have LED lighting across the Group

**1%**

1% of our UK electricity needs comes from on-site generation

**£1.6m**

We invested over £1.6m in Energy Efficiency & Low Carbon projects

**4.5 years**

The average return on investment was 4.5 years

**£28k**

We participated in 12 social/charitable events raising over £28k

**9 years**

CLS has been reporting on sustainability in the annual report for 9 years



**GRESB**

Scored 56 (238th out of 617 companies globally)



**CDP**

Scored Grade D (69)



**SKA Ratings**

2 Gold and 2 Silver ratings for floor refurbishments



**BREEAM**

3 buildings achieved 'Very Good' new construction

### 2014 ACHIEVEMENTS

Our achievements against our 2014 key performance targets are set out below:

- Corporate
  - Disclosed the Group's environmental performance under the GRESB sustainability benchmarking, scoring 56, which places the Group 238th out of 617 companies globally.
  - Completed 12 projects in collaboration with our occupiers in order to improve the efficiency of our assets and reduce their impact on the environment.
  - First year of participation in the Carbon Disclosure Project.
- Social
  - Actively supported many community projects such as investing in a new community Christmas fair within Vauxhall, and assisted in the design and production of history books for local London schools.
  - Proactive members of the Vauxhall One Business Improvement District scheme.
  - Awarded RICS certification, allowing our employees to gain relevant property experience and qualifications.
  - Provided experience and research project opportunities to six people ranging from school sixth formers to a post-graduate student.
  - Sponsored the Totally Thames HippoThames, to create awareness of the regeneration of the Nine Elms Vauxhall area.
  - Raised charitable donations of £12,360 by direct contributions and events, supporting charities such as Race for life, Land Aid, Thames Reach, Motor Neuron Disease and The Poppy Appeal.
- Environmental
  - Achieved over 7% and 31% reduction on electricity and gas usage, respectively, in the UK.
  - Achieved 7.2% reduction in CO<sub>2</sub> emissions across the Group, exceeding our target of 5%.
  - Gained 2 gold and 2 silver awards for refurbishments using the SKA framework.
  - Achieved 100% diversion from landfill across all our UK assets; of this 62% was recycled and 38% was sent to Waste Energy plants or Anaerobic Digestion.

### EMPLOYEES

The Directors believe that the Group's employees are a source of competitive advantage, and recognise that continued and sustained improvement in the performance of the Group depends on its ability to attract, motivate and retain employees of a high calibre. The Group is committed to the principle of equal opportunity in employment, and seeks to ensure that no employee or applicant is treated less favourably on the grounds of gender, marital status, race, colour, nationality, ethnic or national origin, religion, disability or sexual orientation nor is disadvantaged by conditions or requirements, including age limits, which cannot be justified objectively. Entry into, and progression within, the Group are solely determined by the job criteria, personal aptitude and competence. These policies have worked effectively throughout the period.

It is the Group's policy to apply best practice in the employment of disabled people. Full and fair consideration is given both to every application for employment from disabled persons whose aptitude and skills can be utilised in the business, and to their training and career development. This includes, wherever possible, the retraining and retention of staff who become disabled during their employment. All staff are informed of matters concerning their interest as employees and the financial and economic factors affecting the business. Established management communication channels are supplemented by direct presentations to staff by Directors to explain developments of particular significance at least twice a year.

### HEALTH & SAFETY

It is a primary concern of the Board that the Company manages its activities in such a manner as to ensure that the health and safety of its employees, customers, advisors, contractors and the general public is not compromised.

As part of this process the Company employs specialist accredited advisers to advise on all health and safety matters relating to the Group. The Company also operates a Health and Safety Committee, which covers issues related to the UK portfolio and its employees. Chaired by the Company Secretary, the Committee comprises House Managers, Asset Managers and advisors, and reports to the Chief Executive Officer. The Chief Executive Officer also attends Health and Safety Committee meetings. All regions maintain and follow local health and safety policies and report issues to the Chief Executive Officer. This reporting process has worked effectively throughout the year and has ensured ongoing compliance with health and safety legislation.

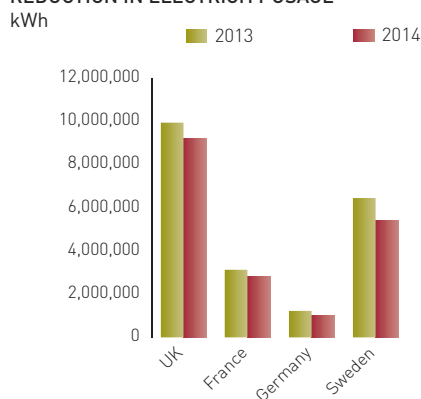
### BUSINESS ETHICS

The Board recognises the importance of the Company's responsibilities as an ethical employer and views matters in which the Company interacts with the community both socially and economically as the responsibility of the whole Board. Following the enactment of the Bribery Act 2010, the Company implemented a suitable policy which further demonstrated its commitment to business ethics.

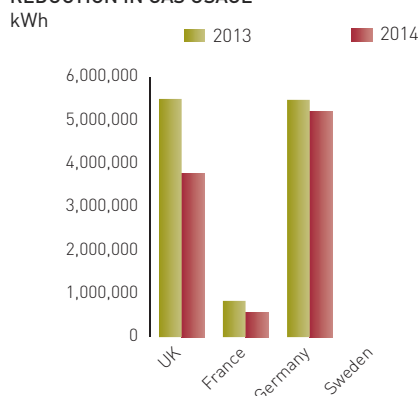
## ENERGY PERFORMANCE

	No. of sites	Fuel	2013	2014	Performance
UK	19	Electricity (kWh)	9,925,047	9,212,587	-7.18%
	15	Gas (kWh)	5,504,914	3,779,052	-31.35%
	16	Water (m <sup>3</sup> )	43,772	34,072	-22.16%
France	20	Electricity (kWh)	3,125,508	2,804,640	-10.27%
	2	Gas (kWh)	837,999	577,619	-31.07%
	16	Water (m <sup>3</sup> )	20,309	19,664	-3.18%
Germany	15	Electricity (kWh)	1,224,927	1,020,470	-16.69%
	12	Gas (kWh)	5,483,659	5,222,960	-4.75%
	14	Water (m <sup>3</sup> )	27,054	27,177	0.45%
Sweden	1	Electricity (kWh)	6,441,314	5,409,638	-16.02%
	0	Gas (kWh)	0	0	0.00%
	1	Water (m <sup>3</sup> )	31,642	31,319	-1.02%
CLS Group	55	Electricity (kWh)	20,716,796	18,447,335	-10.95%
	29	Gas (kWh)	11,826,572	9,579,631	-19.00%
	47	Water (m <sup>3</sup> )	122,777	112,232	-8.59%

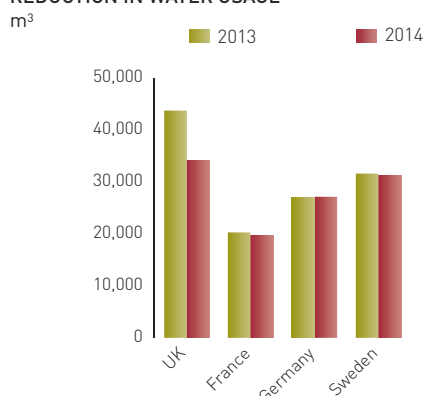
### REDUCTION IN ELECTRICITY USAGE



### REDUCTION IN GAS USAGE



### REDUCTION IN WATER USAGE



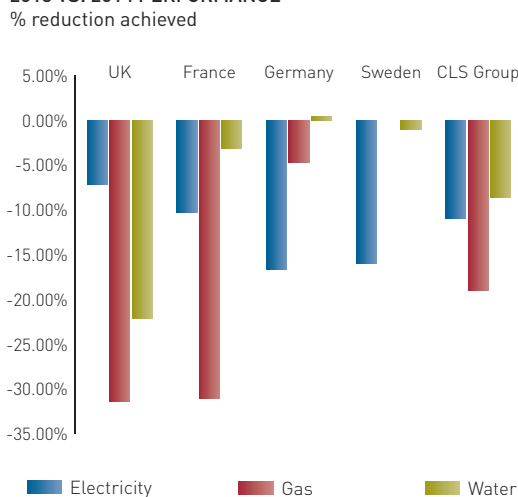
## OUR TARGETS FOR 2015

### Key Performance Drivers

In order to continue to drive the Group's commitment to sustainability and the Charter, the Board has set a number of targets as described below.

- Corporate
  - Improve our external reporting performance under GRESB and CDP sustainability benchmarking schemes
  - Integrate Group-wide sustainability reporting processes to support its sustainability strategy
- Social
  - Continue to improve our reputation and value to local stakeholders through community involvement and engagement
  - Invest in sustainability awareness across our staff and occupiers
- Environmental
  - Reduce by 5% year-on-year energy consumption and by 10% for water consumption in the managed like-for-like portfolio in 2015.
  - Divert 100% of waste from landfill in the managed like-for-like portfolio in 2015 based on the previous year.
  - Recycle 70% of all UK waste collected from the managed like-for-like portfolio in 2015

### 2013 VS. 2014 PERFORMANCE



## EMISSIONS REPORTING AND METHODOLOGY

CLS Holdings plc is a quoted company and so is required to include greenhouse gas emissions in its Directors' Report under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. The reporting period for greenhouse gas emissions is from 1 January 2014 to 31 December 2014, which is consistent with previous years' emissions reporting.

For continuity of data and ease of administration the same methodology is used for the Directors' Report. All emissions for which CLS Holdings plc and its subsidiaries are invoiced and have operational control are reported, including all scope one and scope two emissions for which the Group is responsible. We align our mandatory reporting requirement to report carbon emissions by the use of the EPRA Best Practice Recommendations for Sustainability reporting. The tables below follow their recommended format.

The Group's emissions are largely from the multi-let buildings managed by the Group. We do not report on properties managed by joint venture partners, third-party managed residential sites, buildings let on a full repairing and insuring basis or developments.

The Group also recognise that each region uses its own agreed calculated measure of floor areas in order to benchmark its energy and carbon emissions.

Scope one emissions are mostly attributable space and water heating using gas; scope two emissions are attributable to cooling and ventilation of office space, water heating, small power and lighting.

The offices at 86 Bondway ("UK HQ") have been reported separately as they are the largest centre of the Group's operations.

## SUSTAINABILITY PERFORMANCE – ABSOLUTE MEASURES

Broad Issue Type	Sustainability Performance Measure	UK HQ	UK	France	Germany	Sweden	Units
Energy	Total energy consumption from electricity [G4-EN3]	88,666	9,123,921	2,804,640	1,020,470	5,409,638	kWh
	Total energy consumption from district heating and cooling [G4-EN3]	0	0	Under review	Under review	161,930	kWh
	Total energy consumption from fuels [G4-EN3]	0	3,779,052	577,619	5,222,960	0	kWh
Greenhouse gas reporting	Total direct emissions (Scope 1) [G4-EN15]	0	699	107	966	0	metric tonnes CO <sub>2e</sub>
	Total indirect emissions (Scope 2) [G4-EN16]	48	4,856	183	511	100	metric tonnes CO <sub>2e</sub>
Water	Total water withdrawal by source [G4-EN8]	1,189	34,072	19,664	29,856	31,319	cubic metres
Waste	Total weight of waste by disposal route [G4-EN23]	13.5	816	Under review	Under review	29	metric tonnes
	Percentage of waste by disposal route	41% Recycled 59% Waste to Energy	63% Recycled 2% to Anaerobic Digestion 35% Waste to Energy	Under review	Under review	Incineration (48%) Recycling (35%) Biological treatment (14%) Landfill (2%) Hazardous Waste (1%)	Proportion by weight (%)

### SUSTAINABILITY PERFORMANCE – INTENSITY MEASURES

Broad Issue Type	Sustainability Performance Measure	UK HQ	UK	France	Germany	Sweden	Intensity Indicator
Energy	Building energy intensity [G4-CRE3]	100	210	68	10	118	kWh/m <sup>2</sup> /year
Greenhouse gas reporting	Greenhouse gas intensity from building energy [G4-CRE3]	53	128	17	12.7	2	kg CO <sub>2</sub> e/m <sup>2</sup> /year
Water	Building water intensity [G4-CRE3]	1.32	0.480	0.609	0.227	0.681	m <sup>3</sup> /m <sup>2</sup> /year

### SUSTAINABILITY PERFORMANCE – INTENSITY INDICATOR PER COUNTRY

CLS Office	UK	France	Germany	Sweden
m <sup>2</sup> = Gross internal area	m <sup>2</sup> = Floor area matched against energy	m <sup>2</sup> = Common Landlord Area	m <sup>2</sup> = Net Lettable Area	m <sup>2</sup> = Net Lettable Area

### CASE STUDIES



#### Spring Mews SE11

- The scheme comprises a hotel, student accommodation and office space, within one interlinked building.
- The scheme was designed and built to BREEAM 'Very good' standards.
- The core buildings are served by a central Energy Centre which has a mixture of low carbon and renewable technologies: a ground source heat pump, combined heat and power plant and photovoltaic arrays. The Energy Centre has been designed to make the scheme as energy efficient as possible through an integrated heating network.
- All renewable electricity generated on site is recycled into the electric load of the Energy Centre, reducing energy consumption and costs.
- The hotel and student accommodation were fitted with LED lighting throughout the communal areas and individual rooms.

#### Falcon House, Hounslow

- A 20kW photovoltaic array was installed on the roof of Falcon House in August 2014.
- The system, which generates electricity from the sun, consists of 31 individual panels giving a total generation area of 77m<sup>2</sup> and covers approximately 20% of the roof of the building.
- The installation is estimated to reduce the building's annual carbon dioxide emissions by nearly 9 tonnes and generate 17,000 kWh per year.
- The electricity generated by the photovoltaic array will be used to reduce the electricity demand of the building, which would otherwise have been consumed from the National Grid.
- Energy savings will be passed on to occupiers by reducing the building's service charge costs.



# DIRECTORS' REPORT

for the year ended 31 December 2014

## DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014.

The Chairman's Statement, Strategic Report and Corporate Governance Report form part of this report and should be read in conjunction with it.

## REVIEW OF BUSINESS

The group income statement for the year is set out on page 60.

A review of results for the year, the Group's objectives, business model and strategy applied to the business model, particulars of important events affecting the Company, the principal risks and uncertainties facing the Group and the prospects for the future, are set out within the Strategic Report on pages 3 to 28 and are incorporated into this report by reference. These also include analysis using key performance indicators and any other information required to fulfil the requirements of the Strategic Report.

Details of use by the Group of financial instruments are set out in the Strategic Report on pages 3 to 28 and in note 24 to the group financial statements. Risk management objectives are also detailed in note 24 to the group financial statements.

## DIRECTORS

The Directors of the Company are set out below and changes to the composition of the Board during the year can be found in the Corporate Governance Report on pages 40 to 45.

The statement of Directors' remuneration and the interests of Directors in shares and share options of the Company are set out in the Directors' Remuneration Report on pages 46 to 52. Related party transactions are shown in note 35.

Biographical details of the Executive and Non-Executive Directors are set out below.

### Executive Directors

**Sten A Mortstedt**, aged 75, is Executive Chairman of the Company. He began his career in 1962 with Svenska Handelsbanken in Stockholm and within three years had formed a property investment partnership. In 1968 he was appointed Managing Director of the Mortstedt family property company, Citadellet AB, which was floated on the Stock Exchange in Stockholm in 1981. The company was sold in 1985 for a price five times higher than the introduction price and was at that time the largest property deal recorded in Scandinavia. Since 1977 he has been involved in establishing and running property interests in the UK, Sweden and France. He established CLS in 1987, and has been Executive Chairman since he took the Company to a listing on the main market of the London Stock Exchange in 1994.

In addition to his focus on property, he has been commercially active in a number of other investment areas. He has seen a number of the companies in which he has invested through to successful stock exchange listings or trade sales.

He runs his global interests from his residence in Switzerland.

**E Henry Klotz**, aged 70, was appointed Executive Vice Chairman in January 2011, having previously been Chief Executive Officer from May 2008. He joined the Group in 1999 with responsibility for the management of the Swedish operation and more recently was involved in the setting up of the German division and sourcing new business opportunities for the Group. He is a qualified engineer and economist.

On behalf of CLS he is Non-Executive Chairman of Catena AB, a Nordic real estate company quoted on the Stockholm Stock Exchange, in which CLS holds an interest in 13.5% of its issued share capital. He is also Non-Executive Chairman of Bulgarian Land Development Plc, in which CLS holds an interest in 48.3% of its issued share capital, a Non-Executive Director of Note AB, a technology company quoted on the Stockholm Stock Exchange, in which CLS holds an interest in 8.5% of its issued share capital, and a Non-Executive Director First Camp Sverige Holding AB, a Swedish camp site operator, in which CLS holds an interest of 58.02% of its issued share capital. On 31 December 2015, he will step down from his executive duties and become a Non-Executive Director of the Group.

**Fredrik Widlund**, aged 46, joined the Group as Chief Executive Officer on 3 November 2014 and has over 20 years' experience in business leadership, property and finance. He joined from GE Capital, for whom he worked for 15 years, including two years as Finance Director and four years as Managing Director of GE Capital Real Estate (UK), and latterly as Managing Director and Global Commercial Leader at its trade finance business, GE Capital International. He previously worked for Shell in London and Sweden.

**John H Whiteley**, aged 56, joined the Company in 2009 as Chief Financial Officer. He has over 22 years' experience in the real estate sector: he was previously Finance Officer at Doughty Hanson & Co Real Estate, and for ten years was Finance Director of Great Portland Estates plc, a company listed on the London Stock Exchange. He spent nine years with Ernst & Young, after qualifying as an accountant with Spicer & Pegler. He is a member of the Finance Committee of the British Property Federation and a Fellow of the Institute of Chartered Accountants.

### Non-Executive Directors

**Malcolm C Cooper**, aged 55, joined the Board in 2007 and is the Senior Independent Director, Chairman of the Audit Committee and a member of the Remuneration Committee. He is Global Tax & Treasury Director of National Grid plc where he has worked for various predecessor companies since 1991. Previously he worked for Andersen Consulting. He has a first in pure mathematics from Warwick University, is a qualified accountant and is a member of the Association of Corporate Treasurers.

**Joseph A Crawley**, aged 55, joined the Board in 2008. He is Managing Director of Neat Developments Limited, a property investment and development company active in London and south-east England, and has over 25 years' experience of the central London property market. He was previously employed by CLS for a number of years and was involved in the development of the Spring Gardens site.

**Elizabeth Edwards**, aged 57, joined the Board on 13 May 2014. She is a qualified Chartered Surveyor with over 20 years' experience in the banking industry. She was most recently Head of UK Property Lending at Landesbank Berlin, having previously held senior positions in London with National Australia Bank, Berlin Hyp and Westdeutsche Immobilienbank. Prior to her banking career, she worked for PricewaterhouseCoopers as a management consultant. She is a Trustee of the Salvation Army International Trust, a Fellow of the Royal Institution of Chartered Surveyors, a member of the Association of Property Lenders, and the Master of the Worshipful Company of Chartered Surveyors.

**Christopher P Jarvis FRICS**, aged 59, joined the Board in 2008 and is Chairman of the Remuneration Committee and a member of the Audit Committee. He is a Partner of Jarvis & Partners, a boutique real estate consultancy which he established in Berlin in 1994. Previously he was Managing Director of Richard Ellis Germany where he established the firm's Frankfurt and Berlin offices. His firm has acted as development partner for the HRO Group in Germany.

**H O Thomas Lundqvist**, aged 70, joined the Board in November 1990 and was Finance Director of the Company until 1995, when he became a Non-Executive Director. He was Vice Chairman from 24 November 2009 until 1 January 2011. Prior to joining CLS, he worked for the ASEA-Brown Boveri Group (ABB) and from 1983 for Svenska Finans International, part of Svenska Handelsbanken Group, where he was a board member.

**Jennica Mortstedt**, aged 31, joined the Board in May 2010 and is the daughter of Bengt Mortstedt, a founding member and major shareholder in the Company. She has nine years' experience in the hotel industry and has a degree in International Business and Hospitality from Ecole Hôtelière de Lausanne, Switzerland.

**Lennart Sten**, aged 55, joined the Board on 1 August 2014. He has 15 years' experience in the international property industry having held senior positions at GE Capital and GE Real Estate Nordic, most recently Chief Executive Officer of GE Capital Real Estate Europe, from which he stepped down in March 2014. Prior to his time at GE Capital, he was a partner at Baker & McKenzie LLP, Stockholm, and an Assistant Judge in the District Court of Solna. He is a non-executive director of Victoria Park AB, a company listed on the NASDAQ OMX Stock Exchange, Stockholm, and a number of private companies, including Inter IKEA Holding SA.

Richard Tice resigned as Chief Executive Officer on 14 February 2014 and from the Board on 7 April 2014. Claes-Johan Geijer, Brigith Terry and Thomas Thomson resigned from the Board on 13 May 2014.

As explained in the Corporate Governance Report on page 43, all Directors will be subject to annual re-election at the Annual General Meeting in accordance with the UK Corporate Governance Code.

The Executive Chairman recommends the election and re-election of the retiring Directors at the Annual General Meeting, given their performance and continued important contribution to the Company. The Senior Independent Non-Executive Director recommends the re-election of the Executive Chairman.

## DIVIDENDS

In lieu of paying cash dividends it is the Company's policy to make distributions by way of tender offer buy-backs.

The final distribution for 2013 as set out in a Circular dated 14 March 2014 for the purchase of 1 in 66 shares at 1,495 pence per share was completed on 2 May 2014. It returned £10.0 million to shareholders, equivalent to 22.65 pence per share.

The interim distribution for 2014 as set out in a Circular dated 22 August 2014 for the purchase of 1 in 119 shares at 1,500 pence per share was completed on 24 September 2014. It returned £5.5 million to shareholders, equivalent to 12.61 pence per share.

A final distribution for 2014 will be put to shareholders in March 2015 for the purchase of 1 in 80 shares at a price of 1,950 pence per share which, if approved, will return a further £10.4 million to shareholders, equivalent to 24.38 pence per share.

## PURCHASE OF THE COMPANY'S SHARES

As described above, and under the relevant authority granted at the 2014 Annual General Meeting, during the year the Company made two tender offer purchases totalling 1,029,729 shares at a cost of £15.5 million. Of these, 665,966 ordinary shares were purchased on 2 May 2014 at 1,495 pence per share and 363,763 shares were purchased on 24 September 2014 at 1,500 pence per share. These shares were subsequently cancelled.

There were no further purchases of the Company's own shares.

The Directors will continue to keep under review whether to make tender offer purchases and market purchases of the Company's shares if they are in the best interests of shareholders, by reference to the cash resources of the Company and the discount of the market price of the Company's shares to the net asset value.

A resolution will be proposed at the 2015 Annual General Meeting to give the Company authority to make market purchases of up to 4,293,906 shares along with an additional resolution enabling the Company to undertake tender offer purchases, subject to set parameters, thereby reducing the administrative burden on shareholders of having to hold General Meetings more than once a year. Any market purchases or tender offer purchases during the year will not exceed 4,293,906 shares in aggregate.

Following the tender offer purchases that took place during the year, the aggregated authority for the purchase of 3,365,650 shares in the capital of the Company remained valid at the year end.

## SHARE CAPITAL

Changes in share capital are shown in note 25 to the group financial statements. At 31 December 2014 the Company's issued share capital consisted of 45,827,164 ordinary shares of 25 pence each, of which 2,903,103 shares were held as treasury shares and all of which ranked *pari passu*.

At the date of this report, 2,888,103 shares were held in treasury, therefore, the total number of voting rights in CLS Holdings plc is 42,939,061, being the number of shares in issue excluding treasury shares. The rights (including full details relating to voting), obligations and any restrictions on transfer relating to the Company's shares, and the powers of the Directors in that regard, are set out in the Company's Articles of Association.

## DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2014

At 31 December 2014 the Company operated two employee share schemes: the 2005 Company Share Option Plan (CSOP) (an Inland Revenue Approved Scheme); and the Company's Unapproved Share Option Scheme (USOS). There were no options outstanding under these schemes at the year end or as at the date of this report (2013: none). There were no options exercised under these schemes during the year. The existing CSOP and USOS schemes have now lapsed meaning no further awards can be made under these schemes.

Details of the Directors' interests in shares are shown in the Remuneration Committee Report on page 50.

### PROPERTY PORTFOLIO

A valuation of all the properties in the Group at 31 December 2014 was carried out by DTZ or Knight Frank for London, DTZ for rest of the UK, Jones Lang Lasalle for France, Colliers International for Germany, and CB Richard Ellis for Sweden, which produced an aggregate market value of £1,310.1 million (2013: £1,132.9 million).

### CORPORATE GOVERNANCE

The Corporate Governance Statement, prepared in accordance with rule 7.2 of the FCA's Disclosure and Transparency Rules, is set out on pages 40 to 45 and forms part of this report.

### EMPLOYEES, ENVIRONMENTAL AND SOCIAL ISSUES

The Group's policies on employment, environmental and social issues (including the information required by The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 in relation to greenhouse gas emissions), including charitable donations, are summarised in the Corporate Social and Environmental Responsibility Report on pages 29 to 35. No political donations to any parties, organisations or candidates, or political expenditure were made during 2014. The breakdown of gender information for the Board and Senior Managers is contained in note 7 to the group financial statements.

### HUMAN RIGHTS

The Board ensures the Group upholds and promotes respect for human rights in all its current operating locations and aims to prevent any negative human rights impact. As the Group operates in the UK, Germany, France and Sweden it is subject to the European Convention on Human Rights and the UK Human Rights Act 1998. The Group respects all human rights and in conducting its business regards those rights relating to non-discrimination and fair treatment to be the most relevant and to have the greatest potential impact on its key stakeholders, which are deemed to be customers, employees and suppliers.

The Group's policies seek to ensure that employees comply with the relevant legislation and regulations in place to promote good practice. The Group's policies are formulated and kept up to date and communicated to all employees through the Group Intranet and, where appropriate, individual presentations. In the year to 31 December 2014, the Group was not aware of any incident in which the organisation's activities have resulted in an abuse of human rights.

### INSURANCE OF DIRECTORS AND INDEMNITIES

The Company has arranged insurance cover in respect of legal action against its directors and officers. The Company has granted indemnities to each of the Directors and other senior management, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as directors or employees of the Company or one or more of its subsidiaries or associates.

### AUDITOR

A resolution to reappoint Deloitte LLP as auditor to the Company will be proposed at the forthcoming Annual General Meeting.

### 2015 ANNUAL GENERAL MEETING

The 2015 Annual General Meeting will be held on Wednesday, 15 April 2015. The notice of meeting including explanatory notes for the resolutions to be proposed will be posted to shareholders.

### DISCLOSURE OF INFORMATION TO THE AUDITOR

Each Director has confirmed at the date of this report that:

- so far as they are aware, there is no relevant audit information of which the Company's auditor is unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### GOING CONCERN

The current macro-economic conditions have created a number of uncertainties as set out on pages 8 and 9. The Group's business activities, and the factors likely to affect its future development and performance, are set out in the Strategic Report on pages 3 to 28. The financial position of the Group, its liquidity position and borrowing facilities are described in the Strategic Report and in notes 22 and 24 of the group financial statements.

The Directors regularly stress-test the business model to ensure that the Group has adequate working capital and have reviewed the current and projected financial positions of the Group, taking into account the repayment profile and covenants of the Group's loan portfolio, and making reasonable assumptions about future trading performance. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and, therefore, they continue to adopt the going concern basis in preparing the annual report and accounts.



#### DISCLOSURES UNDER LISTING RULE 9.8.4R

The table below is included to comply with the disclosure requirements under Listing Rule 9.8.4R. The information required by the Listing Rules can be found in the Annual Report at the location stated below.

Listing Rule	Information Required	Disclosure
9.8.4(1)	Interest capitalised by the Group	Note 9
9.8.4(2)	Publication of unaudited financial information	None
9.8.4(4)	Long-term incentive schemes with directors	None
9.8.4(5)	Director's waiver of emoluments	None
9.8.4(6)	Director's waiver of future emoluments	None
9.8.4(7)	Allotments for cash (issuer) other than pro rata	None
9.8.4(8)	Allotments for cash (major subsidiaries) other than pro rata	None
9.8.4(9)	Listed company is subsidiary of another company and participated in placing	None
9.8.4(10)	Contracts of significance with a director	None
9.8.4(11)	Contracts of significance with controlling shareholder	None
9.8.4(12)	Dividend waiver	Not applicable
9.8.4(13)	Waiver of future dividends	Not applicable
9.8.4(14)	Relationship Agreement with controlling shareholder	Page 45

The following table is included to comply with the additional disclosure requirements under the Listing Rule 9.8.6.

Listing Rule	Information Required	Disclosure
9.8.6(1)	Directors' (and Connected Persons') interests in CLS shares at year end and at not more than one month prior to the date of the AGM notice	Page 51
9.8.6(2)	Interests in CLS shares disclosed under DTR5 at year end and not more than one month prior to the date of AGM notice	Page 44
9.8.6(3)	The going concern statement	Page 38
9.8.6(4)(a)	Amount of authority to purchase own shares available at year end	The Company had the authority to purchase 3,365,650 shares at year end
9.8.6(4)(b)	Off-market purchases of own shares during the year	None
9.8.6(4)(c)	Off-market purchases of own shares since year end	None
9.8.6(4)(d)	Non-pro rata sales of treasury shares during the year	None
9.8.6(5)	Compliance with the Main Principles of the UK Corporate Governance Code	Page 40
9.8.6(6)(b)	Details of non-compliance with the UK Corporate Governance Code	Pages 40-45
9.8.6(7)	Directors proposed for re-election: the unexpired term of any director's service contract and a statement about directors with no service contracts	Pages 36 and 37

By order of the Board

**David Fuller BA FCIS**  
Company Secretary  
4 March 2015

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN'S INTRODUCTION

The Board has overall responsibility for corporate governance and is accountable to the Company's shareholders for good governance.

We are committed to achieving high standards of corporate governance which best fits the Group. Your Board recognises that through an effective structure of systems and controls that defines authority and accountability throughout the Group, risks are appropriately managed and controlled whilst still promoting entrepreneurial behaviour and ensuring a successful business.

Corporate Governance is a key driver to the success of a listed company, but no two businesses are the same and no two boards are the same. Whilst some might say that the Chairman of a listed company should not hold executive powers, and be "independent upon appointment", as Executive Chairman and founding shareholder my interests are strongly aligned with all other stakeholders, which ensures that the Group succeeds in its business strategy and continues to look to the future with optimism.

In December this year the Group entered the FTSE 250 and therefore became a constituent of the FTSE 350. We recognise that, as a result, the UK Corporate Governance Code (the "Code") requires us to enhance certain aspects of our governance structures. Whilst in this report we apply the Code's provisions as a smaller listed company, during 2015 we will aim to address any required enhancements, such as additional independence on both the Audit and Remuneration Committees, and we will report on this progress next year.

We continue to monitor the Code's requirements regarding Board composition. It has always been my belief that an effective Board should have members who have a detailed knowledge of the company's business and its relationships, so that there can be effective challenge and searching questions asked of the Executive Directors. We recognise that the composition of our Board is not aligned to this requirement, but from a governance perspective, I consider this to be more beneficial than a Board comprising a number of "independent" non-executives who cannot possess such in-depth knowledge and whose competence as custodians of the shareholders' interests is unproven. I thank our long-term shareholders for sharing this view.

**Sten Mortstedt**  
Executive Chairman

## COMPLIANCE WITH THE CODE

The principal corporate governance rules which applied to the Company in the year under review were those set out in the UK Corporate Governance Code published by the Financial Reporting Council ("FRC") in September 2012 (the "Code"), the UK Financial Conduct Authority ("FCA") Listing Rules and the FCA's Disclosure and Transparency Rules. The Board fully supports the principles of good governance as set out in the Code, which is publicly available on the FRC's website ([www.frc.org.uk](http://www.frc.org.uk)).

The Company became a constituent of the FTSE 350 index on 22 December 2014. The Code contains a number of additional requirements applicable to FTSE 350 companies on which we are required to report our compliance for the first time in our 2016 Annual Report. However, in demonstrating its commitment to good corporate governance the Board has already adopted a number of these requirements. Save as identified and explained below, the Board considers that throughout 2014 it complied with the Main Principles and the supporting principles as set out in Section 1 of the Code.



## LEADERSHIP

### The Role of the Board

The Board, which met five times during the year, is responsible to the shareholders of the Company for the strategy and future development of the Group and the management of its resources. The Board's primary objective is to create long-term shareholder value by identifying and assessing business opportunities as they arise and ensuring that associated risks are identified, monitored and controlled. The Board has a formal schedule of matters specifically reserved to it for decision. Matters reserved for Board decisions include identifying strategic long-term objectives, approving the annual Group budget, and approving substantial property transactions and investment decisions. The implementation of Board decisions and the day-to-day operations of the Group are delegated to the Executive Directors.

### Strategy

Strategy is determined after having taken due regard of relevant economic factors, financial forecasts, and domestic and international developments. The views of shareholders are sought by the Executive Directors and are reported back to the Board. The Board is also appraised of the views of shareholders, analysts and potential investors by the Company's advisers.

### Performance Monitoring

Group and divisional performance, budgets and quarterly financial forecasts including net assets and cash flow projections are formally reviewed by the Board on a quarterly basis. In addition the Executive Directors monitor cash flows weekly.

### Conflicts of Interest

The Company's Articles of Association contain procedures to deal with Directors' conflicts of interest. The Board considers that these have operated effectively during the year.

### Meetings

The attendance of Directors at Board meetings during the year is set out below:

Sten Mortstedt	5/5
Henry Klotz	5/5
Fredrik Widlund <sup>(1)</sup>	1/1
John Whiteley	5/5
Malcolm Cooper	5/5
Joseph Crawley	4/5
Elizabeth Edwards <sup>(2)</sup>	3/3
Claes-Johan Geijer <sup>(3)</sup>	2/3
Christopher Jarvis	5/5
Thomas Lundqvist	5/5
Jennica Mortstedt	5/5
Brigith Terry <sup>(3)</sup>	2/3
Thomas Thomson <sup>(3)</sup>	3/3
Richard Tice <sup>(4)</sup>	1/2
Lennart Sten <sup>(5)</sup>	2/2

(1) Appointed on 3 November 2014

(2) Appointed on 13 May 2014

(3) Resigned on 13 May 2014

(4) Resigned on 7 April 2014

(5) Appointed on 1 August 2014

In addition to attending Board meetings, senior management meet regularly to discuss management issues relating to the Group both formally and informally.

### Insurance

The Company has arranged insurance cover for its Directors and officers, as set out in the Directors' Report on page 38.

### Division of Responsibilities

The responsibilities of the Executive Chairman, who is responsible for the overall strategy of the Group, the Executive Vice Chairman who supports the Executive Chairman, and the Chief Executive Officer, who is responsible for implementing the strategy and for the day-to-day running of the Group, are specifically divided. A written statement of the division of these responsibilities between the Executive Chairman, Executive Vice Chairman and the Chief Executive Officer are reviewed and approved by the Board each year.

This year, following the departure of Mr Tice as Chief Executive Officer, Henry Klotz undertook the role of Executive Vice Chairman and Acting Chief Executive Officer. Following the appointment of Mr Widlund on 3 November 2014, these roles were again separated.

The Company does not comply with provision A.3.1 of the Code, as the Executive Chairman was not independent on appointment. There have been no significant changes to the commitments of the Executive Chairman during the year.

### Non-Executive Directors

Mr Cooper is the Senior Independent Non-Executive Director and he is available to shareholders who do not wish to approach the Executive Chairman, the Executive Vice Chairman or the Chief Executive Officer about a Company matter.

A formal meeting of the Non-Executives took place during the year, without the Executive Directors or the Chairman present, and at which a thorough review of the performance of the Executive Chairman took place. Several meetings of the Non-Executive Directors and the Executive Chairman took place during the year to discuss, amongst other things, the performance of the Group's strategy, the performance of the other Executive Directors and the performance of the Board as a whole.

The Board was satisfied with the experience, expertise and performance of each board member; they continue to add significant value to the operation of the Company through their combined knowledge and experience, and exercise objectivity in decision-making and proper control of the Company's business.

## EFFECTIVENESS

### Composition of the Board

On 14 February 2014, Mr Richard Tice became a Non-Executive Director and Mr Klotz assumed the role of Executive Vice Chairman and Acting Chief Executive Officer whilst a replacement was sought.

On 7 April 2014, Mr Tice resigned as a Non-Executive Director.

On 13 May 2014, Ms Elizabeth Edwards was appointed a Non-Executive Director and Ms Brigith Terry, Mr Thomas Thomson and Mr Claes-Johan Geijer resigned as Non-Executive Directors.

On 1 August 2014, Mr Lennart Sten was appointed a Non-Executive Director.

On 3 November 2014, Mr Fredrik Widlund was appointed as Chief Executive Officer.

On 5 January 2015, Mr Klotz informed the Company that he would step down from his executive duties on 31 December 2015 and, at the request of the Board, would become a Non-Executive Director commencing 1 January 2016.

The biographies of the Directors can be found on pages 36 and 37.

The Board is assisted by the Audit and Remuneration Committees, the Terms of Reference for which can be obtained from the Company Secretary.

**Independence**

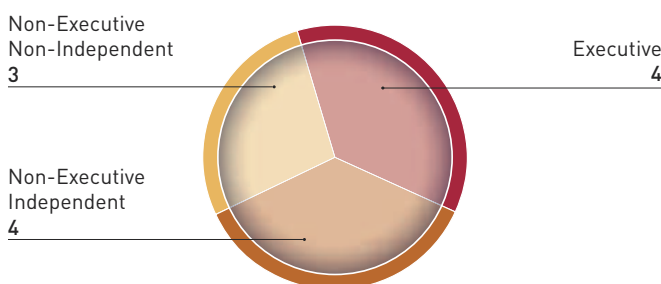
Guidance to the Code recommends that for FTSE 350 companies at least half the Board, excluding the Chairman, should comprise independent non-executive directors.

At the year end, the Board comprised four executive directors, four independent non-executive directors and three other non-executive directors. As the Company was not a constituent of the FTSE 350 (as defined by the Code) it was compliant with provision B.1.2. The Board considers that having a mix of non-executive directors who are either “independent” as defined by the Code, or have an in-depth knowledge of the Company, provides better oversight and governance than having predominantly independent non-executive directors.

The Board has determined that, under the Code Guidance, Elizabeth Edwards, Lennart Sten, Malcolm Cooper and Christopher Jarvis were independent in character and judgement and that there were no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement. In accordance with provision B.2.3, the Board undertook a rigorous review as to whether it considered Malcolm Cooper to be independent, having served on the Board for more than six years. Based on Mr Cooper’s current full time role with National Grid plc, the amount of time dedicated to his role as a Non-Executive Director and his contributions to the Board in discussions generally, the Board were satisfied that Mr Cooper maintained the necessary levels of independence in addition to the Code’s independence criteria.

The Board further determined that, under the Code Guidance, three Non-Executive Directors, Joseph Crawley, Thomas Lundqvist, and Jennica Mortstedt, were not independent; Miss Mortstedt is the niece of the Executive Chairman; Mr Lundqvist is the Vice Chairman of the Sten Mortstedt Family and Charity Trust and has served on the Board for more than nine years; and Mr Crawley has a close family tie with the Executive Chairman by way of marriage.

**DIRECTORS INDEPENDENCE**



**Appointments to the Board**

The Board considered the setting up of a separate Nomination Committee, as recommended by the Code, but due to the size and nature of the Company, decided that this function was better carried out by the Executive Chairman and other Directors, Non-Executive and Executive, as appropriate for each appointment. Given that there is no formal Nomination Committee, the Company is not compliant with provision B.2.1 of the Code.

During the year, as part of its annual performance review, the Board considered that there was a need to strengthen its knowledge base and experience with Board members who had recent and relevant property experience. A list of suitable candidates known to the Board was made, followed by an interview process that included meetings with the senior independent director and other independent directors. No external consultancy or open adverts were used in the appointments of Elizabeth Edwards and Lennart Sten.

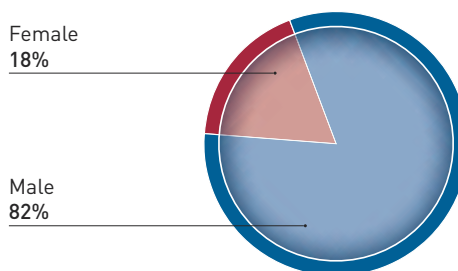
For the appointment of the Group’s new Chief Executive Officer, the Company used Spencer Stuart, an external search agency. Spencer Stuart is not connected with the Group.

Following its annual board evaluation, which took place in November, and having had regard to stakeholder feedback, the Board reviewed its balance of skills, knowledge and experience, and concluded that following the recent appointments, the composition of the Board had the necessary balance the Group required.

**Diversity**

The Board reviews the balance of skills, knowledge and experience on the Board regularly. Its policy with regard to diversity is such that it will continue to make changes to its composition irrespective of gender or any other form of discrimination and to appoint the best candidate to the post. It, therefore, considers that setting measurable objectives based on diversity would not be in the best interests of the Group.

**BOARD GENDER DIVERSITY**



**Board Evaluation**

During the year, the Board undertook its annual performance evaluation survey led by the Senior Independent Director, with assistance from the Company Secretary. The evaluation was based on a questionnaire which addressed three key areas: membership of the Board, Board performance and Board operation. The questionnaire enabled the Directors to score performance in each of these areas and also provided an opportunity to raise any other issues. The confidential responses were compiled into a non-attributable report by the Senior Independent Director and provided to the Executive Chairman.

Based on the results, the Directors considered that following the appointments made during the year, the Board and its committees were working effectively and that there was a good mix of personalities, skills and experience. They were pleased with the way in which the Executive Chairman led the Board and had concluded critical strategic decisions.

The key themes arising from this year's evaluation, which will form an action plan for 2015, are: to review succession planning in respect of employees below Board level; to have a dedicated meeting to discuss future strategy; and to continue to hold meetings with only the Non-Executive Directors and the Executive Chairman present.

In addition, following the comprehensive performance review of the Executive Chairman that took place at the Non-Executive Directors' meeting, the Senior Independent Director fed the results back to the Executive Chairman. At that meeting, discussion included succession planning for Non-Executive Directors, which specifically included Mr Cooper, who has served on the Board for more than six years.

The Board notes provision B.6.2 of the Code, requiring an externally facilitated evaluation for FTSE 350 companies every three years. This was not undertaken in 2014, as the Company was not a constituent of the FTSE 350 Index throughout the year prior to the reporting year. However the Board notes the Code's requirement and will consider when the external evaluation should take place.

#### Information, Support and Development

Board members are sent Board packs in advance of each Board and Committee meeting, and senior executives attend Board meetings to present and discuss their areas of speciality. In making commercial assessments the Directors review detailed plans including financial viability reports which, among other things, detail the return on capital, return on cash and the likely impact on the income statement, cash flows and gearing.

Directors are able to obtain independent professional advice at the Company's expense and have access to the services of the Company Secretary. They are given appropriate training and assistance on appointment to the Board and later, if and when required.

The Company offers all Directors the opportunity to update their skills and knowledge, and familiarity with the Company in order to fulfil their role on the Board. During the year, members of the Board have attended seminars on, inter alia, executive remuneration and the responsibilities of directors. In addition, meetings with senior managers within the Company have been arranged to further familiarise Non-Executive Directors with the Company. As part of every new Board member's induction, Fredrik Widlund, Elizabeth Edwards and Lennart Sten met with the Head of Property in each of the UK, France, Germany and Sweden so as to understand the portfolio. Board members also attended site visits to various properties.

#### Re-election

Under the Articles of Association, which can be amended by a special resolution of the shareholders, the Board has the power to appoint directors and, where notice is given signed by all the other Directors, to remove a director from office.

All Directors are subject to election by shareholders at the first Annual General Meeting following their appointment. Provision B.7.1 of the Code requires all directors of FTSE 350 companies to seek re-election by shareholders annually. The Company has adopted this provision and, accordingly, Mr Fredrik Widlund, Ms Elizabeth Edwards and Mr Lennart Sten will be standing for election and all other Directors will be seeking re-election at the forthcoming Annual General Meeting. Their details are contained in the Directors' Report on pages 36 and 37.

The terms and conditions of appointment of Non-Executive Directors are set out in a letter of appointment, which provides for their removal in certain circumstances, including under s168 Companies Act 2006. Their letters of appointment also set out what is expected of them and the time expected for them to meet their commitment. Non-Executive Directors are expected to serve two three-year terms, although the Board may invite them to serve for an additional period, subject to a rigorous review. The terms of appointment of the Non-Executive Directors can be obtained on request to the Company Secretary and will be available for inspection 15 minutes before, and during, the AGM.

#### ACCOUNTABILITY

The Board is required to present a fair, balanced and understandable assessment of the Company's position and prospects, which are explained in this Annual Report.

#### The Audit Committee

The Board has established an Audit Committee to monitor the formal and transparent arrangements for its corporate reporting and risk management and internal control principles, and for maintaining an appropriate relationship with the Company's Auditor.

Full details of the Committee's work are given in the Audit Committee's Report on pages 53 and 54.

#### Risk Management and Internal Control

The Company has internal control and risk management systems in place for the Company's financial reporting process and the preparation of the group accounts that it considers appropriate for the size, diversity and complexity of the Group's operations. It is reviewed and recommended by the Audit Committee in the first instance, and then by the Board as a whole on an annual basis.

It is the Company's aim to manage risk and to control its business and financial affairs economically, efficiently and effectively so as to be able to exploit profitable business opportunities in a disciplined way, avoid or mitigate risks that can cause loss, reputational damage or business failure, and enhance resilience to external events. The Board acknowledges that the Directors are responsible for the Group's system of internal control and risk management and has established procedures which are designed to provide reasonable assurance against material misstatement or loss. These procedures have operated for the entire financial year and up to the date of approval of the Annual Report and Accounts.

The Directors recognise that such a system can only provide a reasonable and not absolute assurance that there has been no material misstatement or loss. The Board regularly reviews the management structure, HR policies and reward systems so as to ensure that management is aligned to the Group's values and supports the risk management and internal control systems.

The key elements of the process by which the system of internal control and risk management is monitored are set out below.

#### Internal Controls

The Company has an established framework for internal financial controls, which is regularly reviewed and monitored by the executive management and the Audit Committee, who update the Board on its effectiveness.

The Board is responsible for the Company's overall strategy, for approving budgets and major investment decisions, and for determining the financial structure of the Group.

## CORPORATE GOVERNANCE REPORT CONTINUED

The Audit Committee assists the Board in the discharge of its duties regarding the Group's financial reports and provides a direct link between the Board and the Company's Auditor through regular meetings. The Board has requested that the Audit Committee reviews the content of the Annual Report and Accounts and advises it on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

There is an established organisational structure which has clearly defined lines of reporting and responsibility. The Group has in place control processes in relation to all aspects of its financial dealings, such as the authorisation of banking transactions, capital expenditure and treasury investment decisions.

The Group has a comprehensive system for budgeting and planning whereby quarterly and annual budgets are prepared, monitored and reported to the Board at each meeting. Six-yearly rolling cash flows are updated and distributed to the Executive Directors on a weekly basis to ensure the Group has sufficient cash resources for the short and medium term.

Set out on pages 3 to 35 is the Strategic Report, describing the Group's operations and the strategy which it employs to maximise returns and minimise risks.

### Risks

In line with the most recent audit committee guidance, the risks which the Group faces are reviewed and monitored in Board and executive meetings on an ongoing basis throughout the financial year.

Each business area maintains a process to ensure that key risks are identified, evaluated, managed and reviewed appropriately. This process is also applied at Board level to major business decisions such as property acquisitions and disposals, and significant strategy implementations. Furthermore, a monthly property activity portfolio update is circulated to the Board which identifies key business risks, developments and opportunities. Additional risk management processes, which include health and safety and environmental risk management, are employed within the businesses and updates are reported to the Board at each meeting.

Whilst there were no areas of weakness or failings identified by the Audit Committee and reported to the Board during their review of the Group's risk management and internal controls, management have set up a rolling programme to review and test the principal areas of internal control risks. The results are reported to the Audit Committee and reviewed by the Board during the year.

As identified and discussed by the Board, the Company's key risks, the areas which they impact and how they are mitigated are described on pages 8 and 9.

### REMUNERATION

#### The Remuneration Committee

The Board has established a Remuneration Committee which develops the Company's policies on executive remuneration and sets the remuneration packages of individual Executive Directors.

Full details of the Committee's work are given in the Remuneration Report on pages 46 to 52.

### RELATIONS WITH SHAREHOLDERS

The Company values its dialogue with both institutional and private investors. The Board's primary contact with institutional shareholders is through the Chief Executive Officer and the Chief Financial Officer, along with the Head of Group Property, who have regular meetings with institutional shareholders. They also undertake analyst presentations following the Company's half-yearly and annual financial results. They are supported by a financial relations adviser and two corporate brokers, all of whom are in regular contact with institutional and retail shareholders, and with analysts. A report of feedback from each institutional investor meeting is prepared by the broker which organised it, and a report of unattributed feedback from analysts on analyst presentations is prepared by the financial relations advisor. All such reports and coverage of the Company by analysts are circulated to the Board. Consequently, all Directors develop an understanding of the views of institutional shareholders and commentators.

Analyst presentations following the announcement of half yearly and annual financial results are webcast and available on the Company's website.

The Group issues its annual financial report to each of its shareholders. In accordance with the UK company disclosure regulations the Group does not distribute its half-yearly financial report to shareholders but makes it available on its website. Copies are available on request.

All financial reports and press releases are also included on the Group's website at [www.clsholdings.com](http://www.clsholdings.com).

All shareholders have at least 20 working days' notice of the Annual General Meeting at which all Directors who are available to attend are introduced and are available for questions. All shareholders are welcome to attend the Company's Annual General Meeting and to arrange individual meetings by appointment. The views received at such meetings are fed back to the Board.

### Proxy Voting

The proxy forms for the Annual General Meeting and General Meetings which were held in 2014 included a "vote withheld" box. Details of the proxies lodged for these meetings were announced to the London Stock Exchange and are on the Company's website at [www.clsholdings.com](http://www.clsholdings.com). Shareholders may also choose to register their vote by electronic proxy on the Company's website.

At the 2015 Annual General Meeting, the Company will comply with the Listing Rules in respect of the voting requirements for the election and re-election of independent Directors where a Company has a controlling shareholder.

### MAJOR INTERESTS IN THE COMPANY'S SHARES

Other than Mr Mortstedt's 50.54% interest referred to in the Directors' Remuneration Report on page 51, as at 4 March 2015 the Company has been notified of the following interests above 3% in the Company's issued share capital:

	No. of shares	%
Bengt Mortstedt	2,937,011	6.84%
F&C Asset Management plc	2,124,509	4.94%
FIL Limited	2,238,712	5.21%
Schroder Investment Management Limited	1,796,075	4.18%

There are no shareholders who carry special rights with regard to control of the Company and there are no restrictions on voting rights. The Company knows of no agreements between holders of securities which would result in restrictions on the transfer of securities or on voting rights.

#### RELATIONSHIP AGREEMENT

Victoria Investment Holdings Limited ("VIHL"), the investment vehicle for the Sten Mortstedt Family and Charity Trust, currently holds 50.54% of the Company's shares in issue, and is therefore classed as a controlling shareholder under the Listing Rules.

A relationship agreement between the VIHL and the Company was entered into to ensure that all transactions and relationships between the two parties are conducted at arm's length and on normal commercial terms. The relationship agreement shall only be terminated on the event that VIHL ceases to be a controlling shareholder, or if the Company ceases to be admitted to listing on the premium segment of the Official List.

Throughout the period of review, the Company has complied with the mandatory independence provisions and procurement obligations in the relationship agreement, and as far as the Company is aware, VIHL has also complied.

#### SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

A change of control of the Company may cause a number of agreements to which the Company or its active subsidiaries is party, such as commercial trading contracts, banking arrangements, property leases and licence agreements, to take effect, alter or terminate. In the context of the Group as a whole, only the banking arrangements are considered to be significant. There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment that occur because of a change of control.

#### JOINT VENTURE AND ASSOCIATES

This Corporate Governance report applies to the Company and its subsidiaries. It does not include joint ventures or associates.

#### DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;

- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### Responsibility statement

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the strategic report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the company's performance, business model and strategy.

This statement of responsibilities was approved by the Board on 4 March 2015

By order of the Board

**David Fuller BA FCIS**

Company Secretary

4 March 2015

# REMUNERATION COMMITTEE REPORT

for the year ended 31 December 2014

## THE CHAIRMAN OF THE REMUNERATION COMMITTEE

### ANNUAL STATEMENT

Dear Shareholder,

#### On behalf of the Board, I am pleased to present the 2014 Remuneration Report.

This is the second year of reporting under the Government's new regulations on the presentation and disclosure of directors' remuneration.

In accordance with the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Company does not intend to move a resolution to approve an amended Directors' Remuneration Policy (the "Policy") at the 2015 AGM. Therefore, the Policy Report which was approved at the AGM held on 16 April 2014 remains operative and can be found on our website at [www.cls Holdings.com](http://www.cls Holdings.com) and on pages 48 to 56 of our 2013 Annual Report, and has been omitted from this report.

We have included an "At a glance" page so that readers can identify the main elements of the application of the Remuneration Policy.

The annual report on remuneration sets out payments and awards made to the Directors and the link between Company performance and remuneration for the 2014 financial year. The annual report on remuneration together with this annual statement is subject to an advisory shareholder vote at the 2015 AGM.

#### Membership

The Committee consisted of myself, as Chairman, and Malcolm Cooper, our Senior Independent Non-Executive Director, reflecting provision D.2.1. of the Code in respect of smaller companies. Since the Group's inclusion in the FTSE250 index in December 2014, the Committee will seek to enhance its composition with an additional member. The Committee met three times during 2014.

#### 2014 Key decisions

The Committee recognises the expectations of our shareholders on executive pay and that performance-related pay should reflect the performance of the Group. We undertook our annual review of the appropriateness of the Key Performance Indicators (KPIs) which make up the basis for the Performance Incentive Plan (PIP) and their associated targets.

The Committee concluded that the KPIs continued to represent accurately a broad spectrum of Group performance but two targets needed to be realigned such that they remained sufficiently challenging but were attainable. These KPIs were the Administration Cost Ratio (as % of net rental income) and Core Profit over Budget, where, following detailed questioning of the Executive Directors, we recognised that the targets had become unrealistic given the geographical growth of the Group portfolio since the inception of the PIP and the detail of the Group budgets which we felt did not offer much flexibility (and therefore incentive) to exceed the original targets.

The Committee is considering if the TSR KPI should be calculated as a three-year rolling average over the life of the PIP rather than a discrete value each year.

As outlined in the Strategic Report, the Committee determined that all of the KPIs had been met and that the make-up of the 2014 award accurately reflected the performance of the Group.

The Committee also considered the Group's policy when setting remuneration for the appointment of Fredrik Widlund, the Group's new Chief Executive Officer from 3 November 2014. The substantive components of remuneration – salary, benefits and pension – were identical to the outgoing Chief Executive Officer. In leaving his then current employer, Mr Widlund would forego the majority of his 2014 bonus along with outstanding share options that had vested but were not exercised and were due to lapse on the date of his cessation of employment. The Committee, therefore, exercised its discretion to make an award directly related to the 2014 performance period Mr Widlund had completed at the date of his cessation of employment, and the value of other vested but unexercised incentives forfeited.

As a result, the Committee granted an award over 25,000 shares, to be released, and treated as fully paid, in three tranches of 15,000, 5,000 and 5,000 over the next three years, subject to meeting the PIP KPIs. The award included Malus and Clawback provisions. No other elements of recruitment remuneration were made.

#### Operation of Remuneration Policy for 2015

The Committee continually monitors senior executive remuneration so that it is able to attract, motivate and retain high quality executives who are able to deliver the Group's strategy and, in turn, deliver long-term growth and shareholder return. The Committee is reviewing the possible implementation of a Long-Term Incentive Plan for the Executive Directors and senior management, and will report its findings in due course.

Given the benchmarking exercise undertaken in 2013, with the exception of the Chief Executive Officer's position, which received no increase, executive salaries increased by the Group rate of 2.5% on 1 January 2015.

#### In conclusion

We have provided an 'At a Glance' summary of 2014 remuneration and performance immediately after this statement, which highlights how we have operated our Policy.

**Christopher Jarvis**  
Chairman  
Remuneration Committee



## AT A GLANCE

The Company does not intend to move a resolution to approve an amended Policy at the AGM to be held on 15 April 2015. Therefore, the Policy which was approved at the AGM held on 16 April 2014 remains operative and can be found on our website at [www.cls Holdings.com](http://www.cls Holdings.com) and on pages 48 to 56 of our 2013 Annual Report, and has been omitted from this report.

For ease of reference, in this section, we summarise the key components of our remuneration policy and its linkage to our corporate strategic objectives, and we highlight the performance and remuneration outcomes for 2014 and how the policy will be implemented for 2015.

Element	Operation and Maximum Potential Value					
<b>Base Salary</b>	Annual review, which has resulted in the following salaries for the directors for 2015:					
	<b>Name</b>	<b>2015 Salary</b>	<b>2014 Salary</b>	<b>%age Change</b>		
	Sten Mortstedt	£358,750	£350,000	2.5%		
	Henry Klotz	£333,125	£325,000	2.5%		
	Fredrik Widlund	£310,000	£310,000	0%		
John Whiteley	£256,250	£250,000	2.5%			
<b>Benefits</b>	No change.					
<b>Performance Incentive Plan ('PIP')</b>	No change.					
	KPI Target amendments for 2015:					
	<b>Core profit over budget</b>					
	KPI	Maximum forfeiture	Bonus/forfeiture threshold	On target performance	Good performance	Maximum performance
	Old Target	-5%	0%	7.5%	8.75%	10%
	New Target	-10%	-5%	0%	5%	10%
	<b>Administration cost ratio</b>					
KPI	Maximum forfeiture	Bonus/forfeiture threshold	On target performance	Good performance	Maximum performance	
Old Target	20%	17.5%	14%	13%	12%	
New Target	20%	18%	16%	14%	12%	
<b>Share options</b>	These schemes have now lapsed. There are no outstanding share options.					
<b>Pension</b>	No change.					
<b>Performance Metrics used, weighting and time period applicable</b>	For 2015 the following KPI Targets were reassessed: Core profit over budget: on target performance 0% (2014: 7.5%) Administration cost ratio (as % of net rental income): on target performance: 16% (2014: 14%)					

## THE PRINCIPLES OF OUR REMUNERATION POLICY

### Competitive

Up to median salaries plus median incentives provide market level remuneration only for superior performance.

### Performance linked

A significant part of the Executive Directors' reward is determined by the Company's success. Failure to achieve threshold levels of performance may result in both no bonus under the PIP and partial forfeiture of earned deferred elements from previous years.

### Shareholder aligned

A considerable part of the reward is paid in shares that have to be retained until minimum shareholding requirements have been met.

### Simple and transparent

By operating only one executive incentive plan all aspects of the remuneration structure are clear to participants and openly communicable.

# REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2014

## HOW WE HAVE PERFORMED AGAINST OUR KEY PERFORMANCE INDICATORS

The performance conditions for the PIP have been set to include all the corporate Key Performance Indicators ('KPI's'). The following table sets out the KPI targets set and their level of satisfaction:-

KPI	Maximum Forfeiture	Bonus/ Forfeiture Threshold	On Target Performance	Good Performance	Maximum Performance	2014 Achievement
1. Total Shareholder Return Growth	5%	7%	12%	14%	16%	<b>21.0%</b>
2. Effective management of balance sheet (ROE)	5%	7%	12%	16%	20%	<b>38.9%</b>
3. Vacancy rate	10%	8%	5%	4%	3%	<b>3.0%</b>
4. Administration cost ratio (as % of Net Rental)	20%	17.5%	14%	13%	12%	<b>15.7%</b>
5. Personal Performance Rating	2	2.5	4	4.5	5	<b>n/a*</b>
6. EPRA NAV Growth	0%	5%	7.5%	8.75%	10%	<b>39.9%</b>
7. NAV Growth	0%	5%	7.5%	8.75%	10%	<b>38.9%</b>
8. Core Profit over Budget	-5%	0%	7.5%	8.75%	10%	<b>5.9%</b>

\* Personal performance is a grading of the Executive Director by the Remuneration Committee in a range of 1-5.

KPI	Performance Breakdown		
	EVC £	CEO* £	CFO £
1. Total Shareholder Return Growth	<b>97,500</b>	<b>15,033</b>	<b>50,000</b>
2. Effective management of balance sheet (ROE)	<b>32,500</b>	<b>5,011</b>	<b>25,000</b>
3. Vacancy rate	<b>81,250</b>	<b>12,527</b>	<b>12,500</b>
4. Administration cost ratio (as % of Net Rental)	<b>63,733</b>	<b>9,827</b>	<b>49,025</b>
5. Personal Performance Rating	<b>45,825</b>	<b>7,065</b>	<b>23,500</b>
6. EPRA NAV Growth	<b>32,500</b>	<b>5,011</b>	<b>18,750</b>
7. NAV Growth	<b>32,500</b>	<b>5,011</b>	<b>18,750</b>
8. Core Profit over Budget	<b>47,902</b>	<b>7,386</b>	<b>22,109</b>
<b>2014 Total Bonus</b>	<b>433,710</b>	<b>66,871</b>	<b>219,634</b>
<b>Bonus as a % of Salary</b>	<b>133.4%</b>	<b>133.4%</b>	<b>87.9%</b>
<b>Bonus Achieved as a % of Total Available Bonus</b>	<b>89.0%</b>	<b>89.0%</b>	<b>87.9%</b>

\* Pro rata since date of appointment.

The Committee believes that its Policy is in line with the new UK Corporate Governance Code (applying for financial years beginning on or after 1 October 2014), as set out below:

Code Provision	Company Remuneration Policy
<i>Executive Directors' remuneration should be designed to promote the long-term success of the Company.</i>	The PIP includes a rolling deferral in shares and an ongoing performance-based risk adjustment. It is the Committee's view that the PIP provides a holistic approach to ensuring Executive Directors are focused on the long-term success of the Company.
<i>Schemes should include provisions that would enable the company to recover sums paid or withhold the payment of any sum, and specify the circumstances in which it would be appropriate to do so.</i>	For 2015 the PIP includes best practice malus and clawback provisions. The circumstances in which malus and clawback could apply are as follows: <ul style="list-style-type: none"> <li>• discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company;</li> <li>• the assessment of any performance target or condition where an award was based on error, or inaccurate or misleading information;</li> <li>• the discovery that any information used to determine the number of shares subject to an award was based on error, or inaccurate or misleading information;</li> <li>• action or conduct of an award holder which, in the reasonable opinion of the Board, amounts to employee misbehaviour, fraud or gross misconduct;</li> <li>• events or behaviour of an award holder have led to the censure of the Company by a regulatory authority or have had a significant detrimental impact on the reputation of any Group company provided that the Board is satisfied that the relevant award holder was responsible for the censure or reputational damage and that the censure or reputational damage is attributable to him.</li> </ul> Malus will apply up to the date of the determination of the award and clawback will apply for 3 years from the date of payment and the vesting of awards. The Committee is comfortable that the rules of the Plan provide sufficient powers to enforce malus and clawback if required.
<i>For share-based remuneration, the Committee should consider requiring directors to hold a minimum number of shares and to hold shares for a further period after vesting or exercise, including for a period after leaving the Company, subject to the need to finance any costs of acquisition and associated tax liabilities.</i>	The Committee has introduced a minimum shareholding requirement of 100% of salary for the CEO and 75% of salary for the CFO. The Committee as stated in this Report is reviewing the appropriateness of introducing a new long-term incentive element of remuneration for the Executive Directors. Any such element will take into account holding periods as part of its consideration on any design.

## ANNUAL REPORT ON REMUNERATION

### STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2014

For the year ended 31 December 2014, the Group's policy on remuneration was implemented as set out below.

#### Single Total Figure for Executive Directors' Remuneration (audited information)

The following table shows an analysis of remuneration in respect of qualifying services for the 2014 financial year for each Executive Director:

	Salary £000		Taxable Benefits £000		Bonus <sup>(5)</sup> £000		LTIP <sup>(6)</sup> £000		Pension £000		Other Fees £000		Total £000	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Sten Mortstedt <sup>(1)</sup>	350	230	-	-	-	-	-	-	-	-	400	375	750	605
Henry Klotz <sup>(2)</sup>	325	224	10	9	217	146	158	115	1	-	-	29	711	523
John Whiteley	250	196	7	5	110	85	92	67	25	10	-	-	484	363
Fredrik Widlund <sup>(3)</sup>	52	-	1	-	291	-	-	-	5	-	-	-	349	-
Richard Tice <sup>(4)</sup>	46	212	1	4	-	138	-	356	4	11	-	-	51	721

- (1) A company associated with Mr Mortstedt provided consultancy services which related to specific advice which was outside the terms of Mr Mortstedt's contract of employment. The Committee has reviewed the fees for these services, and is of the opinion that the market rate for the services would have far exceeded the amount paid.
- (2) Mr Klotz received additional fees which he retained of £17,702 (2013: £19,622) in respect of his role as Non-Executive Chairman of Catena AB and £8,851 (2013: £9,811) as Non-Executive Director of Note AB.
- (3) Appointed on 3 November 2014; Mr Widlund received total pension contributions of £5,166, of which half was paid into his SIPP and half was paid in salary. Bonus includes £257,232 following release of 15,000 shares pursuant to recruitment remuneration (as set out on page 50), based on the middle market share price on 4 March 2015 of 1,714.88 pence.
- (4) Mr Tice received salary and benefits totalling £49,880 in respect of his tenure as Chief Executive Officer to 14 February 2014.
- (5) The bonus is 50% of the contribution into the Director's Plan Account (see below for details of calculation).
- (6) The LTIP is the difference between the values calculated in (5) above and the 2014 Payment set out in the table below and is the payment of part of the deferred performance-based element under the PIP.

#### ADDITIONAL REQUIREMENTS IN RESPECT OF THE SINGLE TOTAL FIGURE TABLE (AUDITED INFORMATION) PERFORMANCE AGAINST PERFORMANCE TARGETS FOR PIP

The following table summarises the Plan Accounts under the PIP for the Executive Directors:

Plan Accounts	Henry Klotz	John Whiteley	Fredrik Widlund
Opening balance of Deferred Shares	21,064	12,231	-
Value of opening balance of Deferred Shares at Measurement Date <sup>(1)</sup>	£316,030	£183,504	-
2014 Contribution <sup>(2)</sup>	£433,710	£219,634	£66,871
2014 Payment	£(374,870)	£(201,570)	£(33,436)
Value of closing balance of Deferred Shares	£374,870	£201,570	£33,435
Closing balance of Deferred Shares <sup>(3)</sup>	24,985	13,435	2,228

- (1) The price used at the Measurement Date to calculate the value of shares was the mid-market value of a share for the 30 day period to 31 December 2014, which was 1,500.3 pence per share.
- (2) The 2014 bonus performance conditions and their level of satisfaction are set out on page 48.
- (3) The number of deferred notional shares was calculated using the share price in (1) above.

The following table sets out the 2014 Company contribution for each of the participants:

	Henry Klotz	John Whiteley	Fredrik Widlund
Salary	325,000	250,000	310,000
Maximum Company Contribution	487,500	250,000	75,164*
2014 Company Contribution	433,710	219,634	66,871
Percentage of Maximum Contribution earned	89.0%	87.9%	89.0%

\* Pro rata since date of appointment.

#### Pension Entitlements

The Executive Directors are entitled to participate in a defined contribution pension scheme of which two Directors (Fredrik Widlund and John Whiteley) were members at the end of the year (2013: one). Participants are required to contribute 5% of basic UK salary (2013: 5%), which is matched by a contribution from the Company of 10% (2013: 5%). The Company contributed 5% to Mr Widlund's Self Invested Pension Plan (SIPP) and the balance of 5% of the Company's contribution was paid to him as salary. The Company contributed 10% of salary towards Richard Tice's SIPP in lieu of contributions to the Company pension scheme, whilst he was Chief Executive Officer (2013: 5%). Henry Klotz is a deferred member of the scheme. On 1 August 2014, under the auto-enrolment process, Mr Klotz became a member of the statutory scheme operated by the Company whereby he contributes 1% of basic salary which is matched by an equal contribution from the Company. Sten Mortstedt is not a member of the Company pension scheme.

# REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2014

## ANNUAL REPORT ON REMUNERATION (CONTINUED)

### Single Total Figure for Non-Executive Directors' Remuneration (audited information)

Non-Executive Directors do not participate in any of the Company's incentive arrangements nor do they receive any benefits. The following table sets out the fees received for 2014:

Non-Executive	Board Fee £000		Other Board Fees £000		Additional Fees £000		Total £000	
	2014	2013	2014	2013	2014	2013	2014	2013
Malcolm Cooper	23	15	18	18	-	-	41	33
Joseph Crawley	23	15	-	-	-	-	23	15
Elizabeth Edwards <sup>(1)</sup>	14	-	-	-	-	-	14	-
Christopher Jarvis	23	15	13	13	-	4	36	32
Thomas Lundqvist <sup>(2)</sup>	23	15	-	-	13	30	36	45
Jennica Mortstedt	23	15	-	-	-	-	23	15
Lennart Sten <sup>(3)</sup>	9	-	-	-	-	-	9	-
Claes-Johan Geijer <sup>(4) (6)</sup>	14	10	-	-	6	31	20	41
Brigith Terry <sup>(4)</sup>	14	15	-	-	-	-	14	15
Thomas Thomson <sup>(4)</sup>	14	15	-	-	-	-	14	15
Richard Tice <sup>(5)</sup>	3	-	-	-	-	-	2.7	-

(1) Joined the Board on 13 May 2014

(2) Mr Lundqvist received £13,014.13 in respect of certain finance-related matters and, at the Remuneration Committee's request, liaising with the Sten Mortstedt Family and Charity Trust on executive remuneration issues.

(3) Joined the Board on 1 August 2014

(4) Left the Board on 13 May 2014

(5) Mr Tice received fees totalling £2,769 in respect of his tenure as a non-executive director between 14 February and 7 April 2014.

(6) Mr Geijer received £5,872 in respect of his appointment as a non-executive director to a number of Group subsidiary companies.

### Payments to Past Directors

There were no payments to past directors of the Company during the year.

### Payments for Loss of Office

The Company made the following payments for loss of office to Richard Tice on his resignation as Chief Executive Officer of the Company on 14 February 2014:

Remuneration Element	Treatment on exit
PIP	<p><b>2013 Financial Year</b></p> <p>Richard Tice was an executive director throughout 2013 and therefore participated in the PIP for the full year with a payment of £494,255 made in March 2014.</p> <p><b>Deferred Balances under the PIP</b></p> <p>Richard Tice was treated as a good leaver under the PIP and the balance of his Plan Account was paid in cash in March 2014 within the amount stated above, with no further PIP contributions being made in respect of 2014.</p> <p><b>Committee Discretion</b></p> <p>The Committee determined to treat Richard Tice as a good leaver because of the strong performance of the Company over the period whilst he was Chief Executive Officer and acknowledging that the balance in his Plan Account was earned deferred value.</p>

No other payments were made to Richard Tice in relation to his loss of office as Chief Executive Officer, and his salary and benefits were paid to his date of termination. Richard Tice was appointed a non-executive director of the Company on 14 February 2014 and resigned on 7 April 2014, and his fee was paid to his date of termination.

### Recruitment Remuneration

Mr Widlund appointment as the Group's Chief Executive Officer was announced on 1 August 2014 and his appointment was effective from 3 November 2014. The Company awarded the following remuneration as a result of incentives forfeited on cessation of his previous employment

Remuneration Element	Treatment on joining
Salary, benefits and pension	In line with Policy
PIP	In line with Policy; 2014 PIP Award pro rata from joining
Share Options	Nil
Maximum Variable Pay	150% of PIP, no further awards
Sign on Compensation	Nil
"Buy Out" of incentives forfeited on cessation of employment	<p>Award of 25,000 shares, valued at the contract date, in lieu of bonus and share options forfeited. Shares released in three annual tranches: 15,000, 5,000, 5,000, subject to meeting the Group's audited PIP KPIs. Clawback: 2 years after vesting of the award, if: the Group has to materially restate its accounts; and/or there has been material wrongdoing that would have accounted to gross misconduct. Malus: Ability to reduce, amend or cancel the award in respect of: serious misstatement of the Group accounts; serious failure of risk management; serious failure of regulatory compliance; miscalculation of any relevant performance measure; reputational damage; or individual misconduct.</p>

## Directors' Interests in Shares

The interests of the Directors in the ordinary shares of 25p each of the Company were:

Director	Unconditional Shares	Conditional PIP Shares	Awards	Total
Sten Mortstedt	21,693,829	-	-	21,693,829
Henry Klotz	71,395	24,985	-	96,380
Fredrik Widlund	-	2,228	15,000 <sup>(3)</sup>	17,228
John Whiteley	13,800	13,435	-	27,235
Malcolm Cooper	4,209	-	-	4,209
Joseph Crawley	-	-	-	-
Elizabeth Edwards	-	-	-	-
Christopher Jarvis	4,844	-	-	4,844
Thomas Lundqvist	80,912	-	-	80,912
Jennica Mortstedt	-	-	-	-
Lennart Sten	2,971	-	-	2,971
Claes-Johan Geijer <sup>(2)</sup>	-	-	-	-
Brigith Terry <sup>(2)</sup>	-	-	-	-
Thomas Thomson <sup>(2)</sup>	81,149	-	-	81,149
Richard Tice <sup>(1) (2)</sup>	406,170	-	-	406,170

(1) Following Mr Tice's resignation as Chief Executive Officer on 14 February 2014, the value of the conditional PIP notional shares were paid in cash in March 2014.

(2) At the date of resignation.

(3) Release of recruitment remuneration award.

The Company was notified on 14 November 2014 that the Executive Chairman, Sten Mortstedt, was no longer interested in the shares held by/for the benefit of a Connected Person. Accordingly, Sten Mortstedt's interest in shares is limited to those held by Victoria Investment Holdings Limited, the investment vehicle for the Sten Mortstedt's Family and Charity Trust.

The conditional PIP notional shares will be paid in cash upon vesting.

The Committee has implemented a policy of minimum shareholdings for Executive Directors. It is expected that within five years of becoming an Executive Director, the Executive Vice Chairman and the Chief Executive Officer should build a holding with a value of at least 100% of salary, and the Chief Financial Officer at least 75%. This further aligns the interests of Directors to those of shareholders.

At the year end, the Executive Directors' beneficial shareholdings represented the following percentages of salary:

Henry Klotz: 336% (2013: 439%)

Fredrik Widlund: 0% (2013: n/a)

John Whiteley: 84% (2013: 84%)

The Executive Chairman, Sten Mortstedt, has an interest in shares which is substantially in excess of the minimum requirement.

## Share Options

There were no share options outstanding at the year end. Further, the existing CSOP and USOS schemes have now lapsed therefore no further awards can be made under these schemes.

The highest mid-market share price in the year was 1,548.0 pence, the lowest 1,257.5 pence, and the average was 1,348.6 pence. The closing share price on 31 December 2014 was 1,529.0 pence.

## Total Returns To Shareholders 1995-2014

The Company's TSR performance since it was listed on the London Stock Exchange is set out on page 21, and is compared to the TSR performance of the FTSE All Share Index and the UK Datastream Real Estate Index over the same period. The Committee believes that these are the most appropriate as these are the Indices and Sector in which the Company has been included since listing.

## Total Remuneration for the Chief Executive Officer

	2014	2013	2012	2011	2010	2009
CEO's total single figure (£000)	349*	712	352	417	481	452
Bonus awarded as % of maximum	89.0%	86.5%	83.5%	81.7%	100%	100%

\* Salary pro rata since date of appointment, plus £257,232 pursuant to recruitment remuneration.

# REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2014

## ANNUAL REPORT ON REMUNERATION (CONTINUED)

### Percentage change in remuneration of the Chief Executive Officer

The table below shows how the percentage change in the Chief Executive Officer's salary, benefits and bonus between 2013 and 2014 compares with the percentage change in the average of each of those components of pay for employees.

	Salary			Taxable Benefits			Bonus		
	2014 £000	2013 £000	Percentage Increase	2014 £000	2013 £000	Percentage Increase	2014 £000	2013 £000	Percentage Increase
CEO*	310	212	46.2%	4	4	nil	291	138	110.9%
All Employees	4,375	4,066	7.6%	167	119	40.3%	1,775	1,448	22.6%

\* Annualised.

The Group's pay review taking effect from 1 January 2014 awarded average percentage increases in wages and salaries of 2.5%. The nature and level of benefits to employees in the year ended 31 December 2014 was broadly similar to those of the previous year.

### Relative importance of spend on pay

	2014 £000	2013 £000	% Change
Remuneration paid to all employees of the Group	8,900	8,291	7.3%
Distributions to shareholders	15,912	14,965	6.3%
Group revenue <sup>(1)</sup>	99,600	91,200	9.2%

(1) Representative of the Group's cash-based operations which exclude unrealised fair value movements.

### STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

By reference to the Annual Statement, the Remuneration Policy will be implemented as set out in the shareholder-approved Remuneration Policy, which is available on the Company's website [www.cls Holdings.com](http://www.cls Holdings.com). Salary increases are set out in the At a Glance section above. The performance measures and weighting of the PIP KPIs remain unchanged for 2015, however, as set out on page 47, certain KPI targets have been amended.

### CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

As set out in this report, the Remuneration Committee is responsible for recommending to the Board the remuneration policy for Executive Directors and for setting their remuneration packages. The Committee also has oversight of the remuneration policy and packages for other senior members of staff.

### ADVISORS TO THE REMUNERATION COMMITTEE

During the year, the Committee sought advice from its remuneration consultants, PwC, whom the Committee appointed in relation to the Performance Incentive Plan and general matters related to remuneration, and from the Company Secretary in relation to peer group remuneration analysis. PwC is a founding member of the Remuneration Consultants' Group and has signed up to that group's Code of Conduct. The fees for the advice provided by PwC were £10,800 (2013: £12,500). The fees were fixed on the basis of agreed projects. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting each year. It is satisfied that PwC is providing independent, robust and professional advice.

### Shareholder Voting

The following table represents the voting at the 2014 Annual General Meeting

	Directors' Remuneration Policy		Directors' Remuneration Report	
	Number of votes	% of votes cast	Number of votes	% of votes cast
In Favour	32,260,368	82.4	35,849,420	91.1
Against	6,900,471	17.6	3,500,453	8.9
Total votes cast	39,160,839		39,349,873	
Votes withheld	194,020		4,986	

The Committee noted that 17.6% of votes were cast against the resolution to approve the Directors' Remuneration Policy in 2014. Through feedback and meetings with institutional shareholders the Committee understands that the reasons were primarily due to the benchmarking of Executive Directors' salaries, which were increased with a one-off increment so as to bring them in line with the market, and the maximum share options that could be granted. The Committee notes these comments and the fact that share option schemes have now lapsed.

On behalf of the Board

**Christopher Jarvis**  
Chairman  
Remuneration Committee

4 March 2015

## AUDIT COMMITTEE REPORT

	Meetings attended
Malcolm Cooper (Chairman)	4/4
Christopher Jarvis	4/4

The role of the Audit Committee is:

- to monitor the integrity of the Group's financial statements and review significant financial reporting judgements
- to review and monitor the Group's internal controls and risk management systems
- to recommend to the Board that, taken as a whole, the Annual Report and Accounts are fair, balanced and understandable
- to oversee the relationship with the Company's auditor and monitor its independence, objectivity and effectiveness during the audit process, including monitoring any recommendations from the Company's auditor
- to make recommendations to the Board (for shareholder approval) on the appointment, re-appointment and removal of the Company's auditor and to approve the remuneration and terms of engagement of the Company's auditor
- to review the potential need for an internal audit function
- to review the Group's policy on whistleblowing
- to review the policy on the supply of non-audit services by the Company's auditor
- to report to the Board on how it has discharged its responsibilities

Both members of the Committee are considered to be independent under the Code Guidance. For the purposes of the Code, Mr Cooper and Mr Jarvis are regarded as having recent and relevant accounting and financial experience. The Chief Financial Officer, certain senior management and the Company's auditor are normally invited to attend the meetings. At each meeting there is a standing agenda item facilitating the opportunity for the Company's auditor to meet without management present. The Company Secretary acts as secretary to the Committee.

### REPORT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

During the year the Committee reviewed the Annual Report and Accounts and the Half-Yearly Financial Report, focusing on key areas of judgement and complexity, critical accounting policies and any changes required to them. It also discussed the changes to the Listing Rules which no longer required the mandatory publication of Interim Management Statements, concluding that it was in shareholders' best interests to be kept up to date with Company news in between statutory announcements.

Given the completion of two of the Group's developments during 2014, the Committee paid particular attention to the valuations and financial assumptions relating to Clifford's Inn and Spring Mews. The Committee also challenged management on the judgements made in relation to the valuation of Vauxhall Square, which it continues to monitor closely given its potential value to the Group. Taking into account the various factors affecting the valuations of these developments, such as comparable residential valuations and assumptions on future London office rental values, the Committee concluded that they were appropriately valued and recommended the same to the Board.

The Committee paid particular attention to reviewing the Group's principal business risks, and ensuring that they had been adequately identified and mitigated. One such risk was the Group's funding strategy, which was benefiting from historically low interest rates across all the markets in which the Group operates. Following discussion, it was agreed that management were able adequately to mitigate the associated risk of interest rate rises through ensuring that an appropriate level of existing floating-rate debt was hedged with interest rate swaps or caps.

The Committee also held meetings with the Group's UK valuers, DTZ and Knight Frank, to which it invited the whole Board, to discuss and question the methodology used for the bi-annual valuations of the Group's UK properties and developments. It received written presentations from Colliers International and Jones Lang LaSalle in respect of Germany and France, respectively, with follow up meetings in August and November. The Committee were satisfied with the explanations in relation to the portfolio and its associated key risks, such as specific local market updates and vacancy levels, which management were addressing.

Further, the Committee considered the appropriateness of the valuation and the accounting treatment of the Group's bond and equity investments.

Towards the end of the year, the Committee undertook its annual review of its Terms of Reference so as to ensure it continued to comply with best practice, and reviewed its performance to ensure that it continued to operate as an effective Audit Committee and had discharged its responsibilities in accordance with its remit. For the size and complexity of the Group the composition of the Committee was considered appropriate and in compliance with the Code. Following the Group's inclusion as a constituent of the FTSE 250, the Committee will aim to enhance its composition with an additional member during 2015.

The Committee concluded that there was sufficient information in the Annual Report and Accounts for shareholders to assess the Group's performance, business model and strategy. The Committee was able to recommend to the Board that, taken as a whole, the Annual Report and Accounts was fair, balanced and understandable. There were no accounting or control issues arising during the year, which we confirmed to the Board.

## AUDIT COMMITTEE REPORT CONTINUED

### EXTERNAL AUDIT

The Committee reviewed the external audit strategy and the findings of the Company's auditor from its review of the Half-Yearly Financial Report and its audit of the Annual Report and Accounts. It reviewed the letters of representation at both the full year and half year and recommended the same to the Board for signature. Additionally, the Committee met with the Company's auditor prior to the final sign-off meeting for these Annual Report and Accounts in order to receive his report on the external audit process. I am pleased to report that at both the half year and the full year, after reviewing the significant risks identified by the Company's auditor and how management had mitigated them, there was no issue of a material nature which needed to be addressed or brought to the Board's attention.

The Committee assessed the effectiveness of the full year and half year external audit processes, the performance of the Company's auditor and, separately, sought the views of senior management. The Committee concluded that the external audit strategy had been met, and that key accounting and auditing judgments had been identified by the Company's auditor. The Committee's conclusions were that Deloitte LLP had undertaken the external audit in line with the audit plan, and it was agreed to recommend to the Board that Deloitte LLP be asked to continue as the Company's auditor at the forthcoming AGM.

The external audit was last put out to tender in 2007 when the current auditor, Deloitte LLP, was appointed. The lead audit partner was changed by rotation in 2012. There are no contractual obligations to restrict the Company's choice of external auditor. The Committee notes the wider EU regulatory developments in external audit tendering, and the current consultation from the Department of Innovation and Skills and the Financial Reporting Council. The Committee will formulate its policy based on their recommendations.

### INTERNAL AUDIT

Following its annual review, the Committee recommended to the Board not to establish an internal audit function, due to the existence of current controls and review systems in place and as the Company was neither of sufficient size nor complexity to warrant it. This line of reasoning was consistent with other property companies of a similar size. The Committee will continue to review this assumption annually following the Group's inclusion in the FTSE 250.

In order to seek assurance that internal controls are rigorously tested, management have set up a rolling programme to review and test the principal areas of risk, with the results reported to the Committee and subsequently reviewed by the Board.

### CORPORATE GOVERNANCE

The Committee noted the new UK Corporate Governance Code, published in September 2014, and discussed the impact the revisions would have on risk monitoring, reviewing and reporting for the forthcoming financial year in which it will apply. The Committee recommended to the Board the way in which the new provisions should be applied to the Group.

### POLICY ON NON-AUDIT SERVICES

The Committee is also responsible for monitoring the compliance of the Company's policy on the provision of non-audit services by the Company's auditor, so as to safeguard the auditor's objectivity and independence.

The Committee noted the recent publication of the EC Audit Regulation which includes new restrictions on the provision of non-audit services, which it is monitoring closely. These rules come into force from June 2016 and the Committee will amend its policy following clarification from the Department for Business Innovation & Skills.

The current policy, which is based on the most recent Guidance on Audit Committees and reviewed annually, categorises non-audit services as either:

- excluded; or
- permitted, without approval from the Committee, but subject to approval by the Chief Financial Officer of up to 10% of the annual aggregate Group audit fee; or
- permitted with approval from the Committee.

The only non-audit service provided by the Company's auditor during the year was tax advice of £14,300.

All such fees were approved by the Chief Financial Officer in accordance with the policy.

On behalf of the Board

**Malcolm Cooper**

Chairman

Audit Committee

4 March 2015



## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLS HOLDINGS PLC

### Opinion on financial statements of CLS Holdings plc

In our opinion:

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

The financial statements comprise the Group Income Statement, the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Cash Flow Statement, the Group Statement of Changes in Equity, the related notes to the group financial statements 1 to 35, the Parent Company Balance Sheet and the related notes 1 to 14. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

### Going concern

As required by the Listing Rules we have reviewed the Directors' statement on page 38 that the Group is a going concern. We confirm that:

- we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate; and
- we have not identified any material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLS HOLDINGS PLC CONTINUED

## Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team:

### Risk

### How the scope of our audit responded to the risk

#### **The assessment of the carrying value of the investment property portfolio, specifically the process, assumptions and judgements used to derive the property valuations.**

*Investment properties are held at £1,310m at 31 December 2014 making this the most quantitatively material balance in the financial statements.*

*Investment properties are held at market value on the balance sheet. Market value is by its nature subjective with significant judgement applied to the valuation, especially in regard to properties currently under development.*

*The key judgements made are surrounding occupancy rates, yields and the assessment of development and completion milestones.*

#### **Accounting for the Group's unlisted equity investments, focusing on the impact of changes in shareholdings on classification and accounting, and on the risk of impairment.**

*Equity investments are held at £36.5m at 31 December 2014 in the financial statements, consisting of £1.5m investments in associates and £35m of other equity investments.*

*In the year the Group acquired a controlling interest in First Camp Sverige Holding AB ("First Camp"), a newly-formed company which acquired certain assets from Cood Investments AB ("Cood"), and subsequently disposed of its investment in Cood. The Group's investment in BLD continued to be loss-making and was thus subject to increased impairment risk.*

We assessed management's process for reviewing the valuations of the property portfolio.

We met with the external valuers of the property portfolio to discuss, understand and challenge the valuation process, performance of the portfolio and significant assumptions and critical judgement areas, including occupancy rates, yields and development milestones. For the judgements made around the valuation of development properties we paid particular attention to the costs of construction and contingencies.

As part of our meeting with the external valuers we assessed their competence, independence and integrity with an additional focus on assessing the process for the appointment in the year of DTZ as UK valuers.

We obtained relevant industry data, which was used to benchmark the portfolio performance and key assumptions used to assess whether the external evidence supported the assumptions used by the valuers.

Finally, we performed audit procedures to assess the integrity of information provided to the valuer relating to rental income ensuring that it was consistent with the lease.

Our work on the valuation of the investment property portfolio was led by the Group audit team, supplemented by specific procedures by component auditors.

We assessed the impact of transactions in the year on the classification of investments in the financial statements and audited the valuation and the associated gain arising from those transactions.

We tested the acquisitions and disposals of the other financial investments by confirming the details to transaction agreements. In particular, we tested and challenged the First Camp and Cood transactions and the accuracy of the minority interest disclosures.

All remaining investments were evaluated for impairment by comparing the market value to carrying value and challenging management's assumptions behind the fair value of the investments to assess whether there were any signs of impairment. We noted that the investment in BLD was fully impaired at the year end.

Our work on investments was carried out by the Group audit team with the exception of acquisitions of other financial investments and the Cood and First Camp transaction, where we worked with our component auditors in Sweden.

Last year our report included one other risk which is not included in our report this year, accounting for property acquisitions. This is not included in the current year as there have been no significant acquisitions during the year.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee as set out on pages 53 and 54 and the critical accounting judgements as presented in note 3 of these financial statements.

Our audit procedures relating to these matters were designed in the context of our audit of the financial statements as a whole, and not to express an opinion on individual accounts or disclosures. Our opinion on the financial statements is not modified with respect to any of the risks described above, and we do not express an opinion on these individual matters.

#### Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £13.5 million (2013: £8.9 million), which is below 2% (2013: below 2%) of net assets. The increase in materiality from the prior year reflects the increase in net assets driven by the uplift in the valuation of the investment property portfolio, in particular London where growth was c.£192 million.

In addition to net assets, we considered EPRA adjusted profit before tax to be a critical performance measure for the Group and we applied a lower materiality of £2.1 million (2013: £1.4 million) which is less than 5% (2013: less than 5%) of adjusted income before tax for testing of balances impacting that measure, being most balance sheet and income statement balances with the exception primarily of fair value movements on investment property and complex financial instruments.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £269,000 (2013: £177,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also reported to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

#### An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our Group audit scope primarily on the audit work at each key location, being the UK, France, Germany and Sweden. These locations represent the principal business units and account for 96.7% (2013: 95.4%) of the Group's net assets, and 100% (2013: 97.9%) of revenue and of profit before tax. They were also selected to provide an appropriate basis for undertaking a full audit to address the risks of material misstatement identified above.

At the Group level we tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The UK business was subject to a full scope audit carried out by the Group audit team, with full scope audits on the remaining locations being undertaken by component auditors from within the Deloitte network, including Sweden where Deloitte were appointed auditors following a tender process. The audit work for each component location was executed at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £7,903,500 to £4,215,200 with lower materialities being used for those items impacting EPRA adjusted profit before tax, consistent with the Group audit approach. The majority of audit work on the key audit risks was performed by the Group audit team, including those risks specifically referred to in this report. The reporting from all component auditors has been reviewed by the Group team and, where necessary, component auditors carried out further testing at our request.

All component audit partners are included in our team briefing where their risk assessment is discussed and, where it was considered necessary, a senior member of the Group audit team visited the component locations to meet the component audit team and address any issues that arose.

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CLS HOLDINGS PLC CONTINUED

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### **Opinion on other matters prescribed by the Companies Act 2006**

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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### **Matters on which we are required to report by exception**

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#### *Adequacy of explanations received and accounting records*

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

- we have not received all the information and explanations we require for our audit; or
- 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 are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

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#### *Directors' remuneration*

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

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#### *Corporate Governance Statement*

Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

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#### *Our duty to read other information in the Annual Report*

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable, and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

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**Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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.

**Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Mark Beddy FCA (Senior statutory auditor)  
for and on behalf of Deloitte LLP**

Chartered Accountants and Statutory Auditor  
London, United Kingdom

4 March 2015

## GROUP INCOME STATEMENT

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
<b>Continuing operations</b>			
Group revenue		<b>99.6</b>	91.2
Net rental income	4	<b>82.2</b>	73.1
Administration expenses		<b>(13.6)</b>	(12.4)
Other expenses		<b>(4.9)</b>	(3.5)
Group revenue less costs		<b>63.7</b>	57.2
Net movements on revaluation of investment properties	13	<b>186.0</b>	(0.2)
Profit on sale of investment property		<b>8.7</b>	4.5
Fair value gain on reclassification of an associate as a subsidiary	33	<b>0.2</b>	-
Gain arising from acquisition	33	<b>1.2</b>	-
Profit on sale of joint venture	34	-	1.8
Net gain on sale of corporate bonds and other financial investments		-	14.1
Fair value gain on reclassification of an associate as an investment		-	14.9
<b>Operating profit</b>		<b>259.8</b>	92.3
Finance income	8	<b>7.7</b>	7.6
Finance costs	9	<b>(28.1)</b>	(23.7)
Share of loss of associates after tax	16	<b>(2.6)</b>	(4.8)
<b>Profit before tax</b>		<b>236.8</b>	71.4
Taxation	10	<b>(42.0)</b>	(8.2)
<b>Profit for the year</b>	6	<b>194.8</b>	63.2
Attributable to:			
Owners of the Company		<b>194.9</b>	63.2
Non-controlling interests		<b>(0.1)</b>	-
		<b>194.8</b>	63.2
<b>Earnings per share from continuing operations (expressed in pence per share)</b>			
Basic	11	<b>449.0</b>	146.9
Diluted	11	<b>449.0</b>	146.7

## GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
<b>Profit for the year</b>		<b>194.8</b>	63.2
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Foreign exchange differences		<b>(14.7)</b>	3.4
<b>Items that may be reclassified to profit or loss</b>			
Fair value gains/(losses) on corporate bonds and other financial investments	17	<b>3.2</b>	(1.4)
Fair value losses/(gains) taken to net gain on sale of corporate bonds and other financial investments	17	<b>0.2</b>	(11.2)
Revaluation of property, plant and equipment	14	<b>6.5</b>	-
Deferred tax on net fair value (gains)/losses	21	<b>(1.3)</b>	3.1
<b>Total items that may be reclassified to profit or loss</b>		<b>8.6</b>	(9.5)
<b>Total comprehensive income for the year</b>		<b>188.7</b>	57.1
Total comprehensive income attributable to:			
Owners of the Company		<b>187.5</b>	57.1
Non-controlling interests		<b>1.2</b>	-
		<b>188.7</b>	57.1

The notes on pages 64 to 93 are an integral part of these group financial statements.

## GROUP BALANCE SHEET

at 31 December 2014

	Notes	2014 £m	2013 £m
<b>Non-current assets</b>			
Investment properties	13	<b>1,310.1</b>	1,132.9
Property, plant and equipment	14	<b>60.4</b>	2.8
Goodwill	15	<b>1.1</b>	1.1
Investments in associates	16	<b>1.5</b>	9.1
Other financial investments	17	<b>99.9</b>	104.3
Derivative financial instruments	23	<b>-</b>	0.4
Deferred tax	21	<b>4.8</b>	6.4
		<b>1,477.8</b>	1,257.0
<b>Current assets</b>			
Trade and other receivables	18	<b>10.8</b>	12.7
Derivative financial instruments	23	<b>-</b>	0.3
Cash and cash equivalents	19	<b>100.2</b>	129.8
		<b>111.0</b>	142.8
<b>Total assets</b>			
		<b>1,588.8</b>	1,399.8
<b>Current liabilities</b>			
Trade and other payables	20	<b>(68.1)</b>	(40.3)
Current tax		<b>(7.7)</b>	(3.5)
Borrowings	22	<b>(192.8)</b>	(77.5)
Derivative financial instruments	23	<b>(1.0)</b>	-
		<b>(269.6)</b>	(121.3)
<b>Non-current liabilities</b>			
Deferred tax	21	<b>(105.9)</b>	(74.4)
Borrowings	22	<b>(549.5)</b>	(717.3)
Derivative financial instruments	23	<b>(6.3)</b>	(5.9)
		<b>(661.7)</b>	(797.6)
<b>Total liabilities</b>			
		<b>(931.3)</b>	(918.9)
<b>Net assets</b>			
		<b>657.5</b>	480.9
<b>Equity</b>			
Share capital	25	<b>11.5</b>	11.7
Share premium	27	<b>82.9</b>	82.9
Other reserves	28	<b>88.8</b>	96.0
Retained earnings		<b>469.7</b>	290.3
<b>Equity attributable to owners of the Company</b>			
		<b>652.9</b>	480.9
<b>Non-controlling interests</b>			
		<b>4.6</b>	-
<b>Total equity</b>			
		<b>657.5</b>	480.9

The financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 4 March 2015 and were signed on its behalf by:

**Mr S A Mortstedt**  
Director

**Mr E H Klotz**  
Director

The notes on pages 64 to 93 are an integral part of these group financial statements.





## GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2014

	Notes	2014 £m	2013 £m
<b>Cash flows from operating activities</b>			
Cash generated from operations	29	53.3	63.4
Interest paid		(24.4)	(22.2)
Income tax paid		(2.5)	(5.4)
<b>Net cash inflow from operating activities</b>		<b>26.4</b>	35.8
<b>Cash flows from investing activities</b>			
Purchase of investment property		(4.2)	(165.3)
Capital expenditure on investment property		(45.2)	(34.3)
Net cash inflow from business acquisition		2.9	-
Proceeds from sale of investment property		37.1	13.2
Proceeds from sale of joint venture		-	4.4
Interest received		8.1	11.2
Purchase of corporate bonds		(70.9)	(110.6)
Proceeds from sale of corporate bonds		82.9	172.9
Purchase of equity investments		(5.1)	(3.3)
Dividends received from equity investments		0.7	0.4
Proceeds from sale of equity investments		3.3	3.1
Purchase of interests in associate undertakings		-	(0.3)
Loans to associate undertakings		(1.0)	(1.2)
Distributions received from associate undertakings		0.8	0.3
Costs on foreign currency transactions		(0.9)	(1.7)
Costs of corporate disposals		-	(0.3)
Purchases of property, plant and equipment		(11.3)	(0.3)
<b>Net cash outflow from investing activities</b>		<b>(2.8)</b>	(111.8)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	20.4
Purchase of own shares		(15.5)	(13.7)
New loans		32.6	207.4
Issue costs of new loans		(0.2)	(1.9)
Repayment of loans		(65.0)	(103.4)
Purchase or cancellation of derivative financial instruments		-	(0.3)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(48.1)</b>	108.5
<b>Cash flow element of net (decrease)/increase in cash and cash equivalents</b>			
Foreign exchange loss		(5.1)	(0.3)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(29.6)</b>	32.2
Cash and cash equivalents at the beginning of the year		129.8	97.6
<b>Cash and cash equivalents at the end of the year</b>	19	<b>100.2</b>	129.8

The notes on pages 64 to 93 are an integral part of these group financial statements.

# NOTES TO THE GROUP FINANCIAL STATEMENTS

31 December 2014

## 1 GENERAL INFORMATION

CLS Holdings plc (the "Company") and its subsidiaries (together "CLS Holdings" or the "Group") is an investment property group which is principally involved in the investment, management and development of commercial properties, and in other investments. The Group's principal operations are carried out in the United Kingdom, France, Germany and Sweden.

The Company is registered in the UK, registration number 2714781, with its registered address at 86 Bondway, London, SW8 1SF. The Company is listed on the London Stock Exchange.

## 2 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these group financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The financial statements have been prepared on a going concern basis as explained in the Directors' Report on page 38 and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations, and the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

#### New standards and interpretations

In the current year, the Group has adopted one standard for the first time, which has not had a material effect on the results for the year:

- Amendments to IAS 32 *Offsetting Financial Assets and Financial Liabilities*
- Amendments to IFRS 10, IFRS 12 and IAS 27 *Investment Entities*
- Amendment to IAS 36 *Recoverable amounts disclosures for non-financial assets*
- Amendment to IAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*
- IFRIC 21 *Levies*

At the date of authorisation of these financial statements, the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective. In some cases these standards and guidance have not been endorsed by the European Union:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IFRS 11 (amendments) *Accounting for Acquisitions of Interests in Joint Operations*
- IAS 16 and IAS 38 (amendments) *Clarification of Acceptable Methods of Depreciation and Amortisation*
- IAS 16 and IAS 41 (amendments) *Agriculture: Bearer Plants*
- IAS 19 (amendments) *Defined Benefit Plans: Employee Contributions*
- IAS 27 (amendments) *Equity Method in Separate Financial Statements*
- IFRS 10 and IAS 28 (amendments) *Sale or contribution of assets between an investor and its associate or joint venture*
- Annual Improvements to IFRSs: 2010-2012 Cycle
- Annual Improvements to IFRSs: 2011-2013 Cycle
- Annual Improvements to IFRSs: 2012-2014 Cycle

These pronouncements, when applied, either will result in changes to presentation and disclosure, or are not expected to have a material impact on the financial statements, apart from IFRS 9. It is not practical to provide an estimate of the effect of IFRS 9 until the standard is effective.

### 2.2 Business Combinations

#### (i) Subsidiary undertakings

Subsidiary undertakings are those entities controlled by the Group. Control is assumed when the Group has the power to govern the financial and operating policies of an entity or business to benefit from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Group until the date control ceases. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

#### (ii) Associates

Associates are those entities over which the Group has significant influence but which are not subsidiary undertakings or joint ventures. The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Investments in associates are carried in the balance sheet at cost as adjusted by post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

#### (iii) Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. It is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill which is recognised as an asset is reviewed for impairment at least annually.

## 2.3 Foreign currency

### (i) Foreign currency transactions

Transactions in foreign currencies are translated into sterling using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into sterling at the exchange rate ruling at that date, and differences arising on translation are recognised in profit before tax.

Changes in the fair value of monetary securities classified as available-for-sale and denominated in foreign currencies are recognised in profit before tax where the translation difference results from changes in the amortised cost of the security, and are recognised in equity where it results from other changes in the carrying amount of the security.

### (ii) Consolidation of foreign entities

The results and financial position of all Group entities which have a functional currency different from sterling are translated into sterling as follows:

- (a) assets and liabilities are translated at the closing rate at the date of the balance sheet;
- (b) income and expenses for each income statement are translated at the average exchange rates; and
- (c) all resulting exchange differences are recognised directly in equity in the cumulative translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to the cumulative translation reserve. When a foreign operation is sold, such exchange differences are recognised as part of the gain or loss on sale in profit before tax.

## 2.4 Investment properties

Investment properties are those properties held for long-term rental yields or for capital appreciation or both. Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties comprise costs of a capital nature; in the case of investment properties under development, these include capitalised interest and certain staff costs directly attributable to the management of the development. Capitalised interest is calculated at the rate on associated borrowings applied to direct expenditure between the date of gaining planning consent and the date of practical completion. The acquisition of an investment property is recognised when the risks and rewards of ownership have been transferred to the Group, typically on unconditional exchange of contracts or when legal title passes.

Investment properties are carried at fair value, based on market value as determined by professional external valuers at the balance sheet date. Investment properties being redeveloped for continuing use as investment properties, or for which the market has become less active, continue to be classified as investment properties and measured at fair value. Changes in fair values are recognised in profit before tax.

## 2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and any recognised impairment loss.

Land is not depreciated. Depreciation on property, plant and equipment is calculated using the straight-line method to allocate cost less estimated residual values over the estimated useful lives, as follows:

Plant and equipment	4 – 5 years
Freehold property	6 years
Hotel	20 years
Holiday cottages and cabins	20 – 30 years

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit before tax.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

#### 2.6 Financial instruments

##### (i) Derivative financial instruments

The Group uses derivative financial instruments, including swaps and interest rate caps, to help manage its interest rate and foreign exchange rate risk. Derivative financial instruments are recorded, and subsequently revalued, at fair value. Revaluation gains and losses are recognised in profit before tax, except for derivatives which qualify as effective cash flow hedges, the gains and losses relating to which are recognised in other comprehensive income.

##### (ii) Available-for-sale investments

Available-for-sale investments are initially measured at cost, and are subsequently revalued to fair value. Revaluation gains and losses are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets. On disposal, the cumulative gain or loss previously recognised in other comprehensive income is recycled through profit before tax.

##### (iii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term highly liquid investments which are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

##### (iv) Trade and other receivables and payables

Trade and other receivables are recognised initially at fair value. An impairment provision is created where there is objective evidence that the Group will not be able to collect the receivable in full. Trade and other payables are stated at cost, which equates to fair value.

##### (v) Borrowings

Borrowings are recognised initially at fair value less attributable transaction costs. Subsequently, borrowings are stated at amortised cost with any difference between the amount initially recognised and the redemption value being recognised in profit before tax over the period of the borrowings, using the effective interest rate method.

#### 2.7 Revenue

##### (i) Rental income

Rental income from operating leases is recognised on a straight-line basis over the lease term. The cost of incentives is recognised over the lease term, on a straight-line basis, as a reduction of rental income.

##### (ii) Service charge income

Service charge income is recognised on a gross basis in the accounting period in which the services are rendered.

#### 2.8 Profit on sale of investment properties

Profit on sale of an investment property is recognised when the risks and rewards of ownership have been transferred to the buyer, typically on unconditional exchange of contracts or when legal title passes.

#### 2.9 Income tax

Current tax is based on taxable profit for the year and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided using the balance sheet liability method on temporary differences between the carrying value of assets and liabilities for financial reporting purposes and the values used for tax purposes. Temporary differences are not provided for when they arise from initial recognition of goodwill or from the initial recognition of assets and liabilities in a transaction that does not affect accounting or taxable profit.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, and is calculated using rates that are expected to apply in the period when the liability is settled or the asset is realised, in the tax jurisdiction in which the temporary differences arise. Deferred tax is charged or credited in arriving at profit after tax, except when it relates to items recognised in other comprehensive income, in which case the deferred tax is also recognised in other comprehensive income.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be used. The deferred tax assets and liabilities are only offset if they relate to income taxes levied by the same taxation authority, there is a legally enforceable right of set-off and the Group intends to settle its current tax assets and liabilities on a net basis.

### 3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are the critical estimates and judgements that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

#### (i) Fair value of investment properties

The Group uses the valuations performed by its independent external valuers as the fair value of its investment properties. The valuations are based upon assumptions including future rental income, anticipated maintenance costs, future development costs and an appropriate discount rate. The valuers also make reference to market evidence of transaction prices for similar properties.

#### (ii) Listed corporate bonds

The best evidence of the fair value of listed corporate bonds is quoted prices in an active market. The bond market is not always as liquid as conventional equity markets. The Group, therefore, is required to make certain judgements when arriving at the fair value of bonds which are less liquid in nature. To the extent that bond prices are not available from third party pricing sources the Group determines their fair value by comparing observable market data and making judgements on the liquidity of particular bonds from a variety of sources:

- (a) the Group uses a broker to obtain multiple quotes directly from market makers and to make a judgement as to the liquidity of those bonds, and the Group determines whether the judgments of liquidity are reasonable and whether the spread of market maker prices is within an expected range; and
- (b) the Group makes judgements on price and liquidity based on recent market transactions in particular bonds.

#### (iii) Income Taxes

The Group is subject to income taxes in different jurisdictions and estimation is required to determine the worldwide provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which determination is made.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 4 SEGMENT INFORMATION

The Group has two operating divisions – Investment Property and Other Investments. Other Investments comprise corporate bonds, shares in Catena AB, Bulgarian Land Development Plc, First Camp Sverige Holding AB and Cood Investments AB, and other small corporate investments. The Group manages the Investment Property division on a geographical basis due to its size and geographical diversity. Consequently, the Group's principal operating segments are:

Investment Property – London  
 Rest of United Kingdom  
 France  
 Germany  
 Sweden

Other Investments

There are no transactions between the operating segments.

The Group's results for the year ended 31 December 2014 by operating segment were as follows:

	Investment Property					Other Investments £m	Total £m
	London £m	Rest of UK £m	France £m	Germany £m	Sweden £m		
Rental income	32.4	13.3	17.1	15.3	6.3	–	84.4
Other property-related income	1.0	–	0.3	–	–	0.7	2.0
Service charge income	4.9	0.2	4.8	3.0	0.3	–	13.2
Service charges and similar expenses	(6.6)	(0.2)	(5.2)	(3.4)	(2.0)	–	(17.4)
<b>Net rental income</b>	<b>31.7</b>	<b>13.3</b>	<b>17.0</b>	<b>14.9</b>	<b>4.6</b>	<b>0.7</b>	<b>82.2</b>
Administration expenses	(3.2)	(0.2)	(1.6)	(1.2)	(0.2)	(0.8)	(7.2)
Other expenses	(2.0)	(0.4)	(1.0)	(1.1)	(0.1)	(0.3)	(4.9)
<b>Group revenue less costs</b>	<b>26.5</b>	<b>12.7</b>	<b>14.4</b>	<b>12.6</b>	<b>4.3</b>	<b>(0.4)</b>	<b>70.1</b>
Profit on sale of investment property	6.8	–	1.9	–	–	–	8.7
Net movements on revaluation of investment properties	185.1	(0.4)	3.4	7.0	(9.1)	–	186.0
Fair value gain on reclassifying an associate as a subsidiary	–	–	–	–	–	0.2	0.2
Gain arising from acquisition	–	–	–	–	–	1.2	1.2
<b>Segment operating profit/(loss)</b>	<b>218.4</b>	<b>12.3</b>	<b>19.7</b>	<b>19.6</b>	<b>(4.8)</b>	<b>1.0</b>	<b>266.2</b>
Finance income	–	–	–	–	–	7.7	7.7
Finance costs	(10.1)	(3.3)	(3.0)	(2.4)	(0.9)	(8.4)	(28.1)
Share of loss of associates after tax	–	–	–	–	–	(2.6)	(2.6)
<b>Segment profit/(loss) before tax</b>	<b>208.3</b>	<b>9.0</b>	<b>16.7</b>	<b>17.2</b>	<b>(5.7)</b>	<b>(2.3)</b>	<b>243.2</b>
Central administration expenses							(6.4)
<b>Profit before tax</b>							<b>236.8</b>

The Group's results for the year ended 31 December 2013 by operating segment were as follows:

	Investment Property					Other Investments £m	Total £m
	London £m	Rest of UK £m	France £m	Germany £m	Sweden £m		
Rental income	30.8	3.9	19.2	15.5	6.6	-	76.0
Other property-related income	0.7	-	0.4	0.1	-	-	1.2
Service charge income	5.1	-	5.4	3.1	0.4	-	14.0
Service charges and similar expenses	(6.5)	(0.1)	(5.7)	(3.4)	(2.4)	-	(18.1)
Net rental income	30.1	3.8	19.3	15.3	4.6	-	73.1
Administration expenses	(3.0)	-	(1.4)	(1.3)	(0.6)	(0.5)	(6.8)
Other expenses	(1.5)	(0.1)	(0.6)	(1.1)	(0.2)	-	(3.5)
Group revenue less costs	25.6	3.7	17.3	12.9	3.8	(0.5)	62.8
Profit on sale of investment property	4.5	-	-	-	-	-	4.5
Net movements on revaluation of investment properties	15.3	(4.3)	(9.2)	(0.6)	(1.4)	-	(0.2)
Profit on sale of joint venture	1.8	-	-	-	-	-	1.8
Net gain on sale of corporate bonds and other financial investments	-	-	-	-	-	14.1	14.1
Fair value gain on reclassification of an associate as an investment	-	-	-	-	-	14.9	14.9
Segment operating profit/(loss)	47.2	(0.6)	8.1	12.3	2.4	28.5	97.9
Finance income	-	-	-	-	-	7.6	7.6
Finance costs	(9.1)	(0.5)	(3.2)	(2.9)	(0.8)	(7.2)	(23.7)
Share of loss of associates after tax	-	-	-	-	-	(4.8)	(4.8)
Segment profit/(loss) before tax	38.1	(1.1)	4.9	9.4	1.6	24.1	77.0
Central administration expenses							(5.6)
Profit before tax							71.4

**Other segment information:**

	Assets		Liabilities		Capital expenditure	
	2014 £m	2013 £m	2014 £m	2013 £m	2014 £m	2013 £m
Investment Property						
London	<b>717.9</b>	542.2	<b>402.4</b>	374.9	<b>45.5</b>	78.9
Rest of UK	<b>100.2</b>	98.7	<b>81.8</b>	82.2	-	101.5
France	<b>229.8</b>	245.1	<b>184.7</b>	206.2	<b>2.3</b>	4.7
Germany	<b>239.5</b>	220.3	<b>160.2</b>	147.7	<b>29.4</b>	13.2
Sweden	<b>49.7</b>	67.5	<b>36.6</b>	44.5	<b>3.0</b>	2.1
Other Investments	<b>251.7</b>	226.0	<b>65.6</b>	63.4	<b>30.1</b>	-
	<b>1,588.8</b>	1,399.8	<b>931.3</b>	918.9	<b>110.3</b>	200.4

Included within the assets of other investments are investments in associates of £1.5 million (2013: £9.1 million).

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 5 ADMINISTRATION COST RATIO

The administration cost ratio is a key performance indicator of the Group. It represents the cost of running the property portfolio relative to its net income, and is calculated as follows:

	2014 £m	2013 £m
Administration expenses of the operating segments	7.2	6.8
Central administration expenses	6.4	5.6
Total administration expenses of the Group	13.6	12.4
Less: administration expenses of Other Investments	(0.8)	(0.5)
Property-related and central administration expenses	12.8	11.9
Net rental income	82.2	73.1
Less: net rental income of Other Investments	(0.7)	-
Net rental income of Investment Properties	81.5	73.1
Administration cost ratio	15.7%	16.3%

### 6 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2014 £m	2013 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the parent company and group accounts	0.4	0.3
Fees payable to the Company's auditor for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	0.1	0.1
Depreciation of property, plant and equipment	0.3	0.3
Employee benefits expense (note 7)	8.3	7.6

### 7 EMPLOYEE BENEFITS EXPENSE

	2014 £m	2013 £m
Wages and salaries	6.3	5.8
Social security costs	0.9	0.8
Pension costs – defined contribution plans	0.3	0.2
Other employee-related expenses	0.8	0.8
	8.3	7.6

The Directors are considered to be key management of the Group.

Information on Directors' emoluments, share options and interests in the Company's shares is given in the Directors' Remuneration Report on pages 46 to 52.

The monthly average number of employees of the Group in continuing operations, including Executive Directors, was as follows:

	2014			2013		
	Property number	Other operations number	Total number	Property number	Other operations number	Total number
Male	39	1	40	36	1	37
Female	38	-	38	39	-	39
	77	1	78	75	1	76



At the end of the year the number of Directors and employees was as follows:

	2014				2013			
	Directors number	Senior managers number	Other employees number	Total number	Directors number	Senior managers number	Other employees number	Total number
Male	9	15	25	49	10	14	25	49
Female	2	5	33	40	2	3	37	42
	11	20	58	89	12	17	62	91

### Share-based payments

The Group operates two employee share option schemes, the 2005 CLS Holdings plc Company Share Option Plan and the Group's unapproved Share Option Scheme. In March 2010, 300,000 share options under these schemes were granted at an exercise price of 470p, and could be exercised from March 2013 to March 2017; they were all exercised in 2013 at 470p. There were no other share options granted but not exercised in 2013 or 2014. Details of vesting conditions in relation to these options are given within the Directors Remuneration report on page 51.

## 8 FINANCE INCOME

	2014 £m	2013 £m
Interest income	7.0	7.2
Other finance income	0.7	0.4
	7.7	7.6

## 9 FINANCE COSTS

	2014 £m	2013 £m
Interest expense		
Bank loans	13.3	13.9
Debenture loan	3.2	3.3
Zero coupon note	1.3	1.4
Secured notes	3.2	0.3
Unsecured bonds	4.8	5.1
Amortisation of loan issue costs	1.9	2.1
Total interest costs	27.7	26.1
Less interest capitalised on development projects	(2.9)	(0.9)
	24.8	25.2
Loss on partial redemption of zero coupon note	1.3	-
Movement in fair value of derivative financial instruments		
Interest rate swaps: transactions not qualifying as hedges	0.5	(3.4)
Interest rate caps: transactions not qualifying as hedges	0.4	0.1
Foreign exchange variances	1.1	1.8
	28.1	23.7

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 10 TAXATION

	2014 £m	2013 £m
Current tax charge	7.2	5.3
Deferred tax charge (note 21)	34.8	2.9
	<b>42.0</b>	8.2

A deferred tax charge of £1.3 million (2013: credit of £3.1 million) was recognised directly in equity (note 21).

The charge for the year differs from the theoretical amount which would arise using the weighted average tax rate applicable to profits of Group companies as follows:

	2014 £m	2013 £m
<b>Profit before tax</b>	<b>236.8</b>	71.4
Tax calculated at domestic tax rates applicable to profits in the respective countries	52.3	16.5
Expenses not deductible for tax purposes	0.6	0.1
Tax effect of unrecognised losses/(profits) in associates and joint ventures	0.3	(0.7)
Tax effect of fair value movements on investments	0.9	-
Adjustment in respect of indexation allowance on United Kingdom properties	(3.5)	(4.2)
Non-taxable income	(2.8)	(2.4)
Gain arising from acquisition	(0.3)	-
Change in tax rate	-	(1.6)
Deferred tax on losses (recognised)/not recognised	(3.3)	0.9
Deferred tax liability released on disposals	(0.8)	-
Other deferred tax adjustments	(0.2)	(0.1)
Adjustment in respect of prior periods	(1.2)	(0.3)
<b>Tax charge for the year</b>	<b>42.0</b>	8.2

The weighted average applicable tax rate of 22.1% (2013: 23.1%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated.

### 11 EARNINGS PER SHARE

Management has chosen to disclose the European Public Real Estate Association (EPRA) measure of earnings per share which has been provided to give relevant information to investors on the long-term performance of the Group's underlying property investment business. The EPRA measure excludes items which are non-recurring in nature such as profits (net of related tax) on sale of investment properties and of other non-current investments, and items which have no impact to earnings over their life, such as the change in fair value of derivative financial instruments and the net movement on revaluation of investment properties, and the related deferred taxation on these items.

	2014 £m	2013 £m
<b>Earnings</b>		
Profit for the year	194.9	63.2
Net movements on revaluation of investment properties	(186.0)	0.2
Group's share of gain arising from acquisition	(1.2)	-
Profit on sale of investment property	(8.7)	(4.5)
Impairment of carrying value of associates	2.2	4.0
Change in fair value of derivative financial instruments	0.9	(3.3)
Fair value gain on reclassification of an associate as a subsidiary	(0.2)	-
Fair value gain on reclassification of an associate as an investment	-	(14.9)
Profit on sale of joint venture	-	(1.8)
Net (gain)/loss on sale of corporate bonds and other financial investments	-	(14.1)
Deferred tax relating to the above adjustments	31.7	(0.3)
<b>EPRA earnings</b>	<b>33.6</b>	28.5

Weighted average number of ordinary shares	2014 Number	2013 Number
Weighted average number of ordinary shares in circulation	<b>43,410,928</b>	43,026,586
Dilutive share options <sup>†</sup>	-	59,992
Diluted weighted average number of ordinary shares	<b>43,410,928</b>	43,086,578

Earnings per Share	2014 Pence	2013 Pence
Basic	<b>449.0</b>	146.9
Diluted	<b>449.0</b>	146.7
EPRA	<b>77.4</b>	66.2

<sup>†</sup> 300,000 share options were granted on 11 March 2010 at an exercise price of 470 pence, and exercised on 17 May 2013.

## 12 NET ASSETS PER SHARE

Management has chosen to disclose the two European Public Real Estate Association (EPRA) measures of net assets per share: EPRA net assets per share and EPRA triple net assets per share. The EPRA net assets per share measure highlights the fair value of equity on a long-term basis, and so excludes items which have no impact on the Group in the long term, such as fair value movements of derivative financial instruments and deferred tax on the fair value of investment properties. The EPRA triple net assets per share measure discloses net assets per share on a true fair value basis: all balance sheet items are included at their fair value in arriving at this measure, including deferred tax, fixed rate loan liabilities and any other balance sheet items not reported at fair value.

Net Assets	2014 £m	2013 £m
Basic net assets attributable to owners of the Company	<b>652.9</b>	480.9
Adjustment to increase fixed rate debt to fair value, net of tax	<b>(29.2)</b>	(21.1)
Goodwill as a result of deferred tax	<b>(1.1)</b>	(1.1)
<b>EPRA triple net assets</b>	<b>622.6</b>	458.7
Deferred tax on property and other non-current assets	<b>102.4</b>	72.5
Fair value of derivative financial instruments	<b>7.3</b>	5.2
Adjustment to decrease fixed rate debt to book value, net of tax	<b>29.2</b>	21.1
<b>EPRA net assets</b>	<b>761.5</b>	557.5

Number of ordinary shares	2014 Number	2013 Number
Number of ordinary shares in circulation	<b>42,924,061</b>	43,953,790
Dilutive share options	-	-
Diluted number of ordinary shares	<b>42,924,061</b>	43,953,790

Net Assets Per Share	2014 Pence	2013 Pence
Basic	<b>1,521.1</b>	1,094.1
Diluted	<b>1,521.1</b>	1,094.1
EPRA	<b>1,774.1</b>	1,268.4
EPRA triple net	<b>1,450.5</b>	1,043.6

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 13 INVESTMENT PROPERTIES

	London £m	Rest of UK £m	France £m	Germany £m	Sweden £m	Total £m
<b>At 1 January 2014</b>	<b>519.9</b>	<b>97.9</b>	<b>240.6</b>	<b>214.4</b>	<b>60.1</b>	<b>1,132.9</b>
<b>Acquisitions</b>	<b>2.3</b>	<b>-</b>	<b>-</b>	<b>27.4</b>	<b>1.9</b>	<b>31.6</b>
<b>Capital expenditure</b>	<b>42.8</b>	<b>-</b>	<b>2.3</b>	<b>2.0</b>	<b>1.1</b>	<b>48.2</b>
<b>Disposals</b>	<b>(22.4)</b>	<b>-</b>	<b>(6.2)</b>	<b>-</b>	<b>-</b>	<b>(28.6)</b>
<b>Transfer to property, plant and equipment</b>	<b>(22.7)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(22.7)</b>
<b>Net movement on revaluation of investment properties</b>	<b>185.1</b>	<b>(0.4)</b>	<b>3.4</b>	<b>7.0</b>	<b>(9.1)</b>	<b>186.0</b>
<b>Rent-free period debtor adjustments</b>	<b>-</b>	<b>0.1</b>	<b>0.6</b>	<b>(0.1)</b>	<b>(0.1)</b>	<b>0.5</b>
<b>Exchange rate variances</b>	<b>-</b>	<b>-</b>	<b>(15.6)</b>	<b>(15.2)</b>	<b>(7.0)</b>	<b>(37.8)</b>
<b>At 31 December 2014</b>	<b>705.0</b>	<b>97.6</b>	<b>225.1</b>	<b>235.5</b>	<b>46.9</b>	<b>1,310.1</b>
	London £m	Rest of UK £m	France £m	Germany £m	Sweden £m	Total £m
At 1 January 2013	436.8	0.7	239.6	197.4	60.0	934.5
Acquisitions	52.7	100.5	-	12.1	-	165.3
Capital expenditure	26.9	-	4.7	1.1	2.1	34.8
Disposals	(11.3)	-	-	-	-	(11.3)
Net movement on revaluation of investment properties	14.3	(3.3)	(9.2)	(0.6)	(1.4)	(0.2)
Rent-free period debtor adjustments	0.5	-	-	0.1	(0.1)	0.5
Exchange rate variances	-	-	5.5	4.3	(0.5)	9.3
At 31 December 2013	519.9	97.9	240.6	214.4	60.1	1,132.9

The investment properties (and the hotel and the owner-occupied property detailed in note 14) were revalued at 31 December 2014 to their fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by external, professionally qualified valuers as follows:

London: DTZ; Knight Frank (2013: Lambert Smith Hampton; Knight Frank)

Rest of UK: DTZ (2013: Savills)

France: Jones Lang LaSalle

Germany: Colliers International

Sweden: CB Richard Ellis

Property valuations are complex and require a degree of judgements and are based on data which is not publicly available. Consistent with EPRA guidance, we have classified the valuations of our property portfolio as level 3 as defined by IFRS 13. In addition to note 3(i), inputs into the valuations include equivalent yields and rental income and are described as 'unobservable' as per IFRS 13. These inputs are analysed by segment in the property portfolio information on page 28. All other factors remaining constant, an increase in rental income would increase valuations, whilst an increase in equivalent nominal yield would result in a fall in value and vice versa.

Investment properties included leasehold properties with a carrying amount of £49.6 million (2013: £57.4 million).

Interest capitalised within capital expenditure in the year amounted to £2.9 million (2013: £0.9 million).

Where the Group leases out its investment property under operating leases the duration is typically three years or more. No contingent rents have been recognised in either the current or the comparative year.

Substantially all investment properties (and the owner-occupied property detailed in note 14) are secured against debt.

In 2010 the Group purchased a property in London for £1.8 million. Under the terms of the purchase agreement, should the site be developed additional consideration may become due to the vendor. The maximum liability in respect of this is estimated to be £0.5 million. At the balance sheet date the fair value of the liability was £nil (2013: £nil).

14 PROPERTY, PLANT AND EQUIPMENT

	Hotel £m	Land and buildings £m	Owner- occupied property £m	Fixtures and fittings £m	Total £m
<b>Cost or valuation</b>					
At 1 January 2013	-	-	2.6	1.3	3.9
Additions	-	-	-	0.3	0.3
Disposals	-	-	-	(0.1)	(0.1)
<b>At 31 December 2013</b>	<b>-</b>	<b>-</b>	<b>2.6</b>	<b>1.5</b>	<b>4.1</b>
<b>Additions</b>	<b>-</b>	<b>10.9</b>	<b>-</b>	<b>0.4</b>	<b>11.3</b>
Acquired during the year	-	18.0	-	1.2	19.2
Transfer from investment properties	21.3	-	-	1.4	22.7
Exchange rate variances	-	(1.8)	-	-	(1.8)
Revaluation	-	5.0	1.5	-	6.5
<b>At 31 December 2014</b>	<b>21.3</b>	<b>32.1</b>	<b>4.1</b>	<b>4.5</b>	<b>62.0</b>
<b>Comprising:</b>					
At cost	-	-	-	4.5	4.5
At valuation 31 December 2014	21.3	32.1	4.1	-	57.5
	<b>21.3</b>	<b>32.1</b>	<b>4.1</b>	<b>4.5</b>	<b>62.0</b>
<b>Accumulated depreciation and impairment</b>					
At 1 January 2013	-	-	(0.2)	(0.9)	(1.1)
Depreciation charge	-	-	-	(0.3)	(0.3)
Eliminated on disposals	-	-	-	0.1	0.1
<b>At 31 December 2013</b>	<b>-</b>	<b>-</b>	<b>(0.2)</b>	<b>(1.1)</b>	<b>(1.3)</b>
<b>Depreciation charge</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(0.3)</b>	<b>(0.3)</b>
<b>At 31 December 2014</b>	<b>-</b>	<b>-</b>	<b>(0.2)</b>	<b>(1.4)</b>	<b>(1.6)</b>
<b>Net book value</b>					
<b>At 31 December 2014</b>	<b>21.3</b>	<b>32.1</b>	<b>3.9</b>	<b>3.1</b>	<b>60.4</b>
At 31 December 2013	-	-	2.4	0.4	2.8

A hotel and an owner-occupied property were revalued at 31 December 2014 based on the external valuation performed by DTZ and Knight Frank, respectively, as detailed in note 13.

The land and buildings were revalued at 31 December 2014 based on an external valuation performed by Forum Fastighetsekonomi AB.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 15 GOODWILL

	2014 £m	2013 £m
<b>Cost</b>		
At 1 January and at 31 December	1.1	1.1
<b>Amortisation</b>		
At 1 January and 31 December	-	-
<b>Net book value</b>		
<b>At 31 December</b>	<b>1.1</b>	<b>1.1</b>

Goodwill comprised £0.8 million (2013: £0.8 million) on the acquisition of a French property portfolio in 2004 and £0.3 million (2013: £0.3 million) on a German property acquisition in 2005.

#### Impairment review 2014 and 2013

Goodwill was reviewed for impairment at 31 December 2014 and at 31 December 2013 using the key assumptions set out below. No adjustment for impairment was required.

#### Key assumptions:

Unamortised goodwill at 31 December 2014 and at 31 December 2013 related to contingent deferred tax arising on acquisitions of corporate entities for which an equal deferred tax liability was recognised in the balance sheet. Management have reviewed the sensitivity to a fall in property values of each cash-generating unit. A fall of 10% would result in a potential impairment of goodwill of up to £0.1 million (2013: £0.1 million).

### 16 INVESTMENTS IN ASSOCIATES

	Net assets £m	Goodwill £m	Impairment £m	Total £m
<b>At 1 January 2014</b>	<b>15.6</b>	<b>1.5</b>	<b>(8.0)</b>	<b>9.1</b>
<b>Share of loss of associates after tax</b>	<b>(0.4)</b>	<b>-</b>	<b>(2.2)</b>	<b>(2.6)</b>
<b>Dividends received</b>	<b>(0.8)</b>	<b>-</b>	<b>-</b>	<b>(0.8)</b>
<b>Disposal</b>	<b>(6.8)</b>	<b>-</b>	<b>3.5</b>	<b>(3.3)</b>
<b>Exchange rate differences</b>	<b>(1.4)</b>	<b>(0.2)</b>	<b>0.7</b>	<b>(0.9)</b>
<b>At 31 December 2014</b>	<b>6.2</b>	<b>1.3</b>	<b>(6.0)</b>	<b>1.5</b>
	Net assets £m	Goodwill £m	Impairment £m	Total £m
At 1 January 2013	25.5	7.8	-	33.3
Additions	5.6	(5.3)	-	0.3
Share of (loss)/profit of associates after tax	(0.8)	4.2	(8.2)	(4.8)
Dividends received	(0.3)	-	-	(0.3)
Reclassification of associate as an investment	(14.8)	(5.4)	-	(20.2)
Exchange rate differences	0.4	0.2	0.2	0.8
At 31 December 2013	15.6	1.5	(8.0)	9.1

The Group's interests in its principal associates were as follows:

At 31 December 2014	Bulgarian Land Development Plc £m	Other associates £m	Total £m
<b>Interest held in ordinary share capital</b>			
<b>Revenues</b>	<b>0.1</b>	<b>7.0</b>	<b>7.1</b>
<b>Share of loss of associates after tax, before impairment</b>	<b>(0.2)</b>	<b>(0.2)</b>	<b>(0.4)</b>
<b>Impairment</b>	<b>(2.2)</b>	<b>-</b>	<b>(2.2)</b>
<b>Share of loss of associates after tax</b>	<b>(2.4)</b>	<b>(0.2)</b>	<b>(2.6)</b>
<b>Assets</b>	<b>6.2</b>	<b>0.8</b>	<b>7.0</b>
<b>Liabilities</b>	<b>(0.2)</b>	<b>(0.6)</b>	<b>(0.8)</b>
<b>Net assets</b>	<b>6.0</b>	<b>0.2</b>	<b>6.2</b>
<b>Goodwill</b>	<b>-</b>	<b>1.3</b>	<b>1.3</b>
<b>Impairment</b>	<b>(6.0)</b>	<b>-</b>	<b>(6.0)</b>
<b>Investments in associates</b>	<b>-</b>	<b>1.5</b>	<b>1.5</b>

At 31 December 2013	Catena AB £m	Bulgarian Land Development Plc £m	Other associates £m	Total £m
<b>Interest held in ordinary share capital</b>				
<b>Revenues</b>	13.8% 0.6	48.3% 0.2	various 6.4	7.2
<b>Share of profit/(loss) of associates after tax, before impairment</b>	1.0	(0.6)	(1.2)	(0.8)
<b>Impairment</b>	-	(4.0)	-	(4.0)
<b>Share of profit/(loss) of associates after tax</b>	1.0	(4.6)	(1.2)	(4.8)
<b>Assets</b>	-	7.8	17.6	25.4
<b>Liabilities</b>	-	(0.4)	(9.4)	(9.8)
<b>Net assets</b>	-	7.4	8.2	15.6
<b>Goodwill</b>	-	-	1.5	1.5
<b>Impairment</b>	-	(4.0)	(4.0)	(8.0)
<b>Investments in associates</b>	-	3.4	5.7	9.1

#### Catena AB

At 1 January 2013 the Group had a 29.9% interest in Catena AB ("Catena"), a listed Swedish property company. On 30 September 2013, Catena issued new shares in payment for an acquisition, reducing the Group's interest in Catena to 13.8%. Consequently, the investment in Catena was reclassified as an available-for-sale financial investment and held at fair value by reference to Catena's share price. Henry Klotz, Executive Vice Chairman of the Company, is the Non-Executive Chairman of Catena AB.

#### Bulgarian Land Development Plc

At 31 December 2014 the Group had a 48.3% (2013: 48.3%) interest in Bulgarian Land Development Plc ("BLD"), an unlisted developer of residential and commercial real estate in Bulgaria. Henry Klotz, Executive Vice Chairman of the Company, is the Non-Executive Chairman of BLD.

#### Other associates

On 15 August 2014, the Group increased to 58.0% (2013: 44.2%) its interest in Cood Investments AB ("Cood"), an unlisted residential property company specialising in vacation sites in Sweden. Consequently, the investment in Cood was reclassified as a subsidiary. Henry Klotz, Executive Vice Chairman of the Company, is a non-executive director of Cood.

At 31 December 2014 the Group had a 20.0% (2013: 20.0%) interest in Nyheter 24, an unlisted Swedish on-line news and media business.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 16 INVESTMENTS IN ASSOCIATES CONTINUED

#### Impairment

##### 2014

An impairment review was carried out to assess the Group's carrying value of BLD based upon a review of BLD's audited net assets, which were prepared under IFRS, and of its cash flow forecasts. On the basis of this review and following the receipt of a dividend of £0.8 million, an impairment of £2.2 million was made against the carrying value of the Group's interest in BLD at 31 December 2014.

The fair value of Nyheter 24 was determined on acquisition to be £1.9 million and was based upon detailed profit forecasts. As the progress to date has not been materially dissimilar from these forecasts, management considered the carrying value of Nyheter 24 not to be impaired at 31 December 2014.

##### 2013

An impairment review was carried out to assess the Group's carrying value of BLD based upon a review of BLD's audited net assets, which were prepared under IFRS, and of its cash flow forecasts. On the basis of this review an impairment of £4.0 million was made against the carrying value of the Group's interest in BLD at 31 December 2013.

The consideration for the acquisition of the interest in Cood in 2013 was £0.3 million and on assessing the fair value of the net assets acquired, negative goodwill of £5.3 million arose. As required under IAS 28, the negative goodwill was credited to the Group Statement of Comprehensive Income in 2013. As part of this fair value review, a review of the goodwill on the original interest acquired in 2012 was carried out and an impairment of £1.1 million made to the Group Statement of Comprehensive Income in 2013. At 31 December 2013, the fair value of the Group's interest in Cood was assessed based on Cood's results to date, net assets, and profit forecasts. On the basis of this review an impairment of £4.2 million was made against the carrying value of the Group's interest in Cood at 31 December 2013.

The fair value of Nyheter 24 was determined on acquisition to be £1.9 million and was based upon detailed forward forecasts. As the progress to date has not been materially dissimilar from these forecasts, management considered the carrying value of Nyheter 24 not to be impaired at 31 December 2013.

### 17 OTHER FINANCIAL INVESTMENTS

	Investment type	Destination of Investment	2014 £m	2013 £m
Available-for-sale financial investments carried at fair value	Listed corporate bonds	UK	19.1	28.4
		Eurozone	3.9	10.8
		Other	38.8	30.2
			<b>61.8</b>	69.4
	Listed equity securities	UK	0.2	0.2
		Sweden	34.6	34.1
Other		-	0.3	
Unlisted investments	Sweden	3.3	0.3	
		<b>99.9</b>	104.3	



The movement of other financial investments, analysed based on the methods used to measure their fair value, was as follows:

	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods* £m	Total £m
<b>At 1 January 2014</b>	<b>34.6</b>	<b>69.4</b>	<b>0.3</b>	<b>104.3</b>
<b>Acquisitions arising from business combinations</b>	<b>-</b>	<b>-</b>	<b>3.0</b>	<b>3.0</b>
<b>Additions</b>	<b>2.5</b>	<b>70.9</b>	<b>2.6</b>	<b>76.0</b>
<b>Disposals</b>	<b>(0.6)</b>	<b>(80.9)</b>	<b>(2.7)</b>	<b>(84.2)</b>
<b>Fair value movements recognised in reserves on available-for-sale assets</b>	<b>2.6</b>	<b>0.6</b>	<b>-</b>	<b>3.2</b>
<b>Fair value movements recognised in profit before tax on available-for-sale assets</b>	<b>0.1</b>	<b>-</b>	<b>0.1</b>	<b>0.2</b>
<b>Exchange rate variations</b>	<b>(4.4)</b>	<b>1.8</b>	<b>-</b>	<b>(2.6)</b>
<b>At 31 December 2014</b>	<b>34.8</b>	<b>61.8</b>	<b>3.3</b>	<b>99.9</b>

	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods* £m	Total £m
At 1 January 2013	2.3	127.3	0.3	129.9
Additions	37.7	110.6	-	148.3
Disposals	(4.1)	(156.5)	-	(160.6)
Fair value movements recognised in reserves on available-for-sale assets	(1.4)	-	-	(1.4)
Fair value movements recognised in profit before tax on available-for-sale assets	0.9	(12.1)	-	(11.2)
Loss on permanent impairment	-	(0.3)	-	(0.3)
Exchange rate variations	(0.8)	0.4	-	(0.4)
At 31 December 2013	34.6	69.4	0.3	104.3

\* Unlisted equity shares valued using multiples from comparable listed organisations.

#### Corporate Bond Portfolio

At 31 December 2014

Sector	Banking	Insurance	Travel and tourism	Food producers	Other	Total
Value	£30.3m	£1.8m	£5.7m	£1.6m	£22.4m	£61.8m
Running yield	7.6%	6.5%	6.6%	9.0%	7.2%	7.4%
Issuers	RBS HSBC Lloyds Investec Barclays Unicredit Deutsche SNS Bank Commerzbank Credit Agricole Bank of Ireland Societe Generale	Brit Insurance	SAS Stena British Airways	Findus	Dell Enel Seadrill T-Mobile Stora Enso Centurylink Transocean ArcelorMittal Corral Finans Telecom Italia	

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 18 TRADE AND OTHER RECEIVABLES

	2014 £m	2013 £m
<b>Current</b>		
Trade receivables	4.6	1.3
Prepayments	1.7	1.2
Accrued income	1.5	2.7
Other debtors	3.0	7.5
	<b>10.8</b>	12.7

There was no concentration of credit risk with respect to trade receivables as the Group had a large number of customers spread across the countries in which it operated.

There were no material trade and other receivables classified as past due but not impaired (2013: none). No trade and other receivables were interest-bearing.

Included within other debtors is £1.1 million (2013: £6.0 million) due after more than one year.

### 19 CASH AND CASH EQUIVALENTS

	2014 £m	2013 £m
Cash at bank and in hand	95.2	129.8
Short-term bank deposits	5.0	-
	<b>100.2</b>	129.8

At 31 December 2014, Group cash at bank and in hand included £11.0 million (2013: £11.0 million) which was restricted by a third-party charge.

Cash and short-term deposits are invested at floating rates of interest based on relevant national LIBID and base rates or equivalents in the UK, France, Germany and Sweden.

The cash and cash equivalents currency profile was as follows:

	Cash at bank and in hand £m	Short-term deposits £m	Total £m
<b>At 31 December 2014</b>			
<b>Sterling</b>	59.5	5.0	64.5
<b>Euro</b>	16.8	-	16.8
<b>Swedish Krona</b>	17.1	-	17.1
<b>Other</b>	1.8	-	1.8
	<b>95.2</b>	<b>5.0</b>	<b>100.2</b>

	Cash at bank and in hand £m
<b>At 31 December 2013</b>	
Sterling	106.7
Euro	9.5
Swedish Krona	13.6
	129.8

### 20 TRADE AND OTHER PAYABLES

	2014 £m	2013 £m
<b>Current</b>		
Trade payables	1.6	6.1
Social security and other taxes	2.1	1.3
Other payables	34.1	7.0
Accruals	15.3	14.5
Deferred income	15.0	11.4
	<b>68.1</b>	40.3

21 DEFERRED TAX

	2014 £m	2013 £m
Deferred tax assets:		
– after more than 12 months	(4.8)	(6.4)
Deferred tax liabilities:		
– after more than 12 months	105.9	74.4
	<b>101.1</b>	68.0

The movement in deferred tax was as follows:

	2014 £m	2013 £m
<b>At 1 January</b>	<b>68.0</b>	69.1
Charged in arriving at profit after tax	34.8	2.9
Charged/(credited) to other comprehensive income	1.3	(3.1)
Deferred tax on acquisition	1.3	(2.1)
Exchange rate variances	(4.3)	1.2
<b>At 31 December</b>	<b>101.1</b>	68.0

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, was as follows:

Deferred tax assets	Tax losses £m	Other £m	Total £m
<b>At 1 January 2014</b>	<b>(4.5)</b>	<b>(1.9)</b>	<b>(6.4)</b>
<b>Charged/(credited) in arriving at profit after tax</b>	<b>3.1</b>	<b>(1.7)</b>	<b>1.4</b>
<b>Charged to other comprehensive income</b>	<b>–</b>	<b>0.1</b>	<b>0.1</b>
<b>Exchange rate variances</b>	<b>0.1</b>	<b>–</b>	<b>0.1</b>
<b>At 31 December 2014</b>	<b>(1.3)</b>	<b>(3.5)</b>	<b>(4.8)</b>

Deferred tax assets	Tax losses £m	Other £m	Total £m
At 1 January 2013	(5.5)	(3.2)	(8.7)
Charged in arriving at profit after tax	3.1	1.4	4.5
Credited to other comprehensive income	–	(0.1)	(0.1)
Deferred tax on acquisition	(2.1)	–	(2.1)
At 31 December 2013	(4.5)	(1.9)	(6.4)

Deferred tax liabilities	UK capital allowances £m	Fair value adjustments to investment properties £m	Other £m	Total £m
<b>At 1 January 2014</b>	<b>8.0</b>	<b>65.5</b>	<b>0.9</b>	<b>74.4</b>
<b>Charged in arriving at profit after tax</b>	<b>2.6</b>	<b>30.5</b>	<b>0.3</b>	<b>33.4</b>
<b>Charged to other comprehensive income</b>	<b>–</b>	<b>–</b>	<b>1.2</b>	<b>1.2</b>
<b>Deferred tax on acquisition</b>	<b>–</b>	<b>–</b>	<b>1.3</b>	<b>1.3</b>
<b>Exchange rate variances</b>	<b>–</b>	<b>(4.2)</b>	<b>(0.2)</b>	<b>(4.4)</b>
<b>At 31 December 2014</b>	<b>10.6</b>	<b>91.8</b>	<b>3.5</b>	<b>105.9</b>

Deferred tax liabilities	UK capital allowances £m	Fair value adjustments to investment properties £m	Other £m	Total £m
At 1 January 2013	9.4	64.7	3.7	77.8
(Credited)/charged in arriving at profit after tax	(1.4)	(0.3)	0.1	(1.6)
Credited to other comprehensive income	–	–	(3.0)	(3.0)
Exchange rate variances	–	1.1	0.1	1.2
At 31 December 2013	8.0	65.5	0.9	74.4

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 21 DEFERRED TAX CONTINUED

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2014 the Group did not recognise deferred tax assets of £10.6 million (2013: £8.4 million) in respect of losses amounting to £47.0 million (2013: £33.7 million) which can be carried forward against future taxable income or gains. The majority of deferred tax assets recognised within the "other" category relate either to deferred tax on swaps with a negative book value or to corporate bonds carried at below cost. Losses recognised as deferred tax assets can be carried forward without restriction.

### 22 BORROWINGS

	Current £m	Non-current £m	Total borrowings £m
At 31 December 2014			
<b>Bank loans</b>	<b>187.4</b>	<b>350.9</b>	<b>538.3</b>
<b>Debenture loans</b>	<b>1.6</b>	<b>27.4</b>	<b>29.0</b>
<b>Zero coupon note</b>	<b>-</b>	<b>11.2</b>	<b>11.2</b>
<b>Unsecured bonds</b>	<b>(0.3)</b>	<b>89.1</b>	<b>88.8</b>
<b>Secured notes</b>	<b>4.1</b>	<b>70.9</b>	<b>75.0</b>
	<b>192.8</b>	<b>549.5</b>	<b>742.3</b>
At 31 December 2013			
Bank loans	72.6	507.5	580.1
Debenture loans	1.5	29.0	30.5
Zero coupon note	-	13.4	13.4
Unsecured bonds	(0.6)	92.3	91.7
Secured notes	4.0	75.1	79.1
	77.5	717.3	794.8

Arrangement fees of £3.7 million (2013: £5.5 million) have been offset in arriving at the balances in the above tables.

#### Bank loans

Interest on bank loans is charged at fixed rates ranging between 3.1% and 11.2%, including margin (2013: 3.1% and 11.2%) and at floating rates of typically LIBOR, EURIBOR or STIBOR, plus a margin. Fixed rate margins range between 0.8% and 1.8% (2013: 0.8% and 1.8%) and floating rate margins range between 0.8% and 3.8% (2013: 0.8% and 3.8%). All bank loans are secured by legal charges over the respective properties, and in most cases a floating charge over the remainder of the assets held in the company which owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

#### Debenture loans

The debenture loans represent amortising bonds which are repayable in equal quarterly instalments of £1.2 million (2013: £1.2 million) with final repayment due in January 2025. Each instalment is apportioned between principal and interest on a reducing balance basis. Interest is charged at an annual fixed rate of 10.8%, including margin. The debentures are secured by a legal charge over a property and securitisation of its rental income.

#### Zero coupon note

The zero coupon note accrues interest at an annual rate of 11.2%, including margin. It is unsecured and is redeemable as a balloon repayment of principal and interest of £32.8 million in aggregate in February 2025. £3.6 million of the zero coupon note was bought back in the year at a cost of £4.9 million.

#### Unsecured bonds

On 11 September 2012, the Group issued £65.0 million unsecured retail bonds, which attract a fixed rate coupon of 5.5% and are due for repayment in 2019. The bonds are listed on the London Stock Exchange's Order book for Retail Bonds.

On 15 April 2011, the Group issued SEK 300 million unsecured bonds. The bonds attract a floating rate coupon of 3.75% over three months' STIBOR and are due for repayment in 2016. After two years, the Group has an option to redeem all outstanding bonds subject to an early repayment premium. The bonds were listed on the NASDAQ OMX Stockholm on 5 July 2011.

#### Secured notes

On 3 December 2013, the Group issued £80.0 million secured, partially-amortising notes. The notes attract a fixed rate coupon of 4.17% on the unamortised principal, the balance of which is repayable in December 2022.

### Loan covenants

A subsidiary of the Group has an amortising secured bank loan with a carrying amount of £8.5 million which expires in July 2017. A covenant of the loan requiring a minimum level of net rental income from the secured property was in breach at 31 December 2014. The Group is in discussions with the bank to effect a remedy of the breach in accordance with the terms of the loan and, therefore, the loan was not payable on demand at 31 December 2014. Save for this, there were no loan covenants in breach at 31 December 2014 (2013: none).

The maturity profile of the carrying amount of the Group's borrowings was as follows:

	Bank loans £m	Debenture loans £m	Zero coupon note £m	Unsecured bonds £m	Secured notes £m	Total £m
<b>At 31 December 2014</b>						
<b>Within one year or on demand</b>	<b>188.3</b>	<b>1.7</b>	<b>-</b>	<b>-</b>	<b>4.2</b>	<b>194.2</b>
<b>More than one but not more than two years</b>	<b>158.1</b>	<b>1.8</b>	<b>-</b>	<b>24.7</b>	<b>4.2</b>	<b>188.8</b>
<b>More than two but not more than five years</b>	<b>153.4</b>	<b>6.8</b>	<b>-</b>	<b>65.0</b>	<b>12.5</b>	<b>237.7</b>
<b>More than five years</b>	<b>40.5</b>	<b>18.7</b>	<b>11.2</b>	<b>-</b>	<b>54.9</b>	<b>125.3</b>
	<b>540.3</b>	<b>29.0</b>	<b>11.2</b>	<b>89.7</b>	<b>75.8</b>	<b>746.0</b>
<b>Unamortised issue costs</b>	<b>(2.0)</b>	<b>-</b>	<b>-</b>	<b>(0.9)</b>	<b>(0.8)</b>	<b>(3.7)</b>
<b>Borrowings</b>	<b>538.3</b>	<b>29.0</b>	<b>11.2</b>	<b>88.8</b>	<b>75.0</b>	<b>742.3</b>
<b>Less amount due for settlement within 12 months</b>	<b>(187.4)</b>	<b>(1.6)</b>	<b>-</b>	<b>0.3</b>	<b>(4.1)</b>	<b>(192.8)</b>
<b>Amounts due for settlement after 12 months</b>	<b>350.9</b>	<b>27.4</b>	<b>11.2</b>	<b>89.1</b>	<b>70.9</b>	<b>549.5</b>

	Bank loans £m	Debenture loans £m	Zero coupon note £m	Unsecured bonds £m	Secured notes £m	Total £m
<b>At 31 December 2013</b>						
Within one year or on demand	73.7	1.5	-	-	4.2	79.4
More than one but not more than two years	155.4	1.7	-	-	4.2	161.3
More than two but not more than five years	321.3	6.1	-	28.2	12.5	368.1
More than five years	32.8	21.2	13.4	65.0	59.1	191.5
	583.2	30.5	13.4	93.2	80.0	800.3
<b>Unamortised issue costs</b>	<b>(3.1)</b>	<b>-</b>	<b>-</b>	<b>(1.5)</b>	<b>(0.9)</b>	<b>(5.5)</b>
<b>Borrowings</b>	<b>580.1</b>	<b>30.5</b>	<b>13.4</b>	<b>91.7</b>	<b>79.1</b>	<b>794.8</b>
<b>Less amount due for settlement within 12 months</b>	<b>(72.6)</b>	<b>(1.5)</b>	<b>-</b>	<b>0.6</b>	<b>(4.0)</b>	<b>(77.5)</b>
<b>Amounts due for settlement after 12 months</b>	<b>507.5</b>	<b>29.0</b>	<b>13.4</b>	<b>92.3</b>	<b>75.1</b>	<b>717.3</b>

The interest rate risk profile of the Group's fixed rate borrowings was as follows:

	At 31 December 2014		At 31 December 2013	
	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years
Sterling	<b>6.2</b>	<b>7.5</b>	6.2	8.5
Euro	<b>5.0</b>	<b>0.7</b>	5.0	1.7

The interest rate risk profile of the Group's floating rate borrowings was as follows:

	At 31 December 2014			At 31 December 2013		
	% of net floating rate loans capped	Average capped interest rate %	Average tenure Years	% of net floating rate loans capped	Average capped interest rate %	Average tenure Years
Sterling	<b>68</b>	<b>3.0</b>	<b>1.4</b>	63	3.0	2.2
Euro	<b>72</b>	<b>3.2</b>	<b>1.2</b>	70	3.1	2.2
Swedish Krona	<b>-</b>	<b>n/a</b>	<b>n/a</b>	-	n/a	n/a

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 22 BORROWINGS CONTINUED

The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
<b>At 31 December 2014</b>			
<b>Sterling</b>	<b>205.4</b>	<b>202.2</b>	<b>407.6</b>
<b>Euro</b>	<b>25.3</b>	<b>228.0</b>	<b>253.3</b>
<b>Swedish Krona</b>	<b>-</b>	<b>81.4</b>	<b>81.4</b>
	<b>230.7</b>	<b>511.6</b>	<b>742.3</b>
<b>At 31 December 2013</b>			
Sterling	200.6	213.9	414.5
Euro	28.1	260.3	288.4
Swedish Krona	-	81.1	81.1
Other	-	10.8	10.8
	228.7	566.1	794.8

The carrying amounts and fair values of the Group's borrowings are as follows:

	Carrying amounts		Fair values	
	2014 £m	2013 £m	2014 £m	2013 £m
Current borrowings	<b>192.8</b>	77.5	<b>192.8</b>	77.5
Non-current borrowings	<b>549.5</b>	717.3	<b>586.0</b>	743.7
	<b>742.3</b>	794.8	<b>778.8</b>	821.2

Arrangement fees of £3.7 million (2013: £5.5 million) have been offset in arriving at the balances in the above table.

The fair value of non-current borrowings represents the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, discounted at the prevailing market rate, and excludes accrued interest.

The Group has the following undrawn committed facilities available at 31 December:

	2014 £m	2013 £m
<b>Floating rate:</b>		
- expiring within one year	<b>39.0</b>	9.5
- expiring after one year	<b>-</b>	3.1
	<b>39.0</b>	12.6

### 23 DERIVATIVE FINANCIAL INSTRUMENTS

	2014 Assets £m	2014 Liabilities £m	2013 Assets £m	2013 Liabilities £m
<b>Non-current</b>				
Interest rate swaps	-	<b>(6.3)</b>	-	(5.9)
Interest rate caps	-	-	0.4	-
	-	<b>(6.3)</b>	0.4	(5.9)
<b>Current</b>				
Interest rate swaps	-	-	-	-
Forward foreign exchange contracts	-	<b>(1.0)</b>	0.3	-
	-	<b>(1.0)</b>	0.3	-
	-	<b>(7.3)</b>	0.7	(5.9)

The valuation methods used to measure the fair value of all derivative financial instruments were derived from inputs which were either observable as prices or derived from prices (Level 2).

There were no derivative financial instruments accounted for as hedging instruments.

#### Interest rate swaps

The aggregate notional principal of interest rate swap contracts at 31 December 2014 was £41.8 million (2013: £35.2 million). The average period to maturity of these interest rate swaps was 4.1 years (2013: 4.2 years).

#### Forward foreign exchange contracts

The Group uses forward foreign exchange contracts from time to time to add certainty to, and to minimise the impact of foreign exchange movements on, committed cash flows. At 31 December 2014 the Group had £2.6 million of outstanding net foreign exchange contracts (2013: £1.4 million).

## 24 FINANCIAL INSTRUMENTS

### Categories of financial instruments

Financial assets of the Group comprise: interest rate caps; foreign currency forward contracts; available-for-sale investments; investments in associates; trade and other receivables; and cash and cash equivalents.

Financial liabilities of the Group comprise: interest rate swaps; forward foreign currency contracts; bank loans; debenture loans; zero coupon notes; unsecured bonds; secured notes; trade and other payables; and current tax liabilities.

The fair values of financial assets and liabilities are determined as follows:

- (a) Interest rate swaps and caps are measured at the present value of future cash flows based on applicable yield curves derived from quoted interest rates.
- (b) Foreign currency options and forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.
- (c) The fair values of non-derivative financial assets and liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. Financial assets in this category include available-for-sale instruments such as listed corporate bonds and equity investments.
- (d) In more illiquid conditions, non-derivative financial assets are valued using multiple quotes obtained from market makers and from pricing specialists. Where the spread of prices is tightly clustered the consensus price is deemed to be fair value. Where prices become more dispersed or there is a lack of available quoted data, further procedures are undertaken such as evidence from the last non-forced trade.
- (e) The fair values of other non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices from observable current market transactions and dealer quotes for similar instruments.

Except for investments in associates and fixed rate loans, the carrying amounts of financial assets and liabilities recorded at amortised cost approximate to their fair value.

### Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balances. The capital structure of the Group consists of debt, cash and cash equivalents, other investments and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings. Management perform "stress tests" of the Group's business model to ensure that the Group's objectives can be met. The objectives have been met in the year.

The Directors review the capital structure on a quarterly basis to ensure that key strategic goals are being achieved. As part of this review they consider the cost of capital and the risks associated with each class of capital.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 24 FINANCIAL INSTRUMENTS CONTINUED

The gearing ratio at the year end was as follows:

	2014 £m	2013 £m
Debt	746.0	800.3
Liquid resources	(162.0)	(199.2)
Net debt	584.0	601.1
Equity	652.4	480.9
Net debt to equity ratio	89%	125%

Debt is defined as long-term and short-term borrowings before unamortised issue costs as detailed in note 22. Liquid resources are cash and short-term deposits and listed corporate bonds. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

#### Externally imposed capital requirement

At 31 December 2014 the Group was subject to a minimum equity ratio of total equity to total assets of 22.5% imposed by unsecured bonds of £88.8 million (2013: £91.7 million). The Group was also restricted from making distributions to shareholders if to do so would reduce net assets below £250 million, imposed by unsecured bonds of £64.3 million (2013: £64.2 million). Additionally, the Group was subject to externally imposed capital requirements to the extent that debt covenants may require group companies to maintain ratios such as debt to equity (or similar) below certain levels.

#### Risk management objectives

The Group's activities expose it to a variety of financial risks, which can be grouped as:

- market risk
- credit risk
- liquidity risk

The Group's overall risk management approach seeks to minimise potential adverse effects on the Group's financial performance whilst maintaining flexibility.

Risk management is carried out by the Group's treasury department in close co-operation with the Group's operating units and with guidance from the Board of Directors. The Board regularly assesses and reviews the financial risks and exposures of the Group.

#### (a) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates, and to a lesser extent other price risk. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk and also uses natural hedging strategies such as matching the duration, interest payments and currency of assets and liabilities.

##### (i) Interest rate risk

The Group's most significant interest rate risk arises from its long-term variable rate borrowings. Interest rate risk is regularly monitored by the treasury department and by the Board on both a country and a Group basis. The Board's policy is to mitigate variable interest rate exposure whilst maintaining the flexibility to borrow at the best rates and with consideration to potential penalties on termination of fixed rate loans. To manage its exposure the Group uses interest rate swaps, interest rate caps and natural hedging from cash held on deposit.

In assessing risk, a range of scenarios is taken into consideration such as refinancing, renewal of existing positions and alternative financing and hedging. Under these scenarios, the Group calculates the impact on the income statement for a defined movement in the underlying interest rate. The impact of a reasonably likely movement in interest rates is set out below:

Scenario	2014 Income statement £m	2013 Income statement £m
Cash +50 basis points	0.3	0.3
Variable borrowings (including caps) +50 basis points	(2.5)	(2.6)
Cash -50 basis points	(0.3)	(0.3)
Variable borrowings (including caps) -50 basis points	1.8	1.9



**(ii) Foreign exchange risk**

The Group does not have any regular transactional foreign exchange exposure. However, it has operations in Europe which transact business denominated in euros and, to a lesser extent, in Swedish kronor. Consequently, there is currency exposure caused by translating into sterling the local trading performance and net assets for each financial period and balance sheet, respectively.

The policy of the Group is to match the currency of investments with the related borrowing, which largely eliminates foreign exchange risk on property investments. A portion of the remaining operations, equating to the net assets of the foreign property operations, is not hedged except in exceptional circumstances, such as the uncertainty surrounding the euro in late 2011. Where foreign exchange risk arises from future commercial transactions, the Group will hedge the future committed commercial transaction using foreign exchange swaps or forward foreign exchange contracts.

The Group's principal currency exposures are in respect of the euro and the Swedish krona. If the value of sterling were to increase or decrease in strength the Group's net assets and profit for the year would be affected. The impact of a 1% increase or decrease in the strength of sterling against these currencies is set out below:

Scenario	2014	2014	2013	2013
	Net assets £m	Profit before tax £m	Net assets £m	Profit before tax £m
1% increase in value of sterling against the euro	(1.4)	1.4	(1.2)	(0.1)
1% increase in value of sterling against the Swedish krona	(0.4)	0.4	(0.4)	(0.2)
1% fall in value of sterling against the euro	(0.2)	0.2	1.3	0.1
1% fall in value of sterling against the Swedish krona	-	-	0.4	0.2

**(iii) Other price risk**

The Group is exposed to corporate bond price risk and, to a lesser extent, to equity securities price risk, because of investments held by the Group and classified in the balance sheet as available-for-sale.

In order to manage the risk in relation to the holdings of corporate bonds and equity securities the Group holds a diversified portfolio. Diversification of the portfolio is managed in accordance with the limits set by the Group.

The table below shows the effect on other comprehensive income which would result from an increase or decrease of 10% in the market value of corporate bonds and equity securities, which is an amount management believes to be reasonable in the current market:

Scenario: Shift of 10% in valuations	2014	2013
	Other Comprehensive Income £m	Other Comprehensive Income £m
10% fall in value	(10.0)	(10.4)
10% increase in value	10.0	10.4

**(b) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from the ability of customers to meet outstanding receivables and future lease commitments, and from financial institutions with which the Group places cash and cash equivalents, and enters into derivative financial instruments. The maximum exposure to credit risk is partly represented by the carrying amounts of the financial assets which are carried in the balance sheet, including derivatives with positive fair values.

For credit exposure other than to occupiers, the Directors believe that counterparty risk is minimised to the fullest extent possible as the Group has policies which limit the amount of credit exposure to any individual financial institution.

The Group has policies in place to ensure that rental contracts are made with customers with an appropriate credit history. Credit risk to customers is assessed by a process of internal and external credit review, and is reduced by obtaining bank guarantees from the customer or its parent, and rental deposits. The overall credit risk in relation to customers is monitored on an ongoing basis. Moreover, a significant proportion of the Group portfolio is let to Government occupiers which can be considered financially secure.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 24 FINANCIAL INSTRUMENTS CONTINUED

At 31 December 2014 the Group held £99.9 million (2013: £104.3 million) of available-for-sale financial assets. Management considers the credit risk associated with individual transactions and monitors the risk on a continuing basis. Information is gathered from external credit rating agencies and other market sources to allow management to react to any perceived change in the underlying credit risk of the instruments in which the Group invests. This allows the Group to minimise its credit exposure to such items and at the same time to maximise returns for shareholders.

The table below shows the external Standard & Poor's credit banding on the available-for-sale financial investments held by the Group:

S&P Credit rating at balance sheet date	2014 £m	2013 £m
Investment grade	5.8	3.8
Non-investment grade	50.7	56.6
Not rated	43.4	43.9
<b>Total</b>	<b>99.9</b>	<b>104.3</b>

#### (c) Liquidity risk

Liquidity risk management requires maintaining sufficient cash, other liquid assets and the availability of funding to meet short, medium and long-term requirements. The Group maintains adequate levels of liquid assets to fund operations and to allow the Group to react quickly to potential opportunities.

Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flows so that future requirements can be managed effectively.

The majority of the Group's debt is arranged on an asset-specific, non-recourse basis. This allows the Group a higher degree of flexibility in dealing with potential covenant defaults than if the debt was arranged under a Group-wide borrowing facility.

Loan covenant compliance is closely monitored by the treasury department. Potential covenant breaches can ordinarily be avoided by placing additional security or a cash deposit with the lender, or by partial repayment to cure an event of default.

The table below analyses the Group's contractual undiscounted cash flows payable under financial liabilities and derivative assets and liabilities at the balance sheet date, into relevant maturity groupings based on the period remaining to the contractual maturity date. Amounts due within one year are equivalent to the carrying values in the balance sheet as the impact of discounting is not significant.

At 31 December 2014	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
<b>Non-derivative financial liabilities:</b>				
<b>Borrowings</b>	<b>194.2</b>	<b>188.8</b>	<b>237.7</b>	<b>125.5</b>
<b>Interest payments on borrowings<sup>†</sup></b>	<b>22.0</b>	<b>17.5</b>	<b>37.2</b>	<b>16.4</b>
<b>Trade and other payables</b>	<b>68.1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Forward foreign exchange contracts:</b>				
<b>Cash flow hedges</b>				
<b>- Outflow</b>	<b>(2.6)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>- Inflow</b>	<b>2.6</b>	<b>-</b>	<b>-</b>	<b>-</b>
At 31 December 2013	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings	79.4	161.3	368.1	191.5
Interest payments on borrowings <sup>†</sup>	24.4	24.4	44.8	24.4
Trade and other payables	40.3	-	-	-
Forward foreign exchange contracts:				
Cash flow hedges				
- Outflow	(11.4)	-	-	-
- Inflow	11.4	-	-	-

<sup>†</sup> Interest payments on borrowings are calculated without taking into account future events. Floating rate interest is estimated using a future interest rate curve as at 31 December.

## 25 SHARE CAPITAL

	Number			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
<b>At 1 January 2014</b>	<b>43,953,790</b>	<b>2,903,103</b>	<b>46,856,893</b>	<b>11.0</b>	<b>0.7</b>	<b>11.7</b>
Cancelled following tender offers	(1,029,729)	-	(1,029,729)	(0.2)	-	(0.2)
<b>At 31 December 2014</b>	<b>42,924,061</b>	<b>2,903,103</b>	<b>45,827,164</b>	<b>10.8</b>	<b>0.7</b>	<b>11.5</b>

	Number			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2013	43,305,876	4,803,103	48,108,979	10.8	1.2	12.0
Cancelled following tender offers	(1,252,086)	-	(1,252,086)	(0.3)	-	(0.3)
Exercise of share options	300,000	(300,000)	-	0.1	(0.1)	-
Ordinary shares issued from treasury shares	1,600,000	(1,600,000)	-	0.4	(0.4)	-
<b>At 31 December 2013</b>	<b>43,953,790</b>	<b>2,903,103</b>	<b>46,856,893</b>	<b>11.0</b>	<b>0.7</b>	<b>11.7</b>

Ordinary shares have a nominal value of 25 pence each.

## 26 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 14 March 2014 for the purchase of 1 in 66 shares at 1,495 pence per share was completed in May. It returned £10.0 million to shareholders, equivalent to 22.65 pence per share.

A tender offer by way of a Circular dated 22 August 2014 for the purchase of 1 in 119 shares at 1,500 pence per share was completed in September. It returned £5.5 million to shareholders, equivalent to 12.61 pence per share.

A further tender offer will be put to shareholders in April 2015 for the purchase of 1 in 80 shares at a price of 1,950 pence per share which, if approved, will return £10.4 million to shareholders, equivalent to 24.38 pence per share.

## 27 SHARE PREMIUM

	2014 £m	2013 £m
At 1 January	<b>82.9</b>	71.5
Ordinary shares issued from treasury shares	-	11.4
<b>At 31 December 2014</b>	<b>82.9</b>	82.9

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 28 OTHER RESERVES

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Other reserves £m	Total £m
<b>At 1 January 2014</b>	<b>22.0</b>	<b>47.2</b>	<b>(1.3)</b>	<b>28.1</b>	<b>96.0</b>
<b>Purchase of own shares:</b>					
– cancellation pursuant to tender offer	0.2	–	–	–	0.2
<b>Exchange rate variances</b>	<b>–</b>	<b>(14.0)</b>	<b>(0.3)</b>	<b>–</b>	<b>(14.3)</b>
<b>Available-for-sale financial assets:</b>					
– net fair value gains in the year	–	–	7.8	–	7.8
– deferred tax thereon	–	–	(0.9)	–	(0.9)
<b>At 31 December 2014</b>	<b>22.2</b>	<b>33.2</b>	<b>5.3</b>	<b>28.1</b>	<b>88.8</b>
	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Other reserves £m	Total £m
At 1 January 2013	21.7	43.8	8.2	28.1	101.8
<b>Purchase of own shares:</b>					
– cancellation pursuant to tender offer	0.3	–	–	–	0.3
<b>Exchange rate variances</b>	<b>–</b>	<b>3.4</b>	<b>–</b>	<b>–</b>	<b>3.4</b>
<b>Available-for-sale financial assets:</b>					
– net fair value losses in the year	–	–	(12.6)	–	(12.6)
– deferred tax thereon	–	–	3.1	–	3.1
<b>At 31 December 2013</b>	<b>22.0</b>	<b>47.2</b>	<b>(1.3)</b>	<b>28.1</b>	<b>96.0</b>

The cumulative translation reserve comprises the aggregate effect of translating net assets of overseas subsidiaries into sterling since acquisition.

The fair value reserve comprises the aggregate movement in the value of corporate bonds, other available-for-sale assets and owner-occupied property since acquisition, net of deferred tax.

The amount classified as other reserves was created prior to listing in 1994 on a Group reconstruction and is considered to be non-distributable.

### 29 CASH GENERATED FROM OPERATIONS

	2014 £m	2013 £m
Operating profit	<b>259.8</b>	92.3
Adjustments for:		
Net movements on revaluation of investment properties	<b>(186.0)</b>	0.2
Depreciation and amortisation	<b>0.3</b>	0.3
Profit on sale of investment property	<b>(8.7)</b>	(4.5)
Profit on sale of joint venture	<b>–</b>	(1.8)
Gain arising on acquisition	<b>(1.2)</b>	–
Non-cash rental income	<b>(0.5)</b>	(0.5)
Fair value gain on reclassification of an associate as a subsidiary	<b>(0.2)</b>	–
Fair value gain on reclassification of an associate as an investment	<b>–</b>	(14.9)
Net gain on sale of corporate bonds and other financial investments	<b>–</b>	(14.1)
Changes in working capital:		
(Increase)/decrease in debtors	<b>(2.0)</b>	1.2
(Decrease)/increase in creditors	<b>(8.2)</b>	5.2
<b>Cash generated from operations</b>	<b>53.3</b>	63.4

### 30 CONTINGENCIES

At 31 December 2014 CLS Holdings plc had guaranteed certain liabilities of group companies. These were primarily in relation to Group borrowings and covered interest and amortisation payments. No cross-guarantees had been given by the Group in relation to the principal amounts of these borrowings.

### 31 COMMITMENTS

The Group leases office space under non-cancellable operating lease agreements. The future aggregate minimum lease payments under these non-cancellable operating leases are as follows:

	2014 £m	2013 £m
Operating lease commitments – where the Group is the lessee		
More than one but not more than five years	0.4	0.5
More than five years	0.6	0.4
	<b>1.0</b>	0.9

At the balance sheet date the Group had contracted with customers for the following minimum lease payments:

	2014 £m	2013 £m
Operating lease commitments – where the Group is lessor		
Within one year	81.3	83.8
More than one but not more than five years	248.6	256.6
More than five years	227.8	262.7
	<b>557.7</b>	603.1

Operating leases where the Group is the lessor are typically negotiated on a customer-by-customer basis and include break clauses and indexation provisions.

#### Other commitments

At 31 December 2014 the Group had contracted capital expenditure of £1.7 million (2013: £35.8 million). There were no authorised financial commitments which were yet to be contracted with third parties (2013: none).

### 32 PRINCIPAL SUBSIDIARIES

The group financial statements include the financial statements of CLS Holdings plc and all of its subsidiaries, the principal ones of which are listed below.

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those wholly-owned subsidiary companies whose results or financial position, in the opinion of the Directors, principally affected those of the Group.

Adlershofer Sàrl*	Grossglockner Sàrl*	Spring Gardens Limited
Apex Tower Limited	Ingrove Limited	Spring Mews (Hotel) Limited
CLS Investments Sàrl*	Kapellen Sàrl*	Spring Mews (Student) Limited
CLS UK Properties plc	Museion Förvaltnings AB***	Three Albert Embankment Limited
Endicott Sweden AB***	Naropere Sàrl*	Vänerparken Property Investment KB***
Frères Peugeot SCI**	New Printing House Square Limited	Vauxhall Square Limited
Great West House Limited	NYK Investments Limited	

\* Incorporated in Luxembourg

\*\* Incorporated in France

\*\*\* Incorporated in Sweden

The principal activity of each of these subsidiaries is property investment, apart from CLS UK Properties plc, Endicott Sweden AB, Museion Förvaltnings AB and NYK Investments Limited whose principal activities are to act as investment companies. All of the above subsidiary undertakings are incorporated in the United Kingdom unless stated otherwise. To comply with the Companies Act 2006, a full list of subsidiaries will be filed with the Company's next annual return.

### 33 BUSINESS ACQUISITIONS

#### Cood Investment AB and First Camp Sverige Holding AB

On 11 February 2014, the Group acquired a 58.0% interest in a newly incorporated company, First Camp Sverige Holding AB ("FCSH"). On 15 August 2014, FCSH acquired a 23.8% interest in Cood Investment AB ("Cood") for the consideration of SEK 3. As a result, the Group's interest in Cood increased from 44.2% to 58.0% and Cood was reclassified from an associate to a subsidiary. A fair value gain on reclassification to a subsidiary of £0.2 million has been recognised in the group income statement.

The Group has consolidated the gross results and balance sheet of Cood and accounted for its non-controlling interests in accordance with IFRS 3, Business Combinations. A gain of £1.2 million arose on acquisition which was credited to the group income statement.

## NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2014

### 33 BUSINESS ACQUISITIONS CONTINUED

The book values and the provisional fair values of the assets and liabilities at the date of the acquisition, translated at the prevailing exchange rate, were as follows:

At 15 August 2014	Book value £m	Fair value adjustment £m	Fair value Total £m	Fair value of pre-existing 44.2% share £m	Fair value of additional 13.8% acquired £m
Non-current assets – property, plant and equipment	15.6	3.6	19.2	8.5	2.6
Non-current assets – other	8.4	(5.4)	3.0	1.3	0.4
Trade and other receivables	9.3	(4.9)	4.4	2.0	0.6
Cash and cash equivalents	2.9	–	2.9	1.3	0.4
Current liabilities	(16.7)	–	(16.7)	(7.4)	(2.2)
Non-current liabilities – debt	(3.3)	–	(3.3)	(1.5)	(0.4)
Non-current liabilities – deferred tax	(0.3)	(1.0)	(1.3)	(0.6)	(0.2)
<b>Net assets at date of acquisition</b>	<b>15.9</b>	<b>(7.7)</b>	<b>8.2</b>	<b>3.6</b>	<b>1.2</b>
<b>Book value as an associate</b>				(3.4)	–
<b>Total consideration for net assets acquired</b>				–	–
<b>Gain arising on reclassification/acquisition</b>				0.2	1.2

Fair value adjustments arose on operating property assets and receivables: the operating property assets were fair valued to market value, net of the associated deferred tax; provisions against receivables which became due from Group subsidiaries were reversed.

The fair value assessment was made on a provisional basis.

Cash flows on acquisition were:

	£m	Fair value of pre-existing 44.2% share £m	Fair value of additional 13.8% acquired £m
Cash	–	–	–
<b>Total consideration for assets acquired</b>	<b>–</b>	<b>–</b>	<b>–</b>
Less non-cash consideration	–	–	–
Less cash acquired	(2.9)	(1.3)	(0.4)
<b>Net cash inflow arising on acquisition</b>	<b>(2.9)</b>	<b>(1.3)</b>	<b>(0.4)</b>

On 14 November 2014, FCSH acquired assets and shares in companies from Cood and the Group simultaneously disposed of its interest in Cood for nominal value. No gain or loss arose on this disposal.

### 34 BUSINESS DISPOSALS

#### Fielden House Limited

On 11 April 2013, the Group disposed of its one-third interest in the issued share capital of a joint venture, Fielden House Investment Limited. The joint venture was previously reported within the UK geographical segment.

	2013 £m
Net assets disposed of:	
Non-current assets	2.7
Current assets	0.1
Current liabilities	(0.1)
Non-current liabilities	(2.0)
	0.7
Gain on disposal of joint venture	1.8
<b>Total consideration</b>	<b>2.5</b>
Satisfied by:	
Cash	2.5
Deferred consideration	–
	2.5
Net cash inflow arising on disposal:	
Cash consideration	2.5
Cash and cash equivalents disposed of	(0.1)
Borrowings disposed of	2.0
	4.4

## 35 RELATED PARTY TRANSACTIONS

### Associates and Joint Ventures

A Group company provided accounting services to Bulgarian Land Development plc, an associate of the Group, for which a charge of £25,000 was made (2013: £40,433), of which £6,250 (2013: £6,250) remained outstanding at the balance sheet date.

At 31 December 2014, the Group had a convertible loan of £411,002 (2013: £469,210), due from Nyheter24 Media Network AB, an associate company. Until 1 May 2015, this loan is interest free, and thereafter attracts Swedish base rate plus 2%. At any date between 1 May 2016 and 30 June 2016, the Group is permitted to convert the loan into shares in Nyheter24 Media Network AB at SEK 40.5 each.

In 2013, the Group sold its one-third interest in Fielden House Investment Limited (see note 34).

On 11 March 2013, the Group acquired an additional 27.6% interest in Cood Investments AB ("Cood"), for £0.3 million, increasing its interest to 44.2%. This was a related party transaction as: first, the trust in which Sten Mortstedt, Executive Chairman of CLS Holdings plc, is interested (the "Trust") simultaneously acquired at the same price per share an additional 13.8% interest in Cood, increasing its interest to 22.2%; and, second, a company in which Christer Sandberg has an interest ("Christer Sandberg's company") owned 9.8% of Cood. Christer Sandberg is a director of certain Group companies.

On 25 July 2013, Cood issued a two year convertible loan bearing an annual interest rate of 12% and convertible into preference shares (the "Convertible Loan"). The conversion price was SEK 10,000 per Cood preference share, and each preference share would carry ten times the voting rights and capital rights of an ordinary share. The loanholder could elect to be paid the loan coupon in cash or payment-in-kind (being preference shares in Cood). The Convertible Loan was convertible at the option of the loanholder only, and at any time between 1 January 2014 and 31 May 2015. The Group's participation in the Convertible Loan amounted to SEK 23,220,000; the Trust simultaneously participated in the Convertible Loan for an amount of SEK 11,650,000 and Christer Sandberg's company for an amount of SEK 5,170,000.

At 1 January 2014, the Group had provided to Cood up to £8.0 million of lending facilities at market rates, of which £3,324,362 was outstanding. On 16 February 2014, the Group lent a further £1,027,048 under the existing loan facility.

On 11 February 2014, the Group acquired for £2,393 a 58.0% interest in FCSH (note 33), in which company the Trust has a 29.1% interest and Christer Sandberg's company. As required under IFRS 3 "Business Combinations", the Group has consolidated the results and balance sheet of FCSH and, therefore, any loans and accrued interest have been eliminated.

On 15 August 2014, the Group acquired a controlling interest in Cood.

On 18 September 2014, the outstanding loan and accrued interest on both the Convertible Loan and loan facility were novated from Cood to First Camp Sverige Holding AB ("FCSH").

Up to 18 September 2014, interest of £211,563 (2013: £81,000) was charged on the Convertible Loans, of which £nil (2013: £77,476) was outstanding at the balance sheet date; and interest of £227,305 (2013: £270,229) was charged on the loan facility, of which £nil (2013: £25,109) was outstanding at the balance sheet date.

On 14 November 2014, the Group, together with the Trust and Christer Sandberg's company, sold their entire holdings in Cood for nominal value.

### Transactions with Directors

Distributions totalling £8,813,580 (2013: £8,096,147) were made through tender offer buy-backs in the year in respect of ordinary shares held by the Company's Directors.

During the year, a company owned by Sten Mortstedt rented office space to a Group company, Vänerparken Investment AB ("Vänerparken"), at a cost of £35,403 (2013: £39,240). At the balance sheet date a Group company, Museion Förvaltning AB, had signed an agreement to lease the office space until 30 September 2018 at a cost of £35,403 per annum. Also, a company owned by Sten Mortstedt purchased accountancy services from Vänerparken during the year amounting to £nil (2013: £4,710). In relation to all of these transactions, no balances were outstanding at the balance sheet date (2013: £nil).

During the year a son of Joe Crawley rented premises from the Group at an arm's length rent for three months.

### Directors' Remuneration

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee Report on pages 46 to 52.

	2014 £000	2013 £000
Short-term employee benefits	2,060	1,653
Post-employment benefits	35	21
Other long-term benefits	250	538
	<b>2,345</b>	<b>2,212</b>

## COMPANY BALANCE SHEET – UK GAAP

at 31 December 2014

	Notes	2014 £m	2013 £m
<b>Fixed assets</b>			
Investment in subsidiary undertakings	5	<b>185.6</b>	178.3
<b>Current assets</b>			
Trade and other receivables	6	<b>148.3</b>	132.2
Cash and cash equivalents		<b>0.1</b>	9.6
<b>Total assets</b>		<b>334.0</b>	320.1
<b>Current liabilities</b>			
Trade and other payables	7	<b>(3.1)</b>	(3.4)
Borrowings	8	<b>(45.0)</b>	-
<b>Non-current liabilities</b>			
Borrowings	8	<b>(89.1)</b>	(137.2)
<b>Total liabilities</b>		<b>(137.2)</b>	(140.6)
<b>Net assets</b>		<b>196.8</b>	179.5
<b>Equity</b>			
Share capital	9	<b>11.5</b>	11.7
Share premium	10	<b>82.9</b>	82.9
Other reserves	11	<b>26.8</b>	26.6
Profit and loss account	11	<b>75.6</b>	58.3
<b>Shareholders' funds</b>		<b>196.8</b>	179.5

These financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 4 March 2015 and were signed on its behalf by:

**Mr S A Mortstedt**  
Director

**Mr E H Klotz**  
Director

The notes on pages 95 to 98 are an integral part of these financial statements.



# NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP

31 December 2014

## 1 GENERAL INFORMATION

These separate financial statements have been prepared under UK GAAP in accordance with applicable accounting standards under the historical cost convention and are presented as required by the Companies Act 2006. The following accounting policies have been applied consistently throughout the year and the preceding year unless otherwise stated. CLS Holdings plc is the ultimate parent company of the CLS Holdings group. Its primary activity (which occurs exclusively in the United Kingdom) is to hold shares in subsidiary companies.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts as detailed in the Directors' Report on page 38.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the year and the preceding year.

### 2.1 Investment in Group companies

Investments are valued at cost, less provisions for impairment. If the equity value of the investment is lower than cost, the valuation is adjusted accordingly, provided that management considers this to be a permanent diminution in value. Dividend income is recognised when received.

### 2.2 Pension costs

The Company operates a defined contribution pension scheme for all eligible employees. The pension costs charged represent the contributions payable. Differences between contributions payable in the year and contributions paid are shown as either accruals or prepayments in the balance sheet.

### 2.3 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from proceeds.

Where a Group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the owners of the Company until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of the Company.

### 2.4 Related party transactions

Advantage has been taken of the exemption allowed in FRS 8 not to disclose transactions with entities which are wholly owned within the Group where consolidated accounts are publicly available.

There were no other related party transactions during the year.

### 2.5 Foreign currency

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Tangible assets denominated in foreign currencies are shown at historical cost. Current assets and all liabilities denominated in foreign currencies are translated at the rate ruling at the end of the financial year. All differences are recognised in profit before tax.

## 3 PROFIT FOR THE FINANCIAL YEAR

As permitted by s408 Companies Act 2006, the Company's profit and loss account has not been presented in these financial statements. The Company's retained profit for the financial year was £32.8 million (2013: loss of £6.3 million).

Audit fees for the Company were £0.1 million (2013: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Report on pages 46 to 52.

## NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP CONTINUED

31 December 2014

### 4 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 14 March 2014 for the purchase of 1 in 66 shares at 1,495 pence per share was completed in May. It returned £10.0 million to shareholders, equivalent to 22.65 pence per share.

A tender offer by way of a Circular dated 22 August 2014 for the purchase of 1 in 119 shares at 1,500 pence per share was completed in September. It returned £5.5 million to shareholders, equivalent to 12.61 pence per share.

A further tender offer will be put to shareholders in April 2015 for the purchase of 1 in 80 shares at a price of 1,950 pence per share which, if approved, will return £10.4 million to shareholders, equivalent to 24.38 pence per share.

### 5 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2014 £m	2013 £m
<b>At 1 January</b>	<b>178.3</b>	150.4
Additions	<b>29.9</b>	39.0
Disposals	<b>(1.7)</b>	(6.0)
Impairment	<b>(20.9)</b>	(5.1)
<b>At 31 December</b>	<b>185.6</b>	178.3

The Directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. To comply with the Companies Act 2006, a full list of subsidiaries will be filed with the Company's next annual return.

### 6 TRADE AND OTHER RECEIVABLES

	2014 £m	2013 £m
<b>Current</b>		
Amounts owed by subsidiary undertakings	<b>147.2</b>	132.0
Prepayments and accrued income	<b>0.2</b>	0.2
Other debtors	<b>0.9</b>	-
	<b>148.3</b>	132.2

### 7 TRADE AND OTHER PAYABLES

	2014 £m	2013 £m
<b>Current</b>		
Trade payables	<b>0.1</b>	0.5
Amounts owed to subsidiary undertakings	-	0.2
Accruals	<b>3.3</b>	3.3
Arrangement fees	<b>(0.3)</b>	(0.6)
	<b>3.1</b>	3.4

## 8 BORROWINGS

	Current £m	Non-current £m	Total borrowings £m
<b>At 31 December 2014</b>			
Bank loan	45.0	–	45.0
Unsecured bonds	–	89.7	89.7
Arrangement fees	–	(0.6)	(0.6)
	<b>45.0</b>	<b>89.1</b>	<b>134.1</b>
<b>At 31 December 2013</b>			
Bank loan	–	45.0	45.0
Unsecured bonds	–	93.2	93.2
Arrangement fees	–	(1.0)	(1.0)
	–	137.2	137.2

On 11 September 2012, the Group issued £65.0 million unsecured retail bonds, which attract a fixed rate coupon of 5.5% and are due for repayment in 2019. The bonds are listed on the London Stock Exchange's Order book for Retail Bonds.

On 15 April 2011, the Group issued SEK 300 million unsecured bonds. The bonds attract a floating rate coupon of 3.75% over three months' STIBOR and are due for repayment in 2016. After two years, the Group has an option to redeem all outstanding bonds subject to an early repayment premium. The bonds were listed on the NASDAQ OMX Stockholm on 5 July 2011.

## 9 SHARE CAPITAL

	Number			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
<b>At 1 January 2014</b>	<b>43,953,790</b>	<b>2,903,103</b>	<b>46,856,893</b>	<b>11.0</b>	<b>0.7</b>	<b>11.7</b>
<b>Cancelled following tender offers</b>	<b>(1,029,729)</b>	<b>–</b>	<b>(1,029,729)</b>	<b>(0.2)</b>	<b>–</b>	<b>(0.2)</b>
<b>At 31 December 2014</b>	<b>42,924,061</b>	<b>2,903,103</b>	<b>45,827,164</b>	<b>10.8</b>	<b>0.7</b>	<b>11.5</b>
	Number			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2013	43,305,876	4,803,103	48,108,979	10.8	1.2	12.0
Cancelled following tender offers	(1,252,086)	–	(1,252,086)	(0.3)	–	(0.3)
Exercise of share options	300,000	(300,000)	–	0.1	(0.1)	–
Ordinary shares issued from treasury shares	1,600,000	(1,600,000)	–	0.4	(0.4)	–
<b>At 31 December 2013</b>	<b>43,953,790</b>	<b>2,903,103</b>	<b>46,856,893</b>	<b>11.0</b>	<b>0.7</b>	<b>11.7</b>

Ordinary shares have a nominal value of 25 pence each.

## 10 SHARE PREMIUM

	2014 £m	2013 £m
At 1 January	82.9	71.5
Ordinary shares issued from treasury shares	–	11.4
<b>At 31 December</b>	<b>82.9</b>	<b>82.9</b>

# NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP CONTINUED

31 December 2014

## 11 PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

	Other reserves			Profit and loss account £m
	Capital redemption reserve £m	Other £m	Total £m	
<b>At 1 January 2014</b>	<b>22.0</b>	<b>4.6</b>	<b>26.6</b>	<b>58.3</b>
<b>Purchase of own shares</b>	<b>0.2</b>	<b>-</b>	<b>0.2</b>	<b>(15.4)</b>
<b>Expenses thereof</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(0.1)</b>
<b>Profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>32.8</b>
<b>At 31 December 2014</b>	<b>22.2</b>	<b>4.6</b>	<b>26.8</b>	<b>75.6</b>

	Other reserves			Profit and loss account £m
	Capital redemption reserve £m	Other £m	Total £m	
At 1 January 2013	21.7	4.6	26.3	69.3
Issue of share capital	-	-	-	8.0
Expenses thereof	-	-	-	(0.4)
Exercise of share options	-	-	-	1.4
Purchase of own shares	0.3	-	0.3	(13.6)
Expenses thereof	-	-	-	(0.1)
Loss for the year	-	-	-	(6.3)
At 31 December 2013	22.0	4.6	26.6	58.3

## 12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2014 £m	2013 £m
<b>Balance at 1 January</b>	<b>179.5</b>	179.1
Profit/(loss) for the year	<b>32.8</b>	(6.3)
Issue of share capital	-	19.0
Exercise of share options	-	1.4
Purchase of own shares	<b>(15.5)</b>	(13.7)
<b>Balance at 31 December</b>	<b>196.8</b>	179.5

## 13 CONTINGENCIES

At 31 December 2014 CLS Holdings plc had guaranteed certain liabilities of Group companies, primarily in relation to Group borrowings and covering interest and amortisation payments. No cross guarantees had been given in relation to the principal amounts of these borrowings. Since the possibility of payment by the Company under any of these guarantees and warranties is considered remote, no provisions in relation to these have been made in the Company's financial statements and no reportable contingent liability exists.

## 14 COMMITMENTS

At 31 December 2014, the Company had no contracted capital expenditure (2013: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2013: £nil).

## FIVE YEAR FINANCIAL SUMMARY

31 December 2014

	2014 £m	2013 £m	2012 £m	2011 £m	2010 £m
Group revenue	<b>99.6</b>	91.2	80.2	80.1	79.1
Net rental income	<b>82.2</b>	73.1	62.9	63.0	59.7
Income from non-property activities	-	-	-	0.8	4.3
Administration expenses	<b>(13.6)</b>	(12.4)	(10.5)	(12.1)	(13.0)
Other expenses	<b>(4.9)</b>	(3.5)	(2.9)	(2.2)	(2.2)
Group revenue less costs	<b>63.7</b>	57.2	49.5	49.5	48.8
Net movements on revaluation of investment properties	<b>186.0</b>	(0.2)	16.2	18.0	30.1
Profit on sale of investment properties	<b>8.7</b>	4.5	-	-	-
Gain arising from acquisition	<b>1.2</b>	-	-	-	-
Gain/(loss) on sale of corporate bonds and other financial investments	-	14.1	(0.4)	0.5	9.3
Profit on sale of subsidiaries/joint venture/associates	-	1.8	-	2.2	-
Fair value gain on reclassification of associate	<b>0.2</b>	14.9	-	-	-
Operating profit	<b>259.8</b>	92.3	65.3	70.2	88.2
Finance income	<b>7.7</b>	7.6	10.6	12.2	6.1
Finance costs	<b>(28.1)</b>	(23.7)	(25.6)	(47.7)	(31.1)
Share of (loss)/profit of associates after tax	<b>(2.6)</b>	(4.8)	5.8	3.0	7.7
Profit before tax	<b>236.8</b>	71.4	56.1	37.7	70.9
Taxation	<b>(42.0)</b>	(8.2)	(9.4)	1.1	(10.8)
Profit for the year	<b>194.8</b>	63.2	46.7	38.8	60.1
Share buy-backs paid and proposed	<b>15.9</b>	15.0	13.2	12.3	11.2
Net Assets Employed					
Non-current assets	<b>1,477.8</b>	1,257.0	1,110.5	1,037.0	1,018.6
Current assets	<b>111.0</b>	142.8	115.2	67.3	59.8
	<b>1,588.8</b>	1,399.8	1,225.7	1,104.3	1,078.4
Current liabilities	<b>(269.6)</b>	(121.3)	(172.2)	(182.9)	(123.1)
Non-current liabilities	<b>(661.7)</b>	(797.6)	(636.4)	(553.9)	(598.1)
Net assets	<b>657.5</b>	480.9	417.1	367.5	357.2
Ratios	2014	2013	2012	2011	2010
Net assets per share (pence)	<b>1,521.1</b>	1,094.1	963.1	817.5	766.7
EPRA net assets per share (pence)	<b>1,774.1</b>	1,268.4	1,154.4	983.1	952.9
Earnings per share (pence)	<b>449.0</b>	146.9	106.0	82.0	127.1
EPRA earnings per share (pence)	<b>77.4</b>	66.2	65.3	64.9	42.5
Net gearing (%)	<b>89.4</b>	125.0	111.6	131.9	130.4
Adjusted net gearing (%)	<b>76.7</b>	107.8	92.7	109.3	104.6
Interest cover (times)	<b>3.34</b>	3.18	3.49	2.44	2.48

## GLOSSARY OF TERMS

### **ADJUSTED NET ASSETS OR ADJUSTED SHAREHOLDERS' FUNDS**

Net assets excluding the fair value of financial derivatives, deferred tax on revaluations, and goodwill arising as a result of deferred tax

### **ADJUSTED NET GEARING**

Net debt expressed as a percentage of adjusted net assets

### **ADJUSTED SOLIDITY**

Adjusted net assets expressed as a percentage of adjusted total assets

### **ADJUSTED TOTAL ASSETS**

Total assets excluding deferred tax assets

### **ADMINISTRATION COST RATIO**

Recurring administration expenses of the Investment Property operating segment expressed as a percentage of net rental income

### **BALANCE SHEET LOAN TO VALUE**

Net debt expressed as a percentage of total assets less cash and short-term deposits

### **CONTRACTED RENT**

Annual contracted rental income after any rent-free periods have expired

### **CORE PROFIT**

Profit before tax and before net movements on revaluation of investment properties, profit on sale of investment properties, subsidiaries and corporate bonds, impairment of intangible assets and goodwill, non-recurring costs, change in fair value of derivatives and foreign exchange variances

### **DILUTED EARNINGS PER SHARE**

Profit after tax divided by the diluted weighted average number of ordinary shares

### **DILUTED NET ASSETS**

Equity shareholders' funds increased by the potential proceeds from issuing those shares issuable under employee share schemes

### **DILUTED NET ASSETS PER SHARE OR DILUTED NET ASSET VALUE**

Diluted net assets divided by the diluted number of ordinary shares

### **DILUTED NUMBER OF ORDINARY SHARES**

Number of ordinary shares in circulation at the balance sheet date adjusted to include the effect of potential dilutive shares issuable under employee share schemes

### **DILUTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES**

Weighted average number of ordinary shares in issue during the period adjusted to include the effect of potential weighted average dilutive shares issuable under employee share schemes

### **EARNINGS PER SHARE**

Profit after tax divided by the weighted average number of ordinary shares in issue in the period

### **EPRA**

European Public Real Estate Association

### **EPRA EARNINGS PER SHARE**

Profit after tax, but excluding net gains or losses from fair value adjustments on investment properties, profits or losses on disposal of investment properties and other non-current investment interests, impairment of goodwill and intangible assets, movements in fair value of derivative financial instruments and their related current and deferred tax

### **EPRA NET ASSETS**

Diluted net assets excluding the fair value of financial derivatives, deferred tax on revaluations, and goodwill arising as a result of deferred tax

### **EPRA NET ASSETS PER SHARE**

EPRA net assets divided by the diluted number of ordinary shares

### **EPRA NET INITIAL YIELD**

Annual passing rent less net service charge costs on investment properties expressed as a percentage of the investment property valuation after adding purchasers' costs

### **EPRA TOPPED UP NET INITIAL YIELD**

Annual net rents on investment properties expressed as a percentage of the investment property valuation after adding purchasers' costs

### **EPRA TRIPLE NET ASSETS**

EPRA net assets adjusted to reflect the fair value of debt and derivatives and to include the fair value of deferred tax on property revaluations

### **EPRA TRIPLE NET ASSETS PER SHARE**

EPRA triple net assets divided by the diluted number of ordinary shares

### **ESTIMATED RENTAL VALUE (ERV)**

The market rental value of lettable space as estimated by the Group's valuers

### **INTEREST COVER**

The aggregate of group revenue less costs, divided by the aggregate of interest expense and amortisation of loan issue costs, less interest income

### **LIQUID RESOURCES**

Cash and short-term deposits and listed corporate bonds

### **NET ASSETS PER SHARE OR NET ASSET VALUE (NAV)**

Equity shareholders' funds divided by the number of ordinary shares in circulation at the balance sheet date

### **NET DEBT**

Total borrowings less liquid resources

### **NET GEARING**

Net debt expressed as a percentage of net assets

### **NET INITIAL YIELD**

Annual net rents on investment properties expressed as a percentage of the investment property valuation

### **NET RENT**

Contracted rent less net service charge costs

### **OCCUPANCY RATE**

Contracted rent expressed as a percentage of the aggregate of contracted rent and the ERV of vacant space

### **OVER-RENTED**

The amount by which ERV falls short of the aggregate of passing rent

### **PASSING RENT**

Contracted rent before any rent-free periods have expired

### **PROPERTY LOAN TO VALUE**

Property borrowings expressed as a percentage of the market value of the property portfolio

### **RENT ROLL**

Contracted rent

### **SOLIDITY**

Equity shareholders' funds expressed as a percentage of total assets

### **TOTAL SHAREHOLDER RETURN**

For a given number of shares, the aggregate of the proceeds from tender offer buy-backs and change in the market value of the shares during the year adjusted for cancellations occasioned by such buy-backs, as a percentage of the market value of the shares at the beginning of the year

### **TRUE EQUIVALENT YIELD**

The capitalisation rate applied to future cash flows to calculate the gross property value, as determined by the Group's external valuers

## DIRECTORS, OFFICERS AND ADVISERS

### Directors

Sten Mortstedt	(Executive Chairman)
Henry Klotz	(Executive Vice Chairman)
Fredrik Widlund	(Chief Executive Officer)
John Whiteley	(Chief Financial Officer)
Malcolm Cooper * † ‡	(Non-Executive Director)
Joseph Crawley	(Non-Executive Director)
Elizabeth Edwards	(Non-Executive Director)
Christopher Jarvis * †	(Non-Executive Director)
Thomas Lundqvist	(Non-Executive Director)
Jennica Mortstedt	(Non-Executive Director)
Lennart Sten	(Non-Executive Director)

\* member of Remuneration Committee

† member of Audit Committee

‡ Senior Independent Director

### Company Secretary

David Fuller BA, FCIS

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