

CLS Holdings plc
Annual Report & Accounts

REPORT



CLS Holdings plc

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2015

PORTFOLIO



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FINANCIAL CALENDAR

- Announcement of results**
– 8 March 2016
- Publication of Annual Report and Accounts**
– 18 March 2016
- Annual General Meeting**
– 20 April 2016
- Trading Update**
– 18 May 2016
- Announcement of half-year results**
– 17 August 2016 (provisional)
- Trading Update**
– mid November 2016

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SCHEDULE OF GROUP

PROPERTIES

LONDON

at 31 December 2015	Tenure	Area sqm	Use
EC4 138 Fetter Lane 139 Fetter Lane	Freehold Freehold	2,742 428	Offices Residential
SE1 Westminster Tower, 3 Albert Embankment	Freehold	4,457	Offices
SW6 Quayside, William Morris Way	Freehold	3,064	Offices
SW8 Cap Gemini House, 95 Wandsworth Road & 72/78 Bondway & 22 Miles Street 80/84 Bondway 86 Bondway* 18/20 Miles Street 101/103/107 Wandsworth Road 131/137 Wandsworth Road	Freehold Freehold Freehold Freehold Freehold Freehold	10,427 1,631 891 152 742 1,546	Offices/Industrial Offices Offices Offices Residential Offices
SE11 35 Albert Embankment Western House, 5 Glasshouse Walk Gateway House, Milverton Street Spring Gardens, Tinworth Street Spring Mews, Tinworth Street	Freehold Freehold Freehold Freehold Freehold	527 589 1,844 19,964 10,997	Leisure Community Centre Offices Offices Student accommodation/ Offices
Spring Gardens Court, 79 Vauxhall Walk 92/98 Vauxhall Walk 405 Kennington Road	Leasehold Freehold Freehold	115 415 1,680	Residential Offices Offices
WC1 214/236 Gray's Inn Road	Freehold	26,295	Offices
W3 Armstrong Road	Freehold	4,039	Offices
W10 Buspace Studios, 10 Conlan Street	Freehold	3,006	Studios/ Workshops/Offices
NW10 Chancel House, Neasden Lane	Freehold	6,940	Offices
Bracknell Reflex Building, Cain Road, RG12 [†]	Freehold	9,607	Offices
Brentford Great West House, Great West Road, TW8	Freehold	14,197	Offices
Bromley King's House, 32/40 Widmore Road, BR1 One Elmfield Park, BR1 [†] Unicorn House, 29 Elmfield Road, BR1	Freehold Freehold Freehold	2,244 2,238 5,456	Offices/Retail Offices Offices
Chertsey Melita House, 124 Bridge Road, KT16	Freehold	1,257	Offices
Coulsdon Sentinel House, 163 Brighton Road, CR5	Freehold	3,411	Offices
Datchet 18 Horton Road	Freehold	945	Offices
Harrow Hygeia, College Road, HA1	Freehold	6,757	Offices
Hayes The Grange, 501 Uxbridge Road, UB4	Freehold	1,042	Offices

* Owner-occupied
[†] Acquired in 2015
^{††} Sold in 2016

at 31 December 2015	Tenure	Area sqm	Use
Hounslow 115/123 Staines Road, TW3 125/135 Staines Road, TW3	Freehold Freehold	2,314 2,340	Offices Offices
New Malden CI Tower, High Street, KT3 Apex Tower, High Street, KT3	Freehold Freehold	7,597 10,066	Offices Offices/Retail
Staines 62 London Road, TW18	Freehold	1,272	Offices
Sunbury-on-Thames Benwell House, Green Street, TW16	Freehold	2,377	Offices
Sutton Chancery House, St Nicholas Way, SM1 [†]	Freehold	5,132	Offices
Wallington Crosspoint House, 28 Stafford Road, SM6	Freehold	1,963	Offices
Total London		182,406	

REST OF UK

SOUTH

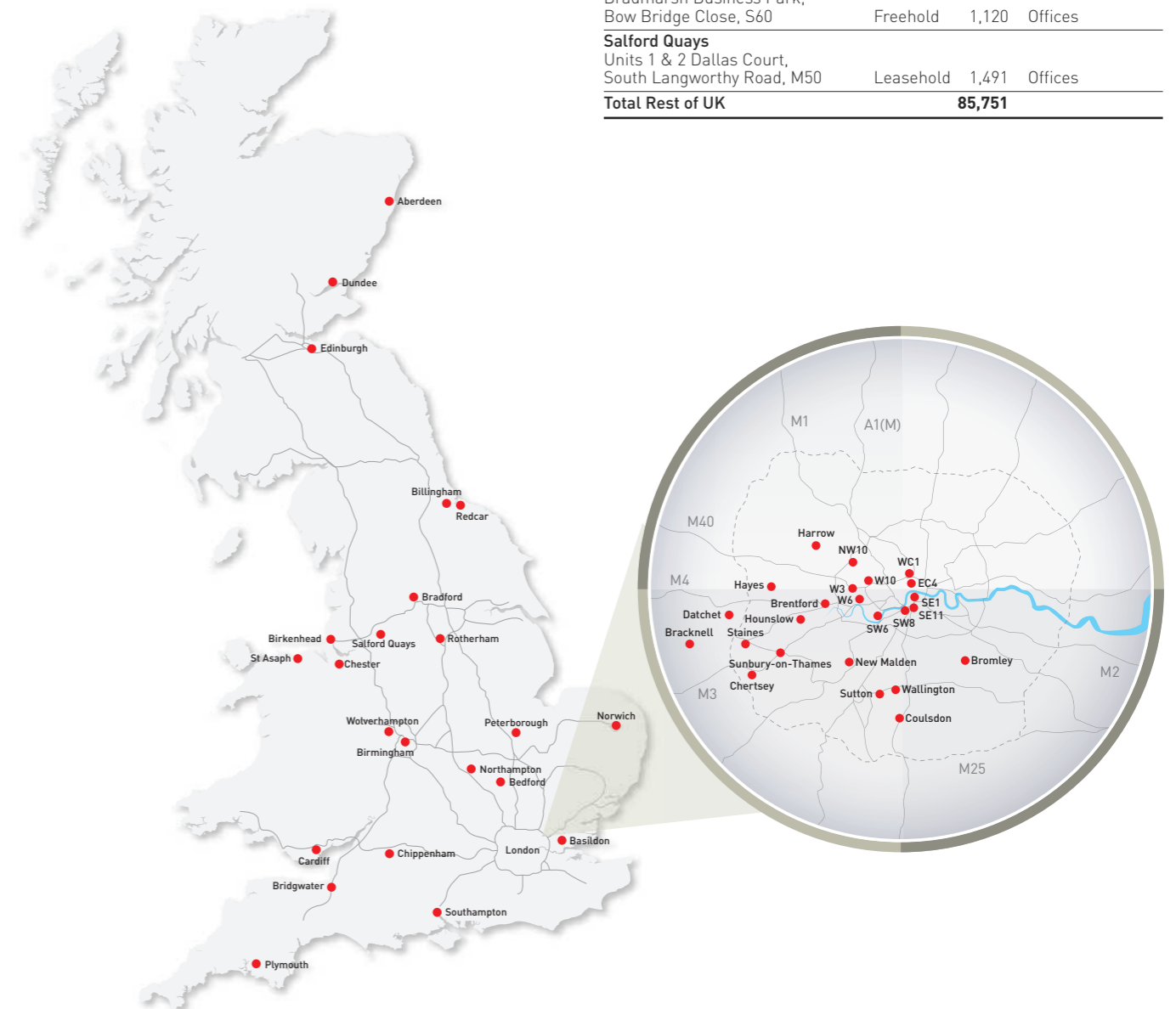
Basildon Great Oaks House, SS14	Leasehold	5,057	Offices
Bridgwater Hanover House, Northgate, TA6	Freehold	2,007	Offices
Cardiff 29 Newport Road, CF24	Freehold	3,135	Offices
Chippenham Cyppa Court, Avenue La Fleche, SN15	Freehold	1,143	Offices
Plymouth Foliot House Brooklands Office Campus, PL6 Units 3, 4 & 5 Brooklands Office Campus, PL6	Freehold Freehold	1,160 687	Offices Offices
Southampton St Cross House, 18 Bernard Street, SO14	Freehold	3,993	Offices

MIDLANDS

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

at 31 December 2015	Tenure	Area sqm	Use
SCOTLAND			
Aberdeen Atholl House, 84/88 Guild Street, AB11 ^{††} Lord Cullen House, Causeway End, AB25	Leasehold Feuhold	5,058 2,995	Offices Offices
Dundee Lindsay House, 18/30 Ward Road, DD1 Sidlaw House, 4 Explorer Road, DD2	Freehold Freehold	3,605 5,690	Offices Offices
Edinburgh Ladywell House, Ladywell Road, EH12	Freehold	4,807	Offices

at 31 December 2015	Tenure	Area sqm	Use
NORTH			
St Asaph Netcom House, St Asaph Business Park LL17	Leasehold	1,972	Offices
Billingham Theatre Buildings, Kingsway, TS23	Freehold	675	Offices
Birkenhead Great Western House, Woodside Ferry Approach, CH41	Freehold	7,445	Offices
Bradford Centenary Court, Forster Square, BD1 Phoenix House, Rushton Avenue, BD3	Freehold Freehold	9,774 3,498	Offices Offices
Chester Chantry House, 55/59 City Road, CH1	Freehold & leasehold	3,237	Offices
Redcar Portland House, West Dyke Road, TS10	Freehold	892	Offices
Rotherham Bradmarsh Business Park, Bow Bridge Close, S60	Freehold	1,120	Offices
Salford Quays Units 1 & 2 Dallas Court, South Langworthy Road, M50	Leasehold	1,491	Offices
Total Rest of UK		85,751	



Chancery House, Sutton



Kennington Road, London SE11



Reflex Building, Bracknell



Westminster Tower, London SE1



Armstrong Road, Acton



Aqueous 2, Birmingham



Spring Mews, London SE11



Centenary Court, Bradford



SCHEDULE OF GROUP

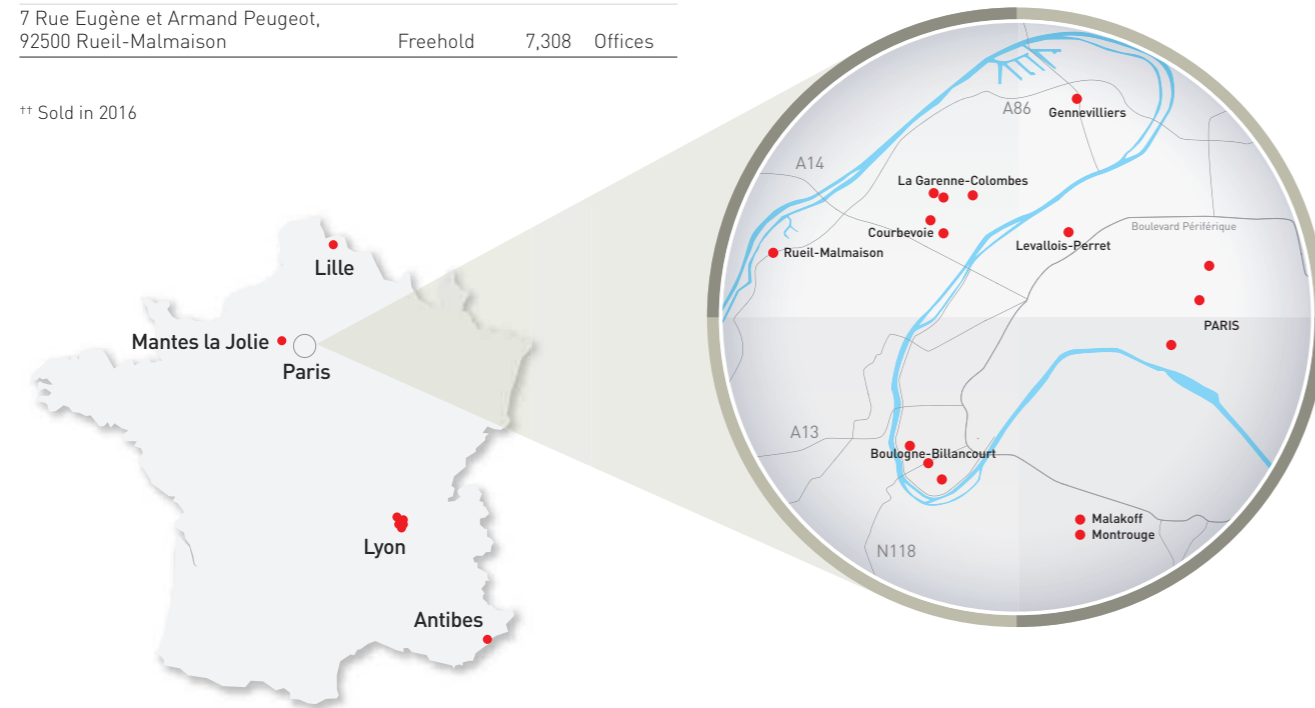
PROPERTIES CONTINUED

FRANCE

at 31 December 2015	Tenure	Area sqm	Use
Paris			
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	2,121	Offices
7 Rue Eugène et Armand Peugeot, 92500 Rueil-Malmaison	Freehold	7,308	Offices

at 31 December 2015	Tenure	Area sqm	Use
Lyon			
Forum, 27/33 Rue Maurice Flandin, 69003	Freehold	6,783	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
Lille			
96 Rue Nationale, 59000	Freehold	2,599	Offices
La Madeleine, 105 Avenue de la République, 59110	Freehold	4,446	Offices
Antibes			
Le Chorus, 2203 Chemin de St Claude, Nova Antipolis, 06600	Freehold	4,334	Offices
Luxembourg			
16 Rue Eugène Ruppert, L2453 ^{††}	Freehold	3,698	Offices
		93,874	

^{††} Sold in 2016



SCHEDULE OF GROUP

PROPERTIES CONTINUED

GERMANY

at 31 December 2015	Tenure	Area sqm	Use
Munich			
East Gate, Kapellenstrasse 12, D-85622 Feldkirchen	Freehold	16,460	Offices
Maximilian Forum, Lochhamer Strasse 11, 13 & 15, D-82152 Martinsried	Freehold	13,835	Offices
Lochhamer Schlag 1 D-82166 Gräfelfing	Freehold	8,527	Offices
Rüdesheimer Strasse 9, D-80686	Freehold	2,588	Offices
Tangentis, Beta Strasse 5/9a, D-85774 Unterföhring†	Freehold	14,867	Offices
Hamburg			
Harburger Ring 33, D-21073	Freehold	3,330	Offices
Fleethaus, Schellerdamm 2, D-21079	Freehold	5,419	Offices
Silo, Schellerdamm 16, D-21079	Freehold	13,233	Offices
Fangdieckstrasse 75, 75a, b, D-22547	Freehold	13,151	Offices
Jarrestrasse 8/10, D-22303	Freehold	5,569	Offices
Merkurring 33/35, D-22143	Freehold	5,605	Offices
Frohösestrasse 12, D-22525	Freehold	1,941	Offices
Berlin			
Adlershofer Tor Rudower Chausee 12, D-12489	Freehold	19,991	Offices/ Retail
Bismarckstrasse 105 & Leibnitzstrasse 11/13, D-10625 Charlottenburg	Freehold	6,045	Offices
Bochum			
Hans-Böckler-Strasse 19, D-44787	Freehold	25,007	Offices
Düsseldorf			
Schanzenstrasse 76, D-40549	Freehold	3,095	Residential
Freiburg			
Bismarckallee 18/20, D-79098	Freehold	7,471	Offices
Landshut			
E.On Allee 1, 3 & 5, Roider-Jackl-Strasse & Kiem-Pauli-Strasse 2, D-84036	Freehold	16,054	Offices
Süderhastedt			
Dorfstrasse 14, D-25727	Freehold	1,185	Nursing home
		183,373	

† Acquired in 2015
 ** Sold in 2016



SWEDEN

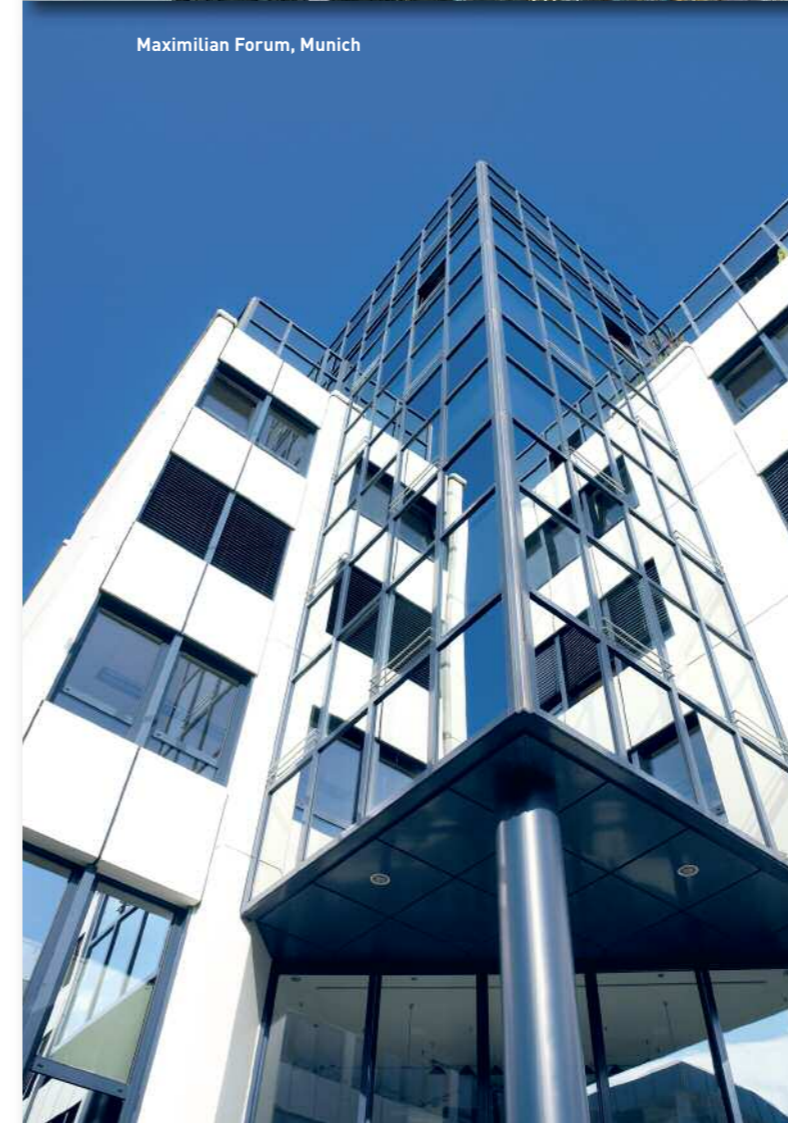
at 31 December 2015	Tenure	Area sqm	Use
Vänerparken			
Lasarettet No. 2, 6/8, Vänerparken, Vänersborgs Kommun **	Freehold	38,909	Offices/ Education/ Residential/ Leisure/ Hospital
		38,909	
Total Portfolio at 31 December 2015		584,287	



Silo, Schellerdamm, Hamburg



Lochhamer Schlag, Munich



Maximilian Forum, Munich



Vänerparken, Sweden

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	37.8	35.4	175,403	41.1	46.9	7.8	3.6%
Rest of UK	13.0	13.2	85,751	12.1	9.2	6.0	0.7%
France	13.8	13.7	88,375	14.5	14.3	14.5	3.9%
Germany	16.2	16.0	183,376	17.7	17.5	12.5	2.5%
Sweden	4.5	3.2	38,909	3.6	3.9	3.5	4.8%
Total Portfolio	85.3	81.5	571,814	89.0	91.8	44.3	3.1%

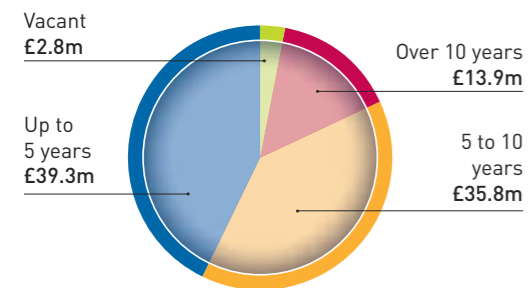
VALUATION DATA

	Market value of property £m	Valuation movement in the year			EPRA net initial yield	EPRA topped up net initial yield	Reversion	Over-rented	True equivalent yield
		Underlying £m	Foreign exchange £m	EPRA net topped up net					
London	800.1	63.2	-	4.7%	5.3%	14.2%	3.7%	5.9%	
Rest of UK	100.9	8.8	-	11.3%	11.3%	1.7%	26.7%	8.3%	
France	222.9	7.1	(11.5)	6.2%	6.3%	1.8%	7.1%	6.3%	
Germany	259.4	19.5	(11.6)	6.1%	6.2%	3.2%	7.1%	6.1%	
Sweden	42.1	0.7	(0.9)	8.7%	8.8%	5.2%	1.2%	8.7%	
Total Portfolio	1,425.4	99.3	(24.0)	5.9%	6.2%	7.9%	8.0%		

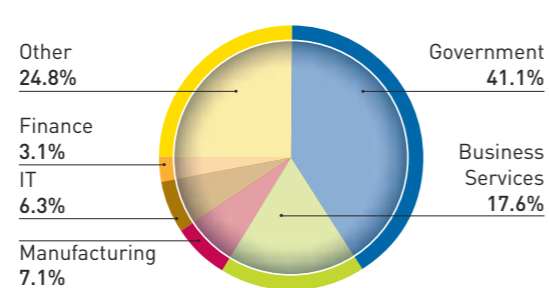
LEASE DATA

	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	5.48	6.49	6.1	2.6	7.0	25.4	7.0	3.3	8.2	27.0
Rest of UK	3.51	6.42	0.8	1.2	2.0	8.1	0.9	0.9	1.6	5.6
France	2.55	5.00	1.0	1.3	4.3	7.9	0.9	1.1	4.0	7.7
Germany	6.16	6.29	3.2	0.8	6.6	7.1	3.0	0.9	6.5	6.7
Sweden	5.18	5.18	0.4	0.0	2.0	1.2	0.4	0.0	2.0	1.3
Total Portfolio	4.86	6.14	11.5	5.9	21.9	49.7	12.2	6.2	22.3	48.3

RENT BY LEASE LENGTH



RENT BY SECTOR



Note: Property portfolio data comprises investment properties and properties held for sale; it excludes the hotel, owner-occupied property, landholdings and First Camp land and buildings



CLS AT A GLANCE

WHO WE ARE

CLS IS A FTSE 250 PROPERTY INVESTMENT COMPANY WITH A €1.5 BILLION PORTFOLIO IN THE UK, GERMANY, FRANCE AND SWEDEN OFFERING GEOGRAPHICAL DIVERSIFICATION WITH LOCAL PRESENCE AND KNOWLEDGE

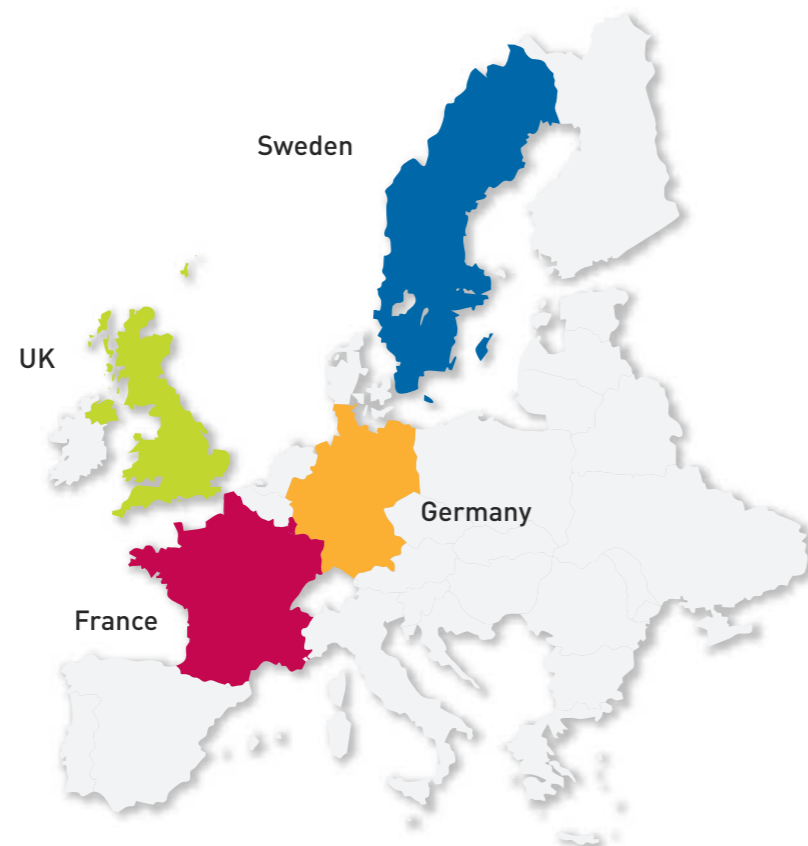
WHAT WE DO

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

HOW WE OPERATE

See pages
→ 4-5

WHERE WE OPERATE



115

Number of properties

572,000 sqm

Lettable floor space

568

Number of tenants

£89 million

Contracted annual rents

£1.5 billion

Value of property portfolio

£49 million

Annual operating cash flow

241%

Total shareholder return in last 5 years

£132 million

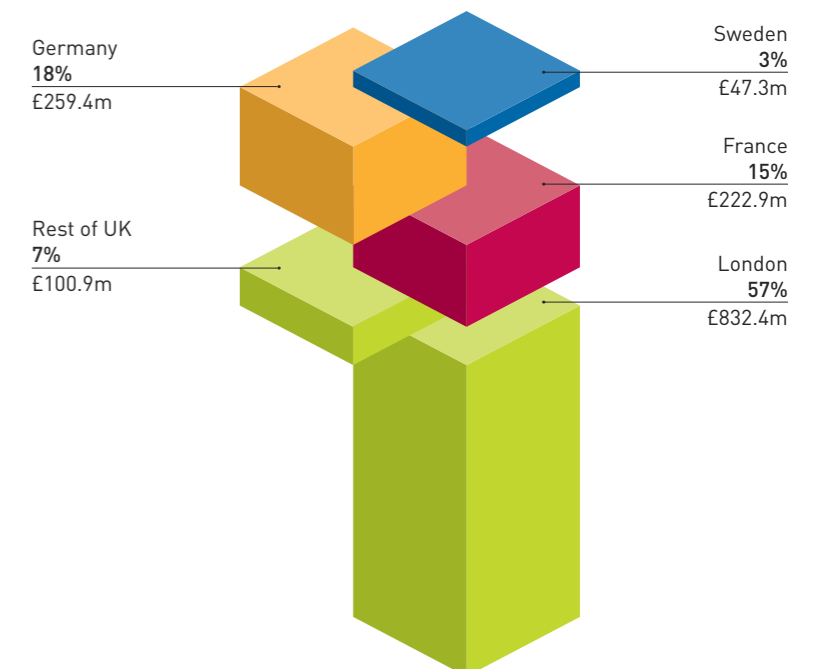
Profit after tax

TOP 15 CUSTOMERS

The fifteen customers which contribute most rental income to the Group account for 48.2% of contracted rent, and comprise:

Customer	Location	Sector
Secretary of State	London and Rest of UK	Government
National Crime Agency	London	Government
Trillium	London and Rest of UK	Government
Cap Gemini	London	Major Corporation
BAE Systems	London	Major Corporation
City of Bochum	Germany	Government
BrainLab	Germany	Major Corporation
Västra Götaland	Sweden	Government
Vänerns Kommun	Sweden	Government
Honda Motor Europe	London	Major Corporation
E.ON	Germany	Major Corporation
Kaufland	Germany	Major Corporation
Veolia	France	Major Corporation
Colt	France	Major Corporation
Dr. Höhle	Germany	Major Corporation

PROPERTY PORTFOLIO¹ BY VALUE £1,462.9 MILLION



¹ Investment properties, properties held for sale, hotel, owner-occupied property and landholding

HOW WE OPERATE

OUR **CORPORATE OBJECTIVE** IS TO CREATE SUSTAINABLE LONG-TERM SHAREHOLDER VALUE THROUGH OWNING AND ACTIVELY MANAGING HIGH-YIELDING OFFICE PROPERTIES IN KEY EUROPEAN CITIES

Corporate objective KPI

+12% p.a.

Total shareholder return over the medium term*

Achievement in 2015

+28% p.a.

Total shareholder return in the 5 years to 2015

BUSINESS MODEL	STRATEGY	KPIs	ACHIEVEMENTS IN 2015	PLANS FOR 2016	RISKS (See details on page 28 & 29)
<p>Investments Invest in high-yielding properties, predominantly offices, with a focus on cash returns</p> <p>Diversify market risk by investing in geographical areas with differing characteristics</p>	<p>We target modern, high quality, well-let properties in good non-prime locations in key European cities</p> <p>We maintain and add value through an active rolling refurbishment programme</p> <p>We create extra value through developments at the appropriate time in the cycle, after largely mitigating letting risk and financing risk</p> <p>We invest in the UK, France, Germany and Sweden, and in sterling, the euro and the Swedish krona</p>	<p>To achieve a return on equity of over 12%*</p> <p>To achieve EPRA NAV growth of over 7.5%*</p>	<p>Return on equity was 19.3%</p> <p>EPRA NAV growth was 17.4%</p> <p>6 properties acquired for £57.8 million at an average net initial yield of 7.3%</p> <p>8 properties sold for £34.8 million at an average net initial yield of 2.8%</p>	<p>To continue to reposition the portfolio through acquisitions and selective disposals</p> <p>We expect to continue to see the better investment opportunities to be in the UK and Germany</p> <p>To progress the development plans on Vauxhall Square in anticipation of gaining vacant possession of the main site in late 2016</p>	<p>Property Investment Risks</p> <p>Development Risk</p>
<p>Customers Maintain high occupancy rates</p> <p>Maintain a diversified customer base underpinned by a strong core income stream</p>	<p>We use in-house local property managers who maintain close links with occupiers to understand their needs</p> <p>We focus on the quality of service and accommodation for our customers</p> <p>We avoid a heavy reliance on any one customer or business sector</p>	<p>To maintain an occupancy rate of 95%*</p>	<p>At 31 December 2015 our occupancy rate was 96.9%</p> <p>We have some 568 customers</p> <p>41% of rental income is derived from government occupiers, and a further 29% from major corporations</p> <p>The weighted average unexpired lease term is 6.1 years</p>	<p>To maintain a close and regular contact with customers to proactively understand their needs</p> <p>To add to the asset management and property management teams in London and Germany to reflect the growth in the portfolio</p>	<p>Sustainability Risk</p> <p>Political and Economic Risk</p>
<p>Cost Control Maintain strict cost control</p>	<p>We perform as many back office functions as possible in-house, and monitor our performance against our peer group</p>	<p>To maintain an administration cost ratio of 16%* or below</p>	<p>Our administration cost ratio for 2015 of 15.9% was one of the lowest in the property sector</p>	<p>To reflect the loss of rental income from properties under development and refurbishment, the target administration cost ratio for 2016 has been set at 17.75%</p>	<p>Taxation Risk</p>
<p>Finance Target a low cost of debt</p> <p>Utilise diversified sources of finance to reduce risk</p> <p>Maintain a high level of liquid resources</p>	<p>We keep the cost of debt well below the net initial yield of the properties to enhance the return on equity</p> <p>We use interest rate caps and hedges to control interest rate risk</p> <p>We maintain strong links with banks and other lending sources across Europe</p> <p>We own properties in single purpose vehicles, financed by non-recourse bank debt in the currency used to purchase the asset</p> <p>We restrict the exposure of the Group to any one bank</p> <p>We operate an in-house Treasury team which manages cash and corporate bonds to maximise their returns</p>	<p>To maintain a cost of debt at least 200 bps below the net initial yield</p>	<p>At 31 December 2015 the weighted average cost of debt was 3.40%</p> <p>During the year we took out £294m of loans at an average interest rate of 2.54%</p> <p>We have 67 loans from a range of lenders, including 26 banks, 2 public bonds and other financial institutions; in 2015 two new banks were added</p> <p>85 of our 115 properties are owned by single purpose vehicles, principal amounts of debt are non-recourse to the rest of the Group, and all are in the currency used to purchase the asset</p> <p>No bank provides over 13% of the Group's debt</p> <p>At 31 December 2015 we had liquid resources of £173m, and undrawn bank facilities of £65m</p>	<p>If medium-term interest rates remain low, the debt refinanced in the year is likely to be predominantly set at fixed rates</p> <p>We have £150m of debt due to expire, which will be refinanced on a case-by-case basis, except for the SEK300 million retail bond, which will be repaid on its maturity in April</p> <p>To maintain a high level of liquid resources to ensure flexibility for the Group's development programme</p>	<p>Funding Risk</p> <p>Other Investment Risk</p>

2015 BUSINESS HIGHLIGHTS

OPERATING ENVIRONMENT

A YEAR OF ECONOMIC UNCERTAINTIES WITH THE UK ELECTION, FALLING OIL AND COMMODITY PRICES, A POTENTIAL GREEK DEBT DEFAULT AND A SLOWDOWN IN THE CHINESE ECONOMY, BUT PROPERTY REMAINED AN ATTRACTIVE ASSET CLASS, WITH RENTAL GROWTH IN LONDON, THE REST OF THE UK AND GERMANY, STRONG INVESTMENT MARKETS AND A LOW INTEREST RATE ENVIRONMENT

ACTIVELY MANAGING OUR BUSINESS IN-HOUSE

- 34,261 sqm of new lettings and lease renewals (including all of the refurbishments and developments completed in 2014) and 49,791 sqm of expiries
- The resulting vacancy rate rose marginally to 3.1% (2014: 3.0%)

REPOSITIONING THE PORTFOLIO THROUGH ACQUISITIONS AND DISPOSALS

- 6 properties acquired for £57.8 million at an average net initial yield of 7.3%
- 8 properties sold for £34.8 million at an average net initial yield of 2.8%
- 3 further disposals since the year end for £68.0 million and at an average net initial yield of 6.5%

ENHANCING OUR ASSETS THROUGH DEVELOPMENTS AND ONGOING REFURBISHMENTS

- Obtained enhanced planning consent on Westminster Tower, SE1 and Spring Mews, SE11, progressed strategic plans for Vauxhall Square, and began works on site at 4 significant refurbishments

FINANCING THE BUSINESS PRUDENTLY

- 10 new loans or refinancings completed with a value of £294 million and at an average all-in annual rate of 2.54%
- Repositioned the loan portfolio to 51% at fixed rates (2014: 32%)
- Reduced the weighted average cost of debt to 3.40% (2014: 3.64%)

ACHIEVING WINS IN SUSTAINABILITY

- Group Carbon Emissions reduced by 7.7%
- UK Energy Performance Certificate average score improved by 16% to C rating from D

CONTINUING TO DELIVER TOTAL SHAREHOLDER RETURN

- 19% TSR in 2015 and 241% since 2011, representing 27.8% per annum compound over five years

34,261 sqm
of new lettings and lease renewals

6 properties
acquired for £57.8 million

2 schemes
gained enhanced planning consents

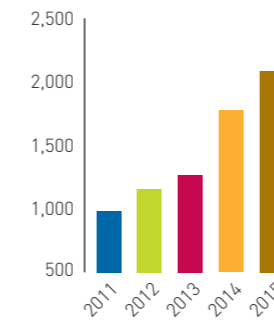
£294 million
of new loans and refinancings

7.7% reduction
in Group Carbon Emissions

19% TSR
in 2015

2015 FINANCIAL HIGHLIGHTS

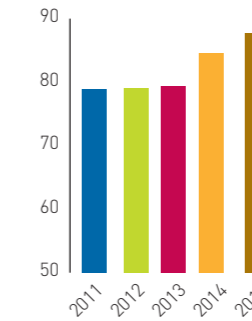
EPRA NET ASSETS PER SHARE
(pence)



+17.4%

Increase in EPRA net assets per share to **2,083.2p**
(2014: 1,774.1p)

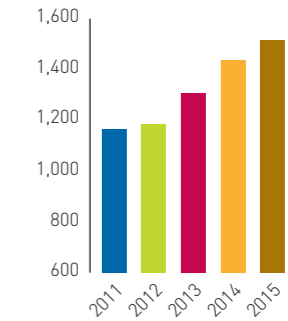
EPRA EARNINGS PER SHARE
(pence)



+9.5%

Increase in EPRA earnings per share to **84.7p**
(2014: 77.4p)

PROPERTY PORTFOLIO¹
(£ million)



+7.7%

Increase in portfolio¹ value to **£1,462.9m**
(2014: £1,335.3m)

+20.0%

Increase in distributions to shareholders with a proposed **£13.4m** tender buy-back of 1 in 57 at 1,810p per share

3.40%

Weighted average cost of debt lowered still further
(2014: 3.64%)

3.2 times

Interest cover at a comfortable level
(2014: 3.3 times)

96.9%

Occupancy rate remains well above KPI target of 95%
(2014: 97.0%)

71.3%

Adjusted gearing continues well under control
(2014: 76.7%)

¹ Investment property, property held for sale, hotel, owner-occupied property and landholding

CHAIRMAN'S STATEMENT

OVERVIEW The Group has had another successful year, and has delivered a record EPRA net asset value of 2,083.2 pence (2014: 1,774.1 pence) and a record EPRA earnings per share of 84.7 pence (2014: 77.4 pence). Our property portfolio of £1.46 billion benefited from a revaluation uplift of 7.7%, and we have maintained low vacancy levels, reduced further our cost of debt and increased by 20% our distributions to shareholders.

Across the UK and in Germany we made opportunistic acquisitions and selective disposals to refine and improve our investment property portfolio, we fully let two London developments which had reached practical completion twelve months ago, and we gained enhanced planning consents for two other important development schemes in London. We also entered into ten new bank loans raising around £300 million at an average all-in cost of 2.54%, reducing our Group cost of debt to its lowest ever, and we maintained a low vacancy rate across the Group at 3.1% through our active in-house asset management.

During the year we acquired investments in Germany and the UK at an aggregate cost of £57.8 million, generating a net initial yield of 7.3%. We also took the opportunity to dispose of six small properties around the UK and one in Germany, each of which had limited potential for growth, and we completed the disposal of the student site at Vauxhall Square for £24.8 million.

The UK investment market remained resilient in 2015. In London and the south east, the volume of investment transactions was 25% higher than before the financial crisis in 2008, and 50% of acquisitions were made by institutions, 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 Group places a strong emphasis on cash generation. Our portfolio produces a net initial yield of 5.9% and is financed by debt with a weighted average cost of 3.4%. In 2015 our Group revenue rose 19.4% to £118.9 million (2014: £99.6 million), including the effect of a full year's income from First Camp which became a subsidiary at the end of 2014. Our net cash flow from operating activities rose to £48.9 million (2014: £34.5 million) while EPRA earnings per share rose by 9.5% to 84.7 pence (2014: 77.4 pence).

On the strength of the Group's cash flow, the Board has decided to rebase distributions to shareholders, increasing total distributions for the year by 20% over those of 2014.

PROPERTY PORTFOLIO The increase in EPRA net assets per share was driven by a rise in values across all of our regions, notably in the UK and Germany. The Group's property portfolio, including assets held for sale and the Spring Mews hotel, grew by £127.6 million or 9.6% over the period to £1.46 billion, due predominantly to a revaluation uplift of £106.6 million.

At the year end the contracted rent roll was £89.0 million (2014: £87.5 million), of which 70% came from governments and major corporations and 50% was index-linked.

Our development schemes in Vauxhall have progressed significantly. At Vauxhall Square, we completed the sale of the car park in Miles Street, SW8, which had planning consent for a 454 bed, 30 storey student tower, to Urbanest, the specialist developer and operator of student accommodation; this provided £24.8 million towards financing the rest of the scheme, whilst reducing our development risk and our exposure to further student housing in the Vauxhall area. We agreed final terms with Cap Gemini to gain vacant possession of the main site by the end of 2016. In February 2016, we gained an amendment to the overall planning consent, replacing a four-star hotel with 10,088 sqm (108,586 sq ft) of Grade A offices, increasing the office element of the entire scheme to 23,700 sqm (255,000 sq ft).

At Westminster Tower on Albert Embankment, SE1, we gained an enhancement to the existing planning consent, increasing the number of private apartments by five to 28, and on a site adjacent to Spring Mews, SE11, we gained consent to add three further storeys to the planned four and to change the use to include offices.

During the year, we acquired properties in London and Germany at an aggregate cost of £57.8 million, comprising principally: Tangentis, a fully-let, 14,867 sqm (160,000 sq ft), high quality office building close to Munich, for €24.4 million; the 9,610 sqm (103,400 sq ft) Reflex building in Bracknell, which is the European headquarters of Honda Motors, for £21.7 million; Chancery House, Sutton, an eight-storey, 5,132 sqm (55,240 sq ft) centrally-located office building for £10.2 million; One Elmfield Park, Bromley for £4.5 million, a 2,238 sqm (24,100 sq ft) office building which will be subject to a significant refurbishment in the summer; and two town houses on Wandsworth Road, adjacent to our Vauxhall Square site. £49.4 million of the acquisitions, with an average net initial yield of 7.74%, were financed at an average rate of 2.31%.

Since the year end we have acquired two buildings in Leatherhead comprising 2,613 sqm (28,122 sq ft) for £6.1 million at a net initial yield of 6.0%, with the objective to modernise them later this year.

Of the £34.8 million of disposals in the year, which were sold at a weighted average net initial yield of 2.8%, £24.8 million related to the non-income-producing Miles Street car park. Six high yielding smaller properties from the Rest of UK portfolio were sold in September for £7.4 million, and Unterschleissheim, Munich was sold for €3.8 million.

Since the end of the year we have disposed of three properties. After renewing most of the leases in 2015, we sold Vänerparken, Sweden for SEK 590 million, 12.6% higher than its valuation at 31 December 2015, taking advantage of the strong Swedish investment market. We have also disposed of our only investment in Luxembourg at 16 Rue Eugene Ruppert, for €10.2 million, marginally ahead of the 2015 valuation for this empty property, and we have exchanged contracts to sell Atholl House, Aberdeen for £11.0 million.

RESULTS EPRA net assets per share rose by 17.4% to 2,083.2 pence (2014: 1,774.1 pence), and net assets per share by 19.0% to 1,810.1 pence (2014: 1,521.1 pence). Profit after tax was £129.9 million (2014: £194.9 million) and shareholders' funds rose by 16.8% to £762.8 million, after distributions to shareholders of £16.1 million. The balance sheet is strong, with cash and liquid resources of £173.3 million.

Recurring interest cover remained robust at 3.2 times (2014: 3.3 times), as the Group continued to enjoy a very low weighted average cost of debt of just 3.40% (2014: 3.64%). At 31 December 2015 the weighted average loan to value of our secured debt was 50.0% (2014: 49.7%).

FINANCING The Group continues its strategy of having a wide variety of financing from banks and other debt providers, and of ring-fencing debt on individual properties where appropriate. During the year we secured financing for the 2014 acquisition Schellerdamm, the 2015 acquisitions of Reflex, Chancery House and Tangentis, and the newly-developed Spring Mews, and we refinanced Spring Gardens, Apex Tower, Great West House, Westminster Tower, Vänerparken and Bochum. In aggregate, £294.0 million was financed at a weighted average rate of 2.54%. Diversity of financing is important to reduce risk and we enjoy active lending relationships with 26 debt providers. We have taken advantage of the fall in medium-term interest swap rates in the year by increasing the proportion of loans at fixed rate to 51% (2014: 32%), with a further 20.7% protected against rising rates through interest rate caps, and 27.9% of our debt remains unhedged.

The Group's corporate bond portfolio has continued to play a valuable part in our cash management strategy. The portfolio outperformed the bond market during the year, delivering a total return of £3.4 million, or 5.0% on invested capital. At the year end the portfolio consisted of 27 bonds valued at £73.4 million with a running yield of 8.3% on market value, and a weighted average duration of 14.9 years.

SUSTAINABILITY During the past twelve months we have met our objective to continue to 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 achieved a 7.7% reduction in carbon emissions in our managed buildings, and our Energy Performance Certificate score improved further. We installed three more solar photovoltaic arrays and a combine & heat power plant, and we now generate 2.7% of electricity consumed by our managed portfolio. In addition, our staff supported more community events than ever before. More details of these initiatives are set out in the Corporate Social Responsibility Report on page 30.

DISTRIBUTIONS TO SHAREHOLDERS In 2015, the Group distributed through tender offer buy-backs £10.4 million in April, equivalent to 24.4 pence per share, and £5.7 million in September, equivalent to 13.5 pence per share. The Board is proposing to increase the distribution with a tender offer buy-back of 1 in 57 shares at 1,810 pence per share in April 2016, to distribute £13.4 million to shareholders, equivalent to 31.8 pence per share. This will bring total distributions for the year to £19.1 million, an annual increase of 20.0% and corresponding to an implied yield of 3.1%, based on the market capitalisation of the Company at 1 March 2016. A circular setting out the details will be sent to shareholders with the Annual Report and Accounts.

BOARD CHANGES During the year Jennica Mortstedt stepped down as a non-executive director and was replaced by Philip Mortstedt, and I wish to record our thanks for Jennica's contribution. In addition, my daughter Anna Seeley joined the Board as a non-executive director. Effective today, Henry Klotz becomes Executive Chairman of CLS, and Anna Seeley becomes Non-Executive Vice Chairman. I remain on the Board as an executive director.

On a personal note, this is the twenty-second and final statement that I have the privilege to write as Chairman of CLS. It is with confidence that I now hand over the helm as Executive Chairman to Henry Klotz who, in different positions within the Group, has played a key role in our success over the last 16 years. I look forward to the future with confidence and remain fully committed to CLS, both as a shareholder and as an executive director.

When looking back to my first statement in 1994, when our property portfolio was merely one-fifth of its current value and the net assets barely 17% of what they are today, I am pleased with what we have so far achieved. During the past 22 years our total shareholder return has been 2,052%, during which time the FTSE All Share index and the FTSE Real Estate index have returned 373% and 353%, respectively. The journey however, is far from over and the outlook for future growth is bright.

OUTLOOK During the recent period of turbulence in the financial markets our strategy, to invest in attractive, high-yielding office properties in secondary areas of major cities, has continued to serve the Group well. Benefiting from record low borrowing costs and vacancy levels, solid tenant demand and continued revaluation uplifts of our property portfolio, we have achieved record profits and property values.

The forthcoming "Brexit" referendum may cause some temporary political and economic uncertainty in the UK, but beyond this we expect the UK economy to continue to grow. In addition, the commercial property market, particularly outside of the West End and City of London, should perform well in 2016, reflecting an excess of tenant demand over commercial office supply.

The economy in the Eurozone continues gradually to recover and we believe our overseas assets will continue to benefit from record low interest rates and a pick-up in occupier demand.

With our proven and successful business model, a strong balance sheet, ample liquid resources and our highly skilled and committed staff, the Group is well positioned to continue to deliver value to our shareholders and to benefit from the challenges and opportunities which lie ahead.



Sten Mortstedt
Executive Chairman

8 March 2016

ACTIVELY MANAGING

OUR PORTFOLIO



Westminster Tower, SE1

- Acquired 1987
- Multi-let office building of 4,457 sqm (48,000 sq ft) over 14 floors
- Planning consent in 2014 to convert predominantly to residential
- Enhanced planning consent in 2015 increasing number of apartments by 5 to 28

£45.7 million

Valuation at 31 December 2015

CI Tower, New Malden

- Acquired in 1988
- Multi-let office building of 7,597 sqm (81,770 sq ft) over 15 floors
- Upgrade of M&E systems and common parts under way
- New reception completed
- Investment in refurbishment of £7.0 million

£23.4 million

Valuation at 31 December 2015

405 Kennington Road, SE11

- Acquired in 2013
- 1,380 sqm (14,850 sq ft) of office space, 300 sqm (3,230 sq ft) of retail space and 15 residential flats (sold on long leaseholds)
- Purchase price £4.0 million
- Office space refurbished at a cost of £1.5 million under a pre-let to Health and Care Professionals Council

£12.0 million

Valuation at 31 December 2015

Vauxhall Square, SW8

- Acquired 1988-2004
- Multi-let office/industrial
- Planning consent for 143,000 sqm (1.54 million sq ft) mixed-use scheme of residential, office, hotels, retail and student accommodation

£83.3 million

Valuation at 31 December 2015

In 2015:

- Completed sale of Miles Street car park student accommodation site to Urbanest for 24.8 million
- Agreed terms with Cap Gemini to obtain vacant possession by December 2016

In 2016:

- Enhanced planning consent to provide an additional 10,088 sqm (108,586 sq ft) of Grade A offices in place of a 4-star hotel
- Increased total scheme to 151,700 sqm (1.6 million sq ft)

BUSINESS REVIEW

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 £1,522.3 million at 31 December 2015, comprising the wholly-owned property investment portfolio valued at £1,366.8 million and properties held for sale of £58.6 million, a hotel with a value of £26.5 million, other assets of £11.0 million, vacation sites valued at £22.5 million (the Group's share), and a 15.5% interest in Swedish listed property company Catena AB, valued at £36.9 million.

PROPERTIES

OVERVIEW At 31 December 2015, the directly held investment property portfolio was independently valued at £1,366.8 million (31 December 2014: £1,310.1 million). The increase of £56.7 million primarily comprised new acquisitions of £57.8 million and other capital expenditure of £17.9 million, and a £99.3 million valuation uplift; the effect of these were mitigated by disposals of £30.5 million, and £24.0 million of negative exchange rate variances, whilst three properties with a combined value of £58.6 million were transferred to properties held for sale and a landholding worth £5.2 million was transferred to property, plant and equipment. In local currencies, the portfolio rose by 7.3%, after acquisitions and development expenditure. The drivers were the London and Rest of UK portfolios, which increased in value by 8.6% and 9.5%, respectively; Germany rose by 8.2%, France by 3.3% and Sweden by 1.7%.

Of the £57.8 million spent on acquisitions in the year, £35.5 million related to three properties in London, and £18.5 million to a multi-let office complex in Munich. A car park on Miles Street, SW8 was sold with planning consent for a 30 storey tower, and six smaller properties from around the UK were disposed of, together with a smaller property in Munich. Contracted rent rose by 1.9% in the twelve months on a like-for-like basis, which was significantly affected by over-rented leases expiring in Vänerparken, Sweden, excluding which contracted rent rose by 4.7%. The annualised rent rose by 0.2%, or 3.0% excluding Vänerparken. The increase in capital values was driven by a fall in yields of 40 bps, whilst rent-free periods given in the year reduced net initial yields by a further 20 bps; consequently, the EPRA net initial yield of the overall investment property portfolio (excluding developments) at 31 December 2015 fell to 5.9% (2014: 6.5%) and the EPRA topped-up net initial yield to 6.2% (2014: 6.6%). The average rent across the Group remained very affordable at £161 per sqm (£15 per sq ft), and the average capital value was also low at just £2,537 per sqm (£237 per sq ft). 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

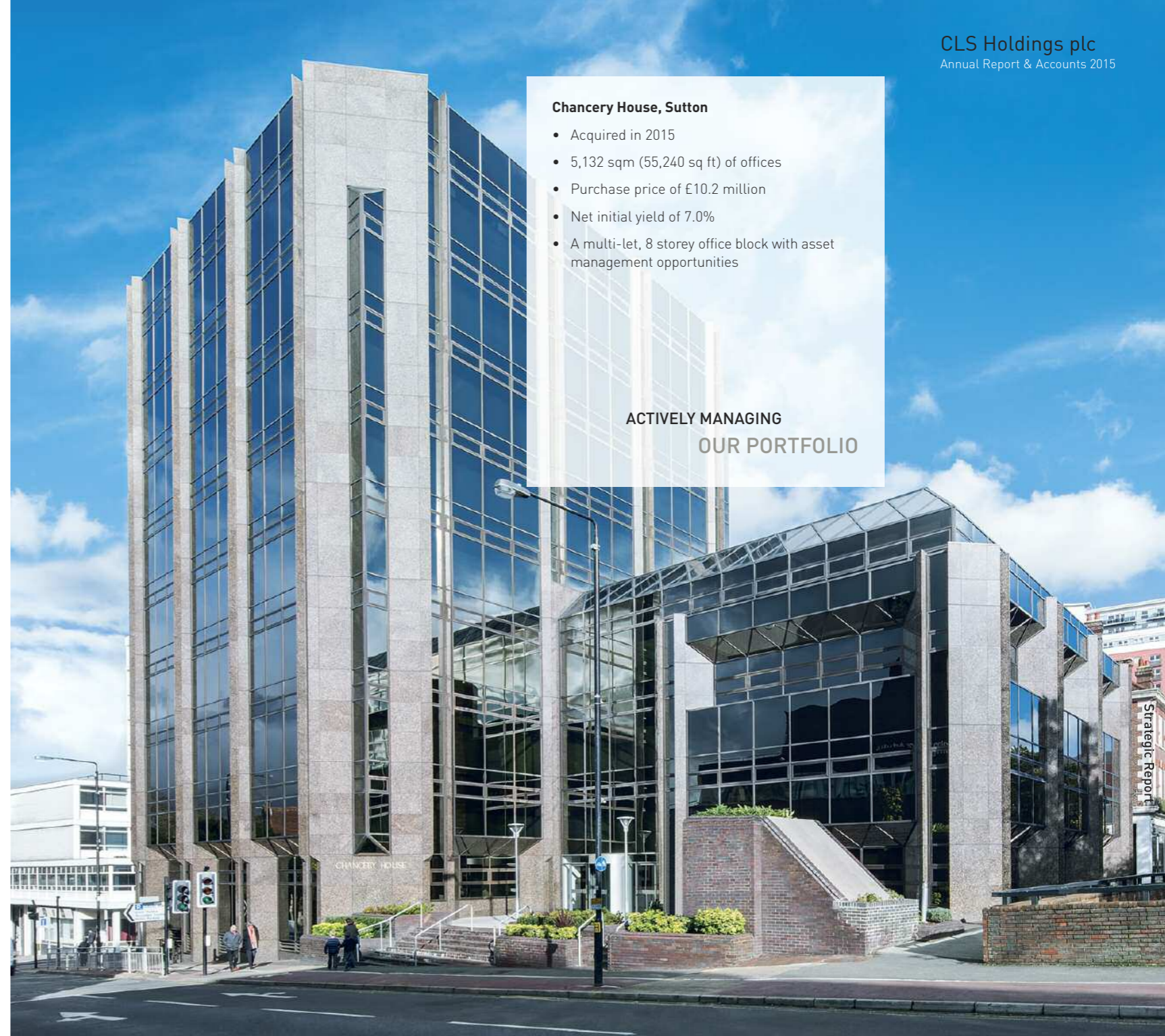
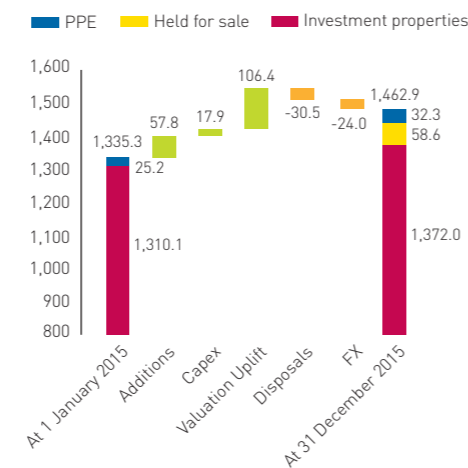
The bedrock of the Group's rental income is strong, with 41% being paid by government occupiers and 29% from major corporations, and 50% of our rents are subject to indexation. The weighted average lease length at 31 December 2015 was 6.1 years, or 4.9 years to first break. The portfolio is broadly let in line with current market rents.

The overall vacancy rate remained very low at just 3.1% (2014: 3.0%), which is testament to the benefit of active in-house asset management and property management, and of maintaining strong links with our customers to ensure we understand and respond to their needs.

The benefits of the Group's geographical diversification remain self-evident: there is good 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 30 provides more detail.

MOVEMENT IN PROPERTY PORTFOLIO 2015
(£ million)



Chancery House, Sutton

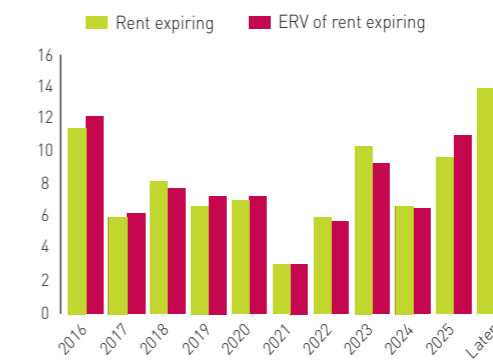
- Acquired in 2015
- 5,132 sqm (55,240 sq ft) of offices
- Purchase price of £10.2 million
- Net initial yield of 7.0%
- A multi-let, 8 storey office block with asset management opportunities

ACTIVELY MANAGING
OUR PORTFOLIO

AVERAGE UNEXPIRED LEASE TERM
(Years)



EFFECT OF RENT EXPIRIES
(£ million)



VACANCY RATE HISTORY
(%)



BUSINESS REVIEW CONTINUED

LONDON

Market during the year:

- GDP growth for 2015 down to 2.2% (2014: 2.9%)
- PMI of business confidence for January 2016 remained above 50
- Unemployment of 5.1% is at its lowest level since 2006
- Interest rates of 0.5% with little likelihood of rising in the short term
- 2015 was a record year for property investment volumes at over £66 billion
- Office rental values in London grew by 10.3%
- Capital growth rate in London was 14.9%, with Mid-Town the highest at 19.5%

Outlook:

The UK's membership of the EU is likely to dominate the political and economic landscape. Its uncertainty is impacting investor decisions, and large swings are likely in sterling. CLS is a member of business group London First, which is advocating remaining in the EU.

Office rents are likely to continue to rise on the back of strong demand and a tightening of supply, particularly if, as expected, the Permitted Development Regulations allowing the conversion of office space to residential is made permanent.

TOP CUSTOMERS

- National Crime Agency Government
- Cap Gemini Major Corporation
- BAE Systems Major Corporation
- Honda Motor Europe Major Corporation

In 2015 we continued to seek, and deliver, a number of investment opportunities in and around London. In Bracknell, we acquired the Reflex building, a 9,607 sqm (103,400 sq ft) multi-let Grade A office which primarily houses Honda Motor's European headquarters, for £21.7 million at a net initial yield of 8.0%. In Sutton, we bought Chancery House for £10.2 million at a net initial yield of 7.0%. This multi-let, 5,132 sqm (55,242 sq ft) eight storey office block offered asset management opportunities in an under-supplied suburban office market. In Bromley, we bought One Elmfield Park, a 2,238 sqm (24,092 sq ft) office for £4.5 million at a net initial yield of 7.3%, which we intend to refurbish comprehensively prior to relaunching in 2017. We also acquired two town houses adjacent to Vauxhall Square, 109 and 111 Wandsworth Road, SW8, for £3.3 million in aggregate.

The London occupancy market maintained its strength in 2015, and with a lack of new developments to satisfy this demand, rental values rose. On average, new lettings were achieved at 9.3% above their estimated rental values (ervs) of 31 December 2014. During 2015, ervs of the London portfolio rose by 6.2%, and at 31 December 2015 the London portfolio was net reversionary. Those leases which were reversionary were £5.8 million or 14.2% under-rented; of the £1.5 million (3.7%) of over-renting in London, more than £0.6 million was on leases which expire in 2026. The vacancy rate for London remains low at just 3.6%, excluding development stock (2014: 3.3%). During 2015, 9,215 sqm became vacant and we let or renewed leases on 8,900 sqm.

Of the two developments in Central London which completed at the end of 2014, at Spring Mews, Vauxhall SE11, the 378 bed student accommodation building was fully let in the year, 1,000 sqm of office space were fully let and the 93 bedroom suite hotel traded with an average occupancy rate of over 90%. Under IFRS, the hotel element of the scheme is carried in the balance sheet at market value within Property, Plant and Equipment. As expected, the entire office element at 138 Fetter Lane, EC4 became fully occupied during the year, and the eight adjoining residential apartments at 139 Fetter Lane have been retained and fully let on annual leases. The rent-free periods granted at 138 Fetter Lane in the year account for the majority of the difference between the EPRA net initial yield and its topped-up equivalent at 31 December 2015.

£800.1m

Investment properties

3.6%

Vacancy rate

53%

Percentage of Group's property interests

8.6%

Valuation uplift

43

No. of properties

65%

Rental income from government and major corporates

175,403 sqm

Lettable space

6.5 years

Average unexpired lease length

172

No. of tenants

5.5 years

Lease length to first break

4.7%

EPRA net initial yield¹

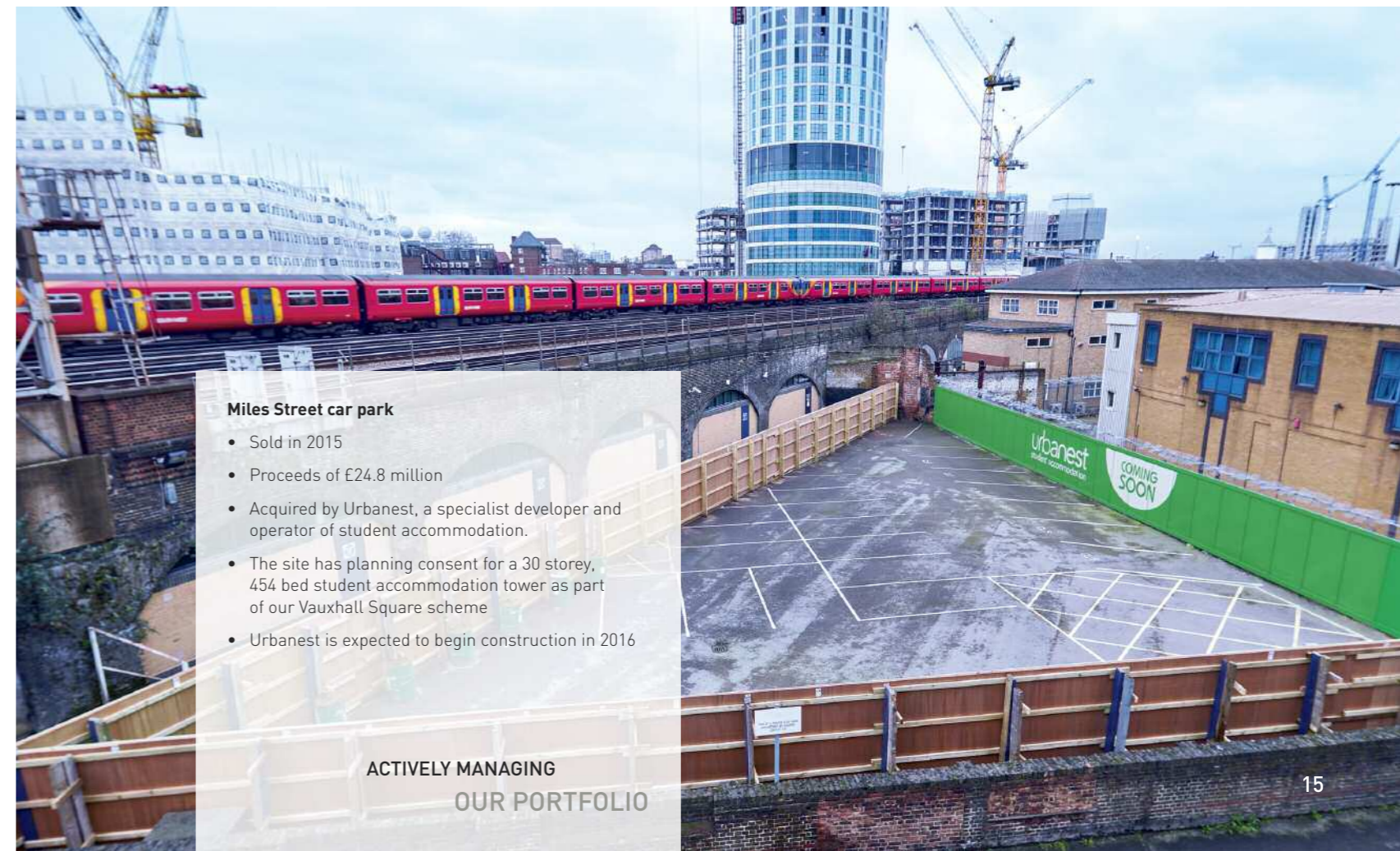
£26.5m

Spring Mews Hotel, 2% of Group's property interests

5.3%

EPRA topped-up net initial yield¹

¹ excluding developments



Miles Street car park

- Sold in 2015
- Proceeds of £24.8 million
- Acquired by Urbanest, a specialist developer and operator of student accommodation.
- The site has planning consent for a 30 storey, 454 bed student accommodation tower as part of our Vauxhall Square scheme
- Urbanest is expected to begin construction in 2016

ACTIVELY MANAGING
OUR PORTFOLIO

BUSINESS REVIEW CONTINUED

At Vauxhall Square, SW8, our 151,700 sqm (1.6 million sq ft) major development opportunity adjacent to Vauxhall's transport hub, we completed the sale of the car park in Miles Street, which had planning consent for a 454 bed, 30 storey student tower. The purchaser, specialist developer and operator of student accommodation, Urbanest, is expected to begin work on the site in 2016. This sale provided £24.8 million towards financing the rest of the scheme, whilst reducing our development risk and our exposure to further student housing in the Vauxhall area. We agreed final terms with our existing tenant, Cap Gemini, to gain vacant possession of the main site of Vauxhall Square by the end of 2016. In February 2016, we gained an amendment to the overall planning consent, replacing a four-star hotel with 10,088 sqm (108,586 sq ft) of Grade A offices, increasing the office element of the entire scheme to 23,700 sqm (255,000 sq ft). Our current intention is for the main site to be developed in two phases, the first of which could start in 2017 with the demolition of some existing buildings and the construction of a three storey basement, including 17,500 sqm (188,370 sq ft) of Grade A offices and a residential tower. We are working towards focusing on the commercial part of the scheme, in which we have an established track record, and are considering finding a specialist partner for the development of the residential element. The carrying value of the existing property at 31 December 2015 was £83 million before the amendment to the overall planning consent gained in February 2016.

At Westminster Tower, SE1, on the south side of Lambeth Bridge, detailed planning consent for conversion of this 14 storey office building into a primarily residential 17 storey tower was enhanced with the addition of five further private apartments to the original 23. We anticipate beginning this redevelopment on gaining vacant possession in the medium term.

On an undeveloped site with planning consent in Tinworth Street adjacent to Spring Mews, SE11, we gained consent to add three further floors and a change of use from student accommodation, to create a 7 storey, mixed-use office and student building which we intend to develop in 2016/17.

The London portfolio rose by 8.6% in the year, reflecting both rental value growth and a 16 bps yield compression.

Since the year end we have continued to invest in the London area with the acquisition of Cassini Court and Pascal Place, Randalls Research Park, Leatherhead, two adjacent office buildings of 2,613 sqm (28,122 sq ft) in aggregate, for a cost of £6.1 million, representing a net initial yield of 6.0%. We intend to modernise the buildings and relet them later this year.

REST OF UK

Market during the year:

- Capital values grew by 9.3% in 2015
- Rents grew by 4.3%
- Market activity continues to be dominated by the major cities of Manchester, Birmingham and Leeds

Outlook:

The UK's membership of the EU is likely to dominate the political and economic landscape. Its uncertainty is impacting investor decisions, and large swings are likely in sterling.

Office rents are likely to continue to rise on the back of strong demand; in recent years there has been relatively little development outside the south east of England and supply is constrained.

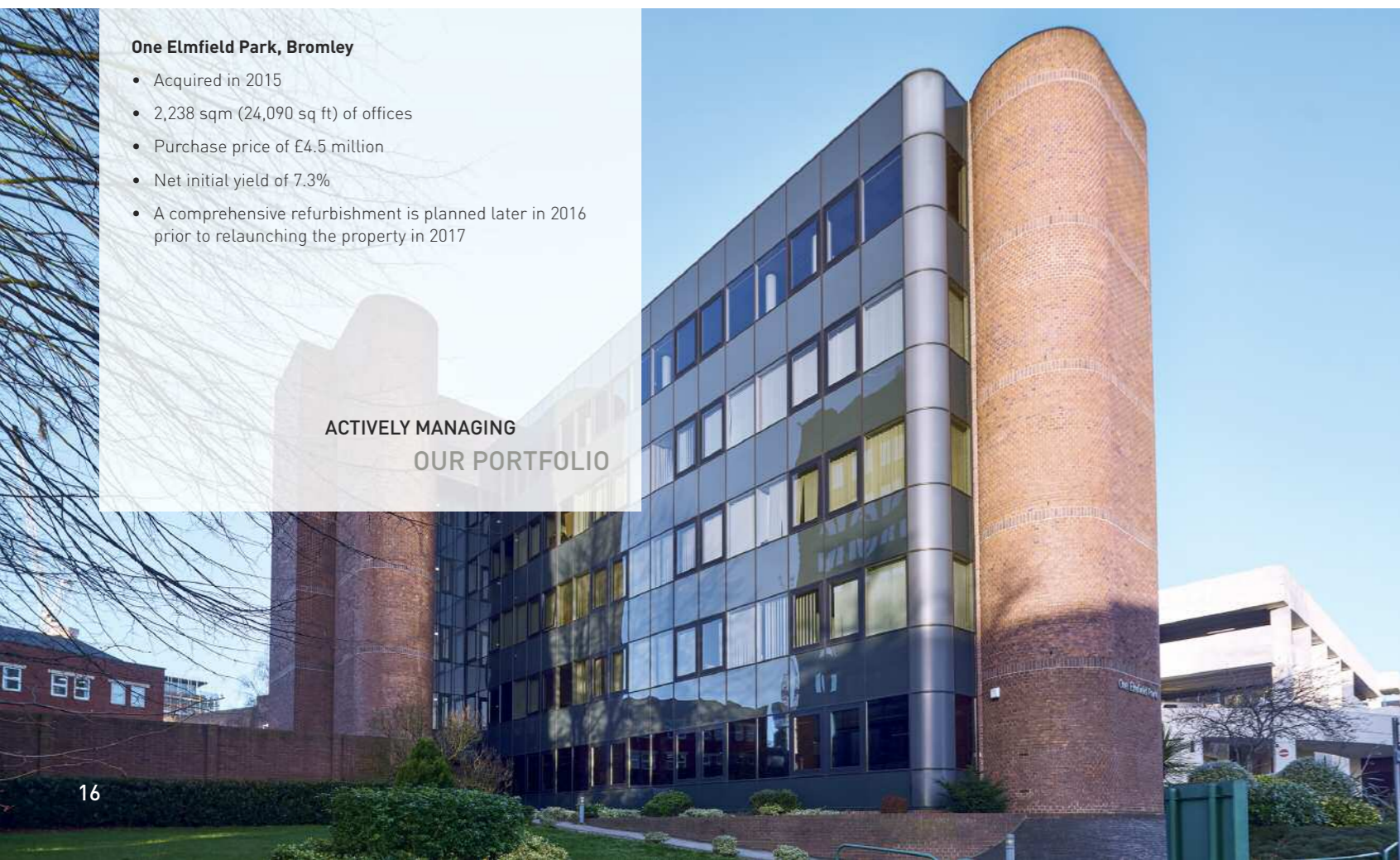
TOP CUSTOMERS

- Secretary of State Government
- Trillium Government

The Rest of UK portfolio is 100% let to 14 government departments. During the year we took advantage of the buoyant investment market to sell six outlying properties which were individually sub-scale and which carried a disproportionately high letting risk. The proceeds of £7.4 million were 27% above their 2014 aggregate valuation. Also in 2015, we settled one rent review at no uplift and agreed one index-linked rent review at 15.6% above the passing rent, which added £314,000 to the rent roll.

The disposal values of the group of six properties provided evidence to support an increase in the portfolio which remained. Notwithstanding that it has a concentration of lease expiries and breaks in March 2018, the portfolio rose by 9.5%, reflecting a fall in the true equivalent yield of 170 bps.

Since the year end we have exchanged contracts to sell Atholl House, Aberdeen with vacant possession for £11.0 million.



One Elmfield Park, Bromley

- Acquired in 2015
- 2,238 sqm (24,090 sq ft) of offices
- Purchase price of £4.5 million
- Net initial yield of 7.3%
- A comprehensive refurbishment is planned later in 2016 prior to relaunching the property in 2017

ACTIVELY MANAGING
OUR PORTFOLIO

£91.7m
Investment properties

85,751 sqm
Lettable space

9.5%
Valuation uplift

£9.2m
Properties held for sale

26
No. of tenants

100%
Rental income from government and major corporates

£100.9m
Total properties

11.3%
EPRA net initial yield

6.4 years
Average unexpired lease length

7%
Percentage of Group's property interests

11.3%
EPRA topped-up net initial yield

3.5 years
Lease length to first break

26
No. of properties

0.7%
Vacancy rate

FRANCE

Market during the year:

- GDP rose at 1.1%, implying economic resilience, but inflation is negligible and unemployment is over 10%
- The investment market in 2015 was strong, recording its second best performance ever and led by local investors, and yields continued to fall
- In the Greater Paris region the supply of lettable space fell marginally to 3.9 million sqm
- After a poor first half of the year, the second half saw one of the highest levels of letting activity in years, resulting in 2.2 million sqm let in the twelve months
- Most letting deals were of less than 5,000 sqm
- There is still a significant gap between vacancy levels in Paris (4.7%) and its inner suburbs (over 10%)
- €23 billion was invested in commercial real estate in France, and offices accounted for 72%
- Paris / Ile de France attracted 76% of investment; Lyon was the main regional driver with €1.4 billion

Outlook:

France remains a tenant's market, with relatively high lease incentives. Given the level of liquidity in the market, investment volumes are expected to reach 2015 levels again in 2016. The French macro environment seems likely to be conducive to an improvement, but only very gradually as GDP is only expected to rise to 1.2% in 2016 and 1.4% in 2017.

£215.6m
Investment properties

88,375 sqm
Lettable space

3.3%
Valuation uplift

£7.3m
Properties held for sale

191
No. of tenants

55%
Rental income from government and major corporates

£222.9m
Total properties

6.2%
EPRA net initial yield¹

5.0 years
Average unexpired lease length

15%
Percentage of Group's property interests

6.3%
EPRA topped-up net initial yield¹

2.6 years
Lease length to first break

26
No. of properties

3.9%
Vacancy rate

¹ excluding developments

TOP CUSTOMERS

- Veolia Major Corporation
- Colt Major Corporation
- CPAM Government
- GRT GAZ Government

Our in-house French team managed to reduce still further our vacancy rate in France to only 3.9% (2014: 5.1%); two years ago 10.6% of the French portfolio was vacant. Of the 9,939 sqm of space subject to expiries or vacancies in the year, 3,698 sqm was taken into development stock and 6,241 sqm was let. This was achieved at a weighted average rent of less than 1.4% below ervs at 31 December 2014.

The French portfolio valuation rose by 3.3% in the year in local currency, but fell by 1.9% in sterling. Contracted rent on a like-for-like basis grew by 3.0% and, with little movement in yields, this accounted for most of the rise in the value of the properties.

Since the year end we have disposed of our only property investment in Luxembourg, at 16 Rue Eugene Ruppert, for €10.2 million, marginally ahead of the 2015 valuation for this empty property.

At Petits Champs, in the heart of Paris, planning consent was gained for a significant refurbishment to create 2,000 sqm of offices behind a new façade. The soft strip-out has been completed and the main contract is due to complete by the end of 2017.



48 Rue Croix des Petits Champs, Paris

- Across the road from the Banque de France and close to the Louvre in the heart of Paris
- In 2015 we gained consent to replace the façade and significantly upgrade 2,000 sqm (21,500 sq ft) of offices in a prime location
- £8.2 million refurbishment under way
- Property to be relaunched in late 2017

ACTIVELY MANAGING
OUR PORTFOLIO

GERMANY

Market during the year:

- Germany's GDP growth of 1.7% remained steady and it is projected to grow gradually, the effect of its otherwise robust labour market and low oil prices is likely to be offset by global economic weakness and migration issues
- Germany's real estate markets remained buoyant; the top seven property markets recorded the highest level of new lettings since 2007, up 17% on 2014
- The investment market transaction volume was virtually its highest ever, 39% above that of 2014
- The fall in yields continued, especially in the prime sector, and now stands at 3.65% in Munich and 4.0% in Berlin and Hamburg
- Yields for secondary properties have also shown strong compression, and are now between 5.5% and 6.5%
- Take-up increased 23% year-on-year with Berlin achieving an all-time record of 850,000 sqm, and office vacancy is low (Berlin 4%; Munich 4%; Hamburg 5.5%)
- Rents in Berlin, Hamburg and Munich experienced a strong Q4, fuelled by the record take-up; Berlin prime rents were up 9.1% in the year, the highest in 15 years

Outlook:

German economic growth is a key driver for Europe and is forecast to rise by 1.8% in 2016. Unemployment has again been decreasing and is forecast to fall to 6% in 2016 (2015: 6.6%). German political debate is dominated by the ongoing refugee crisis: the country received up to 1.1 million refugees in 2015 and a further 1.0 million are expected in 2016. This will put even more pressure on the residential market and the supply of commercial properties has been reduced by conversion of lower grade office properties. The favourable financing environment, with low interest rates and increased LTVs, is showing no signs of reversing and this, in combination with improved market fundamentals, is expected to keep the investment market strong in 2016.

TOP CUSTOMERS

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

We continue to see good investment value in German commercial real estate, supported by favourable financing conditions. In the previous two years we have bought Bismarckallee 18/20 in Freiburg, and Schellerdamm 2 and Schellerdamm 16 in the Harburg district of Hamburg. In 2015, we acquired Tangentis, a 14,867 sqm (160,000 sq ft) multi-let office building near Munich for €18.5 million, at a net initial yield of 7.9%, and financed it with a fixed rate loan at 1.44% for seven years and with a 70% loan-to-value.

A smaller property, Unterschleissheim, on the outskirts of Munich, was sold in the year for €3.8 million, marginally below its valuation at December 2014.

During 2015, 6,186 sqm vacated or expired in the German portfolio, of which 4,589 sqm relet or renewed and 619 sqm was sold on the disposal of Unterschleissheim. The resulting increase in voids was matched by a net decrease in available space on the acquisition of Tangentis and, consequently, the vacancy rate remained relatively stable at 2.5% (2014: 2.6%). New leases and renewals were achieved at broadly their ervs of December 2014.

The valuation of the German portfolio rose by 8.2% in local currency, or by 3.2% in sterling. The uplift was driven by a 13 bps fall in yields, whilst ervs were up 1.3% on a like-for-like basis in the year.

£259.4m
Investment properties

152
No. of tenants

8.2%
Valuation uplift

17%
Percentage of Group's property interests

6.1%
EPRA net initial yield

69%
Rental income from government and major corporates

19
No. of properties

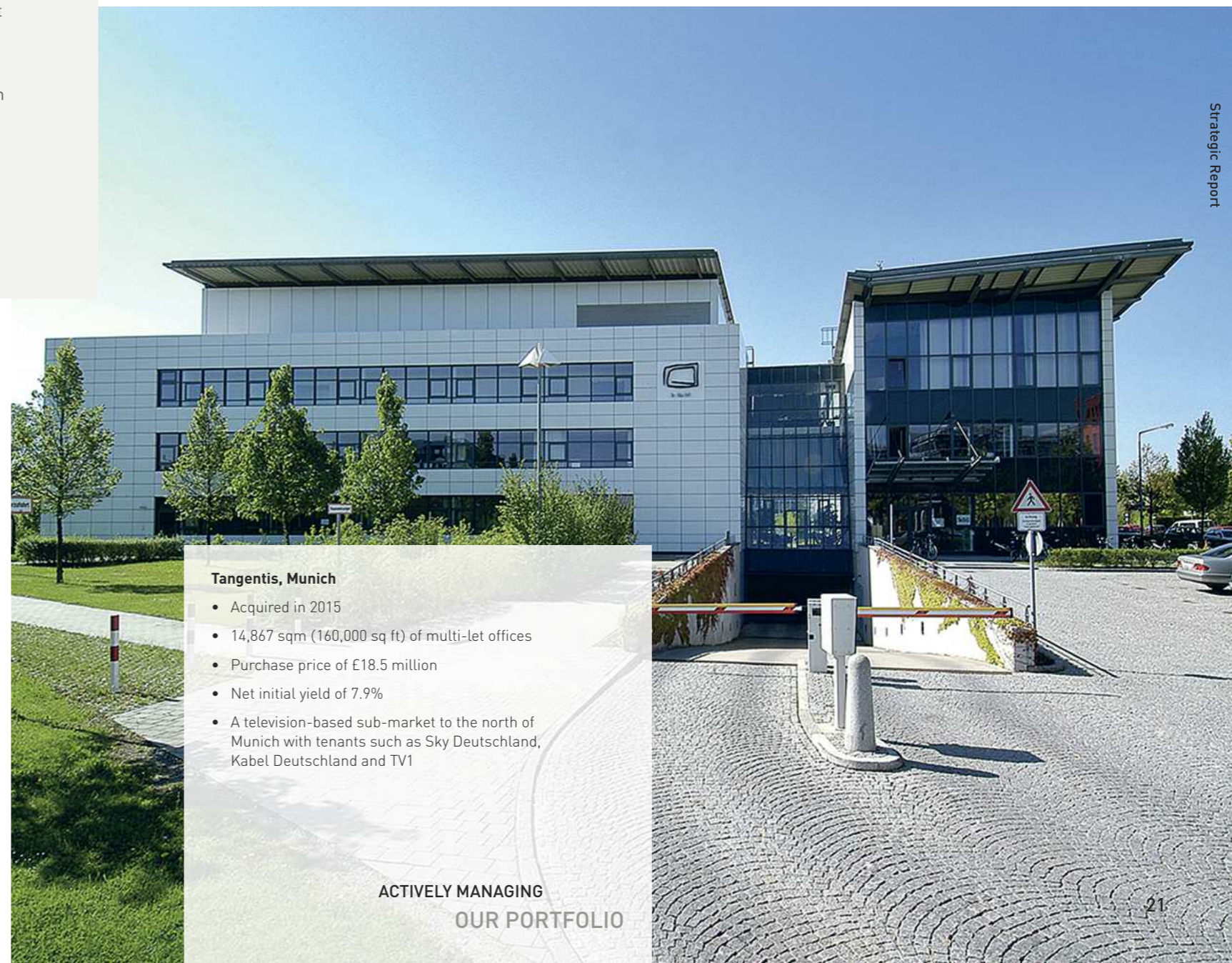
6.2%
EPRA topped-up net initial yield

6.3 years
Average unexpired lease length

183,376 sqm
Lettable space

2.5%
Vacancy rate

6.2 years
Lease length to first break



Tangentis, Munich

- Acquired in 2015
- 14,867 sqm (160,000 sq ft) of multi-let offices
- Purchase price of €18.5 million
- Net initial yield of 7.9%
- A television-based sub-market to the north of Munich with tenants such as Sky Deutschland, Kabel Deutschland and TV1

ACTIVELY MANAGING
OUR PORTFOLIO

SWEDEN

Market during the year:

- Sweden's economy has continued to show signs of robustness
- Inflation is negligible, unemployment is around 7.5%, interest rates are below 0% and GDP growth is above 4.0% and rising
- The total transaction volume of commercial properties in Q4 of SEK 48 billion was 37% higher than the average Q4 volume 2003-2014
- The total investment volume for 2015 of SEK 146 billion was down 7% on 2014; volumes are being held back by lack of available product
- Yields have continued to fall and prime office yields in Stockholm are now at 3.75%, in Gothenburg 4.2% and in Malmö 5%

Outlook:

With a strong investment market, we have sold our main Swedish asset, Vänerparken, in 2016. Catena is well positioned to benefit from the market conditions, and First Camp is well placed to benefit from the Swedish vacation market.

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, a landholding and a subsidiary; both equity stakes invest in Swedish real estate, and as they operate against the same economic backdrop, are considered together with the directly-held Swedish properties in this Business Review.

As reported last year, the majority of the leases at our main investment property in Sweden, Vänerparken, were renegotiated in 2015, significantly reducing the over-rented position at the property. These changes had been foreseen in the valuation at December 2014 and, as a consequence, the valuation of Vänerparken at 31 December 2015 was largely unchanged.

We have chosen to take advantage of the regularisation of the leases, and of the strong investment market in Sweden, and we have exchanged contracts to sell the building for SEK 590 million, some 13.5% above its 2015 valuation. Completion is due on or before 1 May 2016.

The remaining direct holding in Swedish real estate is a plot of land in Hyllinge, which has been transferred to Property, Plant and Equipment.

On the disposal of Vänerparken, the Group's main investment in Sweden will be a 15.5% (2014: 13.5%) interest in the share capital of Catena AB, a property company which specialises in logistics warehouses in Sweden. During the year the Group acquired 502,000 further shares in Catena, which is listed on Nasdaq Stockholm and during 2015 its share price rose by 7.8% to SEK 114 per share. Consequently, the sterling carrying value of the investment rose by 7.4% net of foreign exchange movements. Catena remains very profitable and we received a dividend of £0.9 million in the year.

The assets of First Camp Sverige Holding AB, predominantly vacation sites in Sweden, were valued at £38.8 million (Group's share: £22.5 million) at 31 December 2015, and the Group's share in the net assets of First Camp at that date was £8.4 million.

INVESTMENT PROPERTY

£42.1m

Properties held for sale

27

No. of tenants

1.7%

Valuation uplift

3%

Percentage of Group's property interests

8.7%

EPRA net initial yield

98%

Rental income from government and major corporates

1

No. of properties

8.8%

EPRA topped-up net initial yield

5.2 years

Average unexpired lease length

38,909 sqm

Lettable space

4.8%

Vacancy rate

5.2 years

Lease length to first break

FINANCIAL INVESTMENT

£36.9m

Value in Catena

2%

Percentage of Group's property interests

15.5%

Interest in Catena

PROPERTY, PLANT & EQUIPMENT

£5.2m

Value of landholding

£8.4m

Value in First Camp

1%

Percentage of Group's property interests

58.0%

Interest in First Camp

£39.6m

Gross value of First Camp's assets

£22.5m

Share of gross value of First Camp's assets

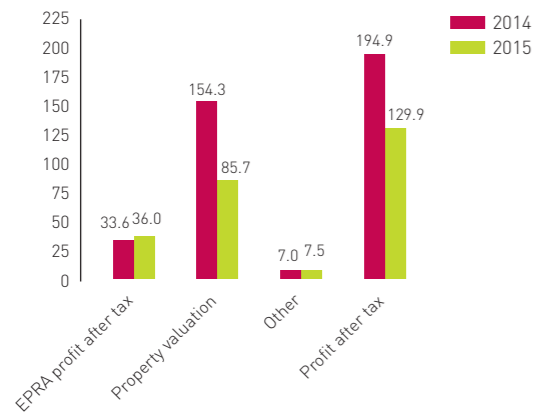


Catena AB

- A property investment company which specialises in logistics properties in Sweden (Köpingegården, in Helsingborg, pictured)
- Listed on Nasdaq Stockholm, CLS owns 15.5%
- In 2015, Catena made a profit after tax of SEK 571 million

BUSINESS REVIEW CONTINUED

PROFIT AFTER TAX
(£ million)



RESULTS FOR THE YEAR

HEADLINES Profit after tax attributable to the owners of the Company of £129.9 million (2014: £194.9 million) generated EPRA earnings per share of 84.7 pence (2014: 77.4 pence), and basic earnings per share of 305.7 pence (2014: 449.0 pence). Investment properties at 31 December 2015 were £1,366.8 million (2014: £1,310.1 million), EPRA net assets per share were 17.4% higher at 2,083.2 pence (2014: 1,774.1 pence), and basic net assets per share rose by 19.0% to 1,810.1 pence (2014: 1,521.1 pence).

Approximately 65% of the Group's business is conducted in the reporting currency of sterling, around 31% in euros, and the balance is in Swedish kronor. Compared to last year, sterling strengthened against the euro by 11.0% and against the krona by 14.1%, reducing profits accordingly. Likewise, at 31 December 2015 the euro was 5.1% weaker and the krona 2.2% weaker against sterling than twelve months previously, reducing the sterling equivalent value of non-sterling net assets.

EXCHANGE RATES TO THE £

	EUR	SEK
At 31 December 2013	1.2041	10.6562
2014 average rate	1.2410	11.2984
At 31 December 2014	1.2876	12.1654
2015 average rate	1.3774	12.8889
At 31 December 2015	1.3571	12.4420

INCOME STATEMENT At £85.3 million, rental income in 2015 was £0.9 million higher than in 2014; acquisitions added £3.3 million and completed developments contributed £3.7 million for the first time along with £0.4 million of other lettings, but these were offset by £1.8 million of income lost on properties added to the development pipeline, and £0.7 million from disposals, whilst the strength of the sterling lowered rents by £4.0 million. A full year of income from First Camp of £14.0 million (2014: £0.7 million) and £3.5 million of income from the Spring Mews hotel for the first time, contributed to a 20.4% increase in net rental income to £99.0 million (2014: £82.2 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 2015, 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 £13.5 million (2014: £7.2 million). As a proportion of net rental income, the administration cost ratio increased to 15.9% (2014: 15.7%), within our KPI target for the year of 16.0%.

The increase in group revenue less costs of the other investments segment to £4.2 million (2014: loss of £0.4 million) stemmed from the trading performance of the Spring Mews hotel and First Camp, and drove the 2.3% increase in the total Group revenue less costs to £71.7 million (2014: £70.1 million).

The net surplus on revaluation of investment properties of £98.0 million was predominantly generated by the London portfolio, which rose in value by £62.3 million, and Germany's, which added £19.5 million.

The disposal of Miles Street car park, Unterschleissheim and the small Rest of UK portfolio realised a gain of £4.3 million after costs over their aggregate valuation at 31 December 2014 of £30.5 million.

The majority of finance income of £10.0 million (2014: £7.7 million) was interest income of £4.9 million (2014: £6.1 million) from our corporate bond portfolio. At 31 December 2015, this had a value of £73.4 million, and remained an important cash management tool of the Group, earning a return on capital of 5.0% in the year.

Finance costs of £27.5 million (2014: £28.1 million) were lower than last year. The underlying interest cost, excluding the fair value movements of derivative financial instruments and losses on partially redeeming a zero coupon note, rose to £26.6 million (2014: £24.8 million), after capitalising interest of £0.4 million (2014: £2.9 million) on developments. Interest costs before such capitalisation were marginally down on last year at £27.0 million (2014: £27.7 million), in line with the fall in our cost of borrowing to 3.40% (31 December 2014: 3.64%).

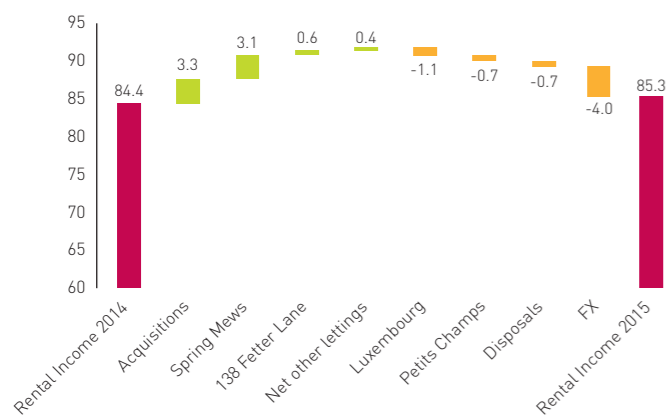
Once again this year the tax charge of 12.5% was significantly below the weighted average rate of the countries in which we do business (21.1%), primarily due to indexation allowances available on United Kingdom properties and a prospective change in the United Kingdom tax rate.

Overall, profit attributable to the owners of the Company was £129.9 million (2014: £194.9 million). EPRA earnings, which exclude items which are non-recurring in nature, such as profits on sales of investment properties, or which have no impact to earnings over their life, such as movements on the revaluation of investment properties, were £36.0 million (2014: £33.6 million), and generated EPRA earnings per share up 9.5% at 84.7 pence (2014: 77.4 pence).

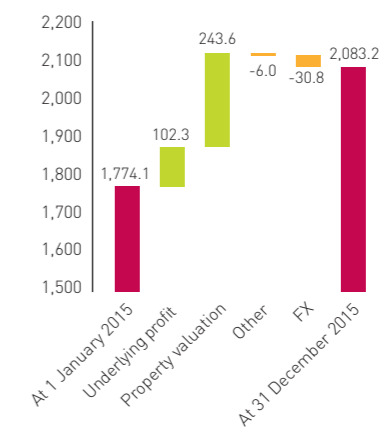
EPRA NET ASSET VALUE At 31 December 2015, EPRA net assets per share were 2,083.2 pence (2014: 1,774.1 pence), a rise of 17.4%, or 309.1 pence per share. The main reasons for the increase were the uplift in the valuation of the investment property portfolio which added 243.6 pence, and underlying profit after tax of 102.3 pence. Whilst sundry other items reduced it by 6.0 pence, the strength of sterling against the euro and krona reduced EPRA net assets per share by 30.8 pence.

CASH FLOW, NET DEBT AND GEARING Net cash flow from operations generated £48.9 million, adding over 100 pence per share to net assets, of which £16.1 million was distributed to shareholders. £34.8 million was raised from eight property disposals and a further £62.6 million from net new debt after costs. The main cash outflows were on the six acquisitions in the year, which, together with the completion of Schellerdamm, amounted to £81.4 million in aggregate, and on capital expenditure in the year of £25.9 million. At 31 December 2015, the Group's cash balances of £100.7 million were virtually unchanged from twelve months previously, and were supplemented by corporate bonds with a value of £73.4 million and undrawn bank facilities of £65 million.

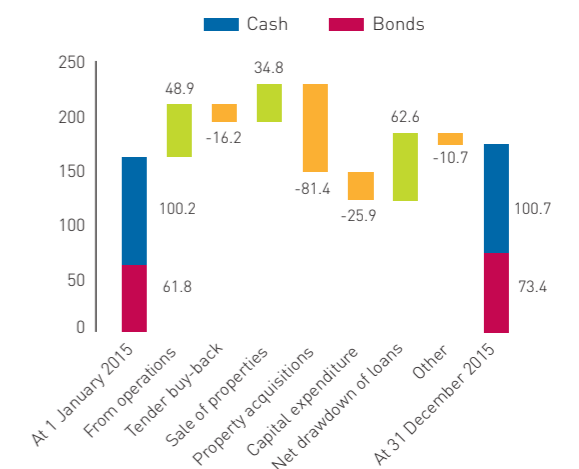
MOVEMENT IN RENTAL INCOME
(£ million)



MOVEMENT IN EPRA NAV 2015
(Pence)



MOVEMENT IN LIQUID RESOURCES 2015
(£ million)

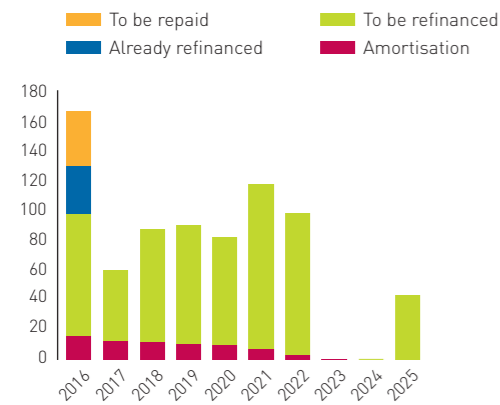


BUSINESS REVIEW CONTINUED

MOVEMENT IN GROSS DEBT 2015
(£ million)



DEBT PROFILE AT 31 DECEMBER 2015
(£ million)



Gross debt increased by £54.0 million to £800.0 million. New bank loans of £294.0 million were taken out to finance acquisitions or to refinance existing loans, £7.6 million was taken out in the First Camp business, and £12.3 million of overdrafts were drawn, whilst loans of £185.5 million were repaid, together with £60.1 million of overdrafts. At 31 December 2015 the weighted average unexpired term of the Group's debt was 4.0 years.

Balance sheet loan-to-value (net debt to gross assets less cash) fell to 42.5% (2014: 43.4%), and the weighted average loan-to-value on borrowings secured against properties was a comfortable 50.0% (2014: 49.7%). Adjusted solidity was 50.4% (2014: 48.0%).

The weighted average cost of debt at 31 December 2015 was 3.40%, 24 basis points lower than 3.64% of twelve months earlier. 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 2015, our low cost of debt led to recurring interest cover of 3.2 times (2014: 3.3 times).

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 70% 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. None of the Group's debt was in breach of covenants at 31 December 2015. The Group had 67 loans across the portfolio from 26 banks, plus a debenture, a zero-coupon loan, 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. As forecast twelve months ago, during 2015 medium-term interest swap rates fell close to short-term rates, and the Board chose to take advantage of these conditions, fixing medium-term debt taken out during the year predominantly with co-terminus interest rate swaps. During the year the Group financed or refinanced 10 loans to a value of £294.0 million at a weighted average all-in rate of 2.54%, and of these £195.1 million was fixed at a weighted average all-in rate of 2.68%. Consequently, at 31 December 2015, 51.4% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 20.7% were subject to caps and 27.9% of debt costs were unhedged.

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 2015 they were a net liability of £5.3 million (2014: £7.3 million).

DISTRIBUTIONS TO SHAREHOLDERS In April 2015, £10.4 million was distributed to shareholders by means of a tender offer buy-back of 1 in 80 shares at 1,950 pence per share. In September, a further £5.7 million was distributed by means of a tender offer buy-back of 1 in 162 shares at 2,190 pence per share, and a proposed tender offer buy-back of 1 in 57 shares at 1,810 pence per share to return £13.4 million will be put to shareholders at the Annual General Meeting in April 2016. This will bring total distributions for 2015 to £19.1 million, an uplift of 20% on last year. This uplift will rebase the distribution, from which we expect to increase it more modestly in future years. The distribution was rebased to reflect the strong cash generation of the business and, based on the market capitalisation of the company at 1 March 2016, would imply the equivalent of a dividend yield of 3.1%.

SHARE CAPITAL At 1 January 2015, there were 45,827,164 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 April, 536,738 shares were cancelled in exchange for £10.4 million distributed to shareholders, and in September, 261,742 shares were cancelled in exchange for a distribution of £5.7 million. Also during the year, 15,000 shares were issued from treasury shares to a Director in compensation for incentives forfeited on cessation of his previous employment.

Consequently, at 31 December 2015, 42,140,581 shares were listed on the London Stock Exchange, and 2,888,103 shares remained held in Treasury.

In April 2016, the Directors intend to put to the Annual General Meeting of the Company a proposal to issue a tender offer to buy-back 1 in 57 shares at 1,810 pence per share. If approved by shareholders this could lead to the purchase and cancellation of 702,343 shares, and a distribution to shareholders of £13.4 million.

TOTAL RETURNS TO SHAREHOLDERS

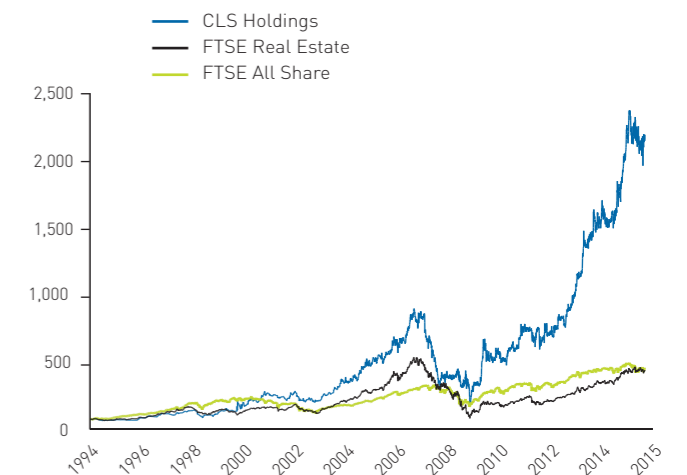
In addition to the distributions and share cancellations associated with the tender offer buy-backs, shareholders benefited from a rise in the share price in the year from 1,529 pence on 31 December 2014 to 1,820 pence at 31 December 2015. Accordingly, the total shareholder return in 2015 was 19.0%. In the five years to 31 December 2015, our total shareholder return of 240.5%, which represented a compound annual return of 27.8%, 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, as set out in the graph opposite.

KEY PERFORMANCE INDICATORS

Our performance against our key performance indicators is set out on pages 4 and 5.

TOTAL RETURNS TO SHAREHOLDERS 1994-2015
(£ million)



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	Change in risk in year
PROPERTY INVESTMENT RISK			
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.	→ Unchanged
<ul style="list-style-type: none"> Cyclical downturn in property market Inappropriate buy/sell/hold decisions 			
<ul style="list-style-type: none"> Changes in supply of space and/or occupier demand 	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 6.1 years and the Group's largest occupier concentration is with the Government sector (41.1%).	↓ Reduced
<ul style="list-style-type: none"> Poor asset management 	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.	→ Unchanged
OTHER INVESTMENT RISK			
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 report on corporate bonds to the full Board on a monthly basis. The Executive Directors formally review the corporate bond strategy monthly.	↑ Increased
<ul style="list-style-type: none"> Underperformance of portfolio Insolvency of bond issuer 			
DEVELOPMENT RISK			
Failure to secure planning permission	Abortive costs Reputation	Planning permission is sought only after engaging in depth with all stakeholders.	→ Unchanged
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.	→ Unchanged
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.	→ Unchanged
Increased construction costs	Net asset value Reduced development returns Cost overruns	All development appraisals contain contingencies, and are subject to sensitivity analysis. Monthly cost reports are produced for the Executive Directors to identify and address potential issues at an early stage.	↓ Reduced

Risk	Areas of impact	Mitigation	Change in risk in year
SUSTAINABILITY RISK			
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.	→ Unchanged
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.	→ Unchanged
Increasing energy costs and regulation	Net asset value, profitability, liquid resources	Investment in energy efficient plant and building mounted renewable energy systems.	→ Unchanged
FUNDING RISK			
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 26 banks, thus reducing credit and liquidity risk. The exposure on refinancing debt is mitigated by the lack of concentration in maturities.	→ Unchanged
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.	→ Unchanged
Breach of borrowing covenants	Cost of borrowing	Financial covenants are monitored by the Treasury department and regularly reported to the Board.	→ Unchanged
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.	→ Unchanged
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 26 banks, thus reducing credit and liquidity risk. The exposure on refinancing debt is mitigated by the lack of concentration in maturities.	→ Unchanged
TAXATION RISK			
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.	→ Unchanged
POLITICAL AND ECONOMIC RISK			
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 in the countries in which they are situated.	→ Unchanged
UK exit from the EU	Net asset value Profitability	Over 80% of the Group's assets are in the UK and Germany, both of which have economies resilient enough to accommodate economic shocks, should they occur.	↑ Increased

CORPORATE, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY REPORT

THE GROUP IS COMMITTED TO AN ETHOS OF CORPORATE, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY TOWARDS ALL STAKEHOLDERS. The Board actively encourages its integration into the business by employees across the Group.

CHIEF EXECUTIVE OFFICER'S STATEMENT

This year we have seen significant focus on sustainability and the importance of climate change across the world. In September, the Global Goals were passed at the UN Sustainable Development Summit in New York and, in December, a new climate change agreement was signed at the UN 2015 Paris Climate Conference.

A part of the Group's ethos is its commitment to Sustainability and Social and Environmental projects and I am proud to report that in 2015 the Group made good progress in several areas.

During the year we installed a further three solar photovoltaic arrays and a combine & heat power plant in the UK. As a result the amount of electricity we generate from renewable and low-carbon sources has risen to 2.7% (2014: 1.0%) of the electricity consumed by our managed portfolio.

We also achieved a further 7.7% (2014: 7.2%) reduction in carbon emissions in our managed buildings as a result of energy efficiency projects and active property management. Our Energy Performance Certificate score improved by 16% from average D to C, well ahead of the introduction of the MEES UK regulations in 2018, and we will continue actively to encourage discussions on-site and to work in partnership with our customers to identify further areas for improvements.

This year the Group has also focussed on our utility procurement contracts, achieving over £100,000 in reduced rates and securing cleaner energy across our UK & Germany portfolios. Combined with our energy reduction projects we have reduced our annual costs by £200,000.

We have an active and engaged workforce and I am proud to report that our staff supported more community events in 2015 than ever before. This year we have been involved in 20 social and charitable events raising over £40,895 (2014: £26,000). The focus has been on local projects and active support to charities in the communities in which we invest.

We remain motivated and focussed to continue to improve our sustainability record in 2016 and to deliver our investment programme in more sustainable energy systems. We will also be rolling out smart metering across our Group portfolio to improve further our understanding of our buildings and to find more savings both for our customers and for the wider environment.

Fredrik Widlund
Chief Executive Officer
8 March 2016

KEY AREAS OF SUSTAINABILITY

SUSTAINABILITY GREEN CHARTER

The Sustainability Green Charter (the "Charter") was set up in 2011 to promote our sustainability aspirations through 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 on climate change by reporting regularly against measurable indicators

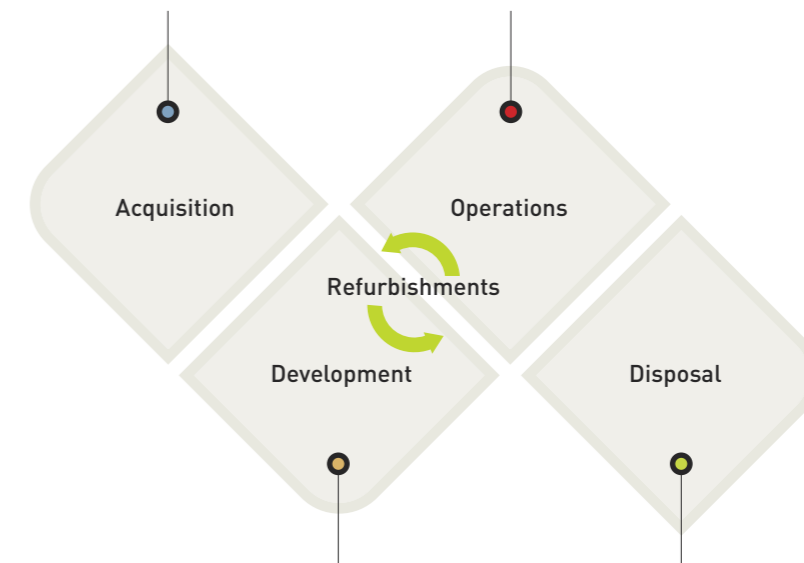
- to make the most effective use of our duties, powers and resources to minimise the impact of our actions on the environment, and to enhance the environment, community and economy wherever possible
- to monitor our progress by carrying out regular assessments against the key actions of the Charter
- to use the Charter to influence the behaviour of our partners, tenants, suppliers and other stakeholders, to promote the principles on which it is based
- to promote and support social and charitable events to ensure we contribute in the communities in which we invest

PORTFOLIO SUSTAINABILITY

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

We carry out environmental due diligence when assessing whether to invest in a building. We seek to identify all environmental risk factors, including physical and legislative risks, which may affect the operations of the asset or its value.

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 energy price volatility. As part of our procurement processes, we also seek to ensure that our contractors consider the environment on all refurbishments and, where appropriate, we seek to incorporate into our projects industry recognised standards, such as BREEAM and SKA.



Through our development and refurbishment programmes, we set high standards in environmental efficiency to provide better buildings for the future. We also believe in working with all stakeholders within our communities to help meet local needs, addressing urban biodiversity and the wider infrastructure.

On the disposal of an asset, we help the purchaser understand how the asset operates so as to ensure continued environmental and sustainability performance.



ONLINE CSR REPORT

THE GROUP HAS PRODUCED A CSR REPORT WHICH IS AVAILABLE ONLINE.

The report is designed to provide in more comprehensive detail sustainability data from across the Group. It will also provide more facts and figures on our CSR programmes and showcase the projects achieved in 2015.

To download the report, visit

→ www.clsholdings.com

2015 ACHIEVEMENTS



Corporate

- Achieved Green Star status on the GRESB global platform
- Achieved improved Carbon Disclosure Project and FTSE4GOOD scores against 2014
- Completed over 10 energy-efficiency projects across the Group to support the reduction of carbon emissions and reduce energy costs
- Gained 2 gold and 1 silver awards for refurbishments using the SKA framework in the UK portfolio
- Enhanced our Energy Performance Certificate score by 16% from D (89) to C (75) well ahead of the introduction of the MEES UK regulations in 2018



Social

- Raised charitable donations of £18,675, an increase of £6,315 from 2014
- Raised £22,220 for corporate social community events
- Supported wider community projects such as donating funds to help restore the Battersea Arts Centre following a fire
- Sponsored the Vauxhall Bloom project, which provides apprenticeships to the long-term unemployed with the aim of helping them to gain skills and experience necessary to pursue a career in horticulture
- Appointed a Corporate & Social Responsibility Assistant in the sustainability team to help to deliver the programmes across the Group



Energy & Environmental

- Reduced our annual energy costs by over £200,000 across the Group, through energy reductions and procurement policies
- Achieved a carbon emissions reduction across the Group of 7.7% exceeding a target of a 5% reduction

EMPLOYEES

Culture

Our culture is entrepreneurial, professional, open and friendly. Our multi-cultural ethnicity fosters a family environment where integrity and responsibility are at the heart of our business. We have fewer than 100 employees looking after a property portfolio of £1.5 billion, so we recognise that they make CLS what it is and contribute significantly to its success.

Recruitment

Finding the right people is the key to our long-term success. Having a diverse workforce is also a source of competitive advantage. Therefore, we have developed appropriate policies and procedures which underline our commitment to equal opportunity and diversity in employment. Our recruitment and interview policy ensures that these objectives are met and fully understood by those recruiting. It 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 is solely determined by the job criteria, personal aptitude and competence.

We apply best practice in the employment of disabled people, which is reflected in our recruitment and interview policy. Full and fair consideration is given to every application for employment from disabled persons whose aptitude and skills can be used 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. We are proud that we have been able to attract, motivate and retain high calibre employees, which, in turn, has ensured the continued and sustained improvement in the performance of the Group.

Engagement

We promote all aspects of employee engagement and promote an "open door" policy, such that we encourage all employees to share ideas and get involved in developing our policies and practices. Having a predominantly flat management structure ensures that all employees are informed of matters concerning their interests and the financial and economic factors affecting the business. In addition to the weekly departmental meetings that are held across the Group, our Executive Directors present our annual and half-yearly results to employees which is followed by a question and answer session, which gives everyone an understanding of the business and its performance during the period.

We want to make sure everyone works towards the same goal. Every 12 months we undertake employee performance reviews and set their objectives for the forthcoming year. These individual objectives reflect the Group objectives set by the Chief Executive Officer, which in turn are based on the Key Performance Indicators and sustainability targets contained in this report on page 35. We have a dedicated Intranet which allows us to promote new policies, procedures, Group activities and employee events.

Every third year we undertake a conference for all employees, at which we promote the Group's culture and values, provide specific presentations on areas of the business and develop our team working skills with an emphasis on bringing together our European offices. During 2016 we will undertake a survey of all staff in order to understand better how employees perceive CLS, its culture, strategy, management and working practices. Its results will be fed back to the Board with proposals where improvements can be made.

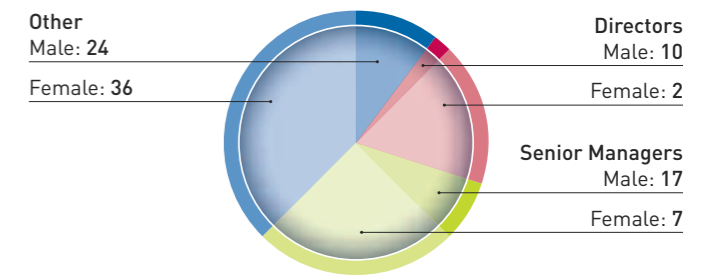
Remuneration

Our overall remuneration and benefits package is designed to attract, motivate and retain employees. Our remuneration structure is simple, combining salary and benefits with an annual discretionary bonus and a long-term retention bonus based on the Group's performance over a two year period.

Training and Development

All employees are actively encouraged to undertake training to achieve professional qualifications and to keep up to date with developments in their specialised areas. We ensure that those with direct reports undertake management training on areas such as diversity, appraisals and performance. We also promote non-core training, such as foreign language skills, which whilst not central to a particular role, will allow an employee to broaden their skills base. As part of our knowledge sharing and personal development, we have set up internal workshops whereby departments will present to other departments on their specific role within the organisation, thereby developing employees' wider business knowledge and understanding of how the Group's activities inter-relate.

EMPLOYEE GENDER RATIO¹
(at 31 December 2015)



¹ Excluding First Camp (see note 7 to the group financial statements)



Falcon House, Hounslow

One of six properties in the UK to have been fitted with a photovoltaic array. In 2015 it directly generated 18,605 kWh of renewable electricity.

CORPORATE, SOCIAL & ENVIRONMENTAL RESPONSIBILITY REPORT CONTINUED

HEALTH & SAFETY

It is a primary concern of the Board that the Group 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 Group employs specialist accredited advisers to advise on all health and safety matters. The Group 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 Facility Managers, Property Managers and advisors, and is responsible 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 Group's responsibilities as an ethical employer and views matters in which the Group interacts with the community both socially and economically as the responsibility of the whole Board. Following the enactment of the Bribery Act 2010, the Group implemented a suitable policy which further demonstrated its commitment to business ethics.

MODERN SLAVERY ACT 2015

The Modern Slavery Act 2015 came into effect on 29 October 2015 and requires any UK commercial organisation that supplies goods or services with a turnover of more than £36 million to prepare a statement setting out the steps that have been taken during the financial year to ensure that slavery and human trafficking is not taking place in any of its supply chains or its own business.

The Group will be required to publish its first statement in respect of the year ending 31 December 2016.

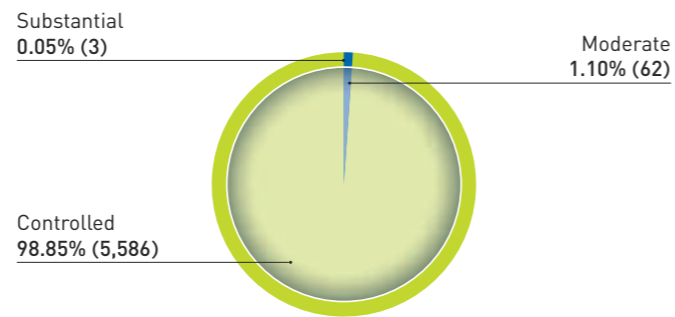
The Group upholds the highest standards of business ethics and will be undertaking a review of its supply chain during 2016. The Board is confident that as a result of the Group's management and reporting structure, there are no such issues taking place.

PROMPT PAYMENT CODE

In the UK, the Government launched a voluntary scheme called the Prompt Payment Code (PPC), which was introduced to drive a change in payment culture across the business sector. The PPC requires all signatories to pay 95% of their undisputed invoices to suppliers within a 60 day period.

Since joining the code in April 2015, the Group has made significant changes in its payment processes and is currently paying 100% of all undisputed invoices in the UK within 60 days and exceeding the required terms for the PPC. With new ways of bettering our service being implemented on a regular basis, we will endeavour to maintain this level of efficiency for 2016.

RISK ASSESSMENT SUMMARY FOR THE UK



RENEWABLE ELECTRICITY GENERATION (DIRECT)

Country	Site	Type of Source	Total (kWh) 2015
UK	Buspace Studios	PV	45,300
UK	Chancel House	PV	380
UK	Crosspoint House	PV	7,399
UK	Falcon House	PV	18,605
UK	Kings House	PV	6,120
UK	Spring Mews	PV	26,330
UK	Spring Mews	CHP	30,038

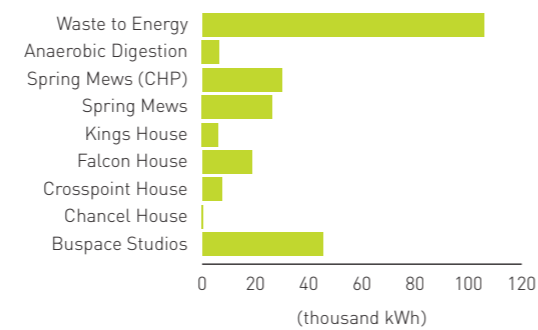
Total direct energy generated 134,172

RENEWABLE ELECTRICITY GENERATION (INDIRECT) (ALL GENERATED OFF-SITE)

Country	Site	Type of Source	Total (kWh) 2015
UK	Anaerobic Digestion	All Sites	6,481
UK	Waste to Energy	All Sites	105,824

Total indirect energy generated 112,305

TOTAL RENEWABLE ELECTRICITY GENERATED IN 2015



OUR TARGETS FOR 2016

KEY PERFORMANCE TARGETS

In order to continue to drive its commitment to sustainability and to the Charter, the Group has set a number of targets:



Corporate

- Introduce a Group-wide energy software platform which will be available for tenants to use
- Install smart metering across all majors assets in the Group by the end of 2016
- Ensure every asset in the UK has an EPC rating no worse than E-rating in 2016
- Set long-term sustainability targets in line with Group strategy and wider country-level carbon roadmaps



Social

- Promote health and well-being across our staff and tenants
- Continue to support CSR events in the community in which we invest
- Carry out an annual Staff Survey to improve our working environment



Environmental

- Reduce carbon emissions and water consumption by 5% year-on-year in the managed like-for-like portfolio
- Divert 100% of waste from landfill in the managed like-for-like portfolio in 2016
- Recycle at least 70% of all UK waste collected from the managed like-for-like portfolio in 2016

SUSTAINABILITY PERFORMANCE TABLE FOR 2015

	Fuel	2015	2014	Percentage (Improvement)/Worsening
UK	Electricity (kWh)	4,477,486	4,928,436	(9.15%)
	Gas (kWh)	5,446,175	5,858,164	(7.03%)
	Energy (kWh)eq	9,923,661	10,786,600	(8.00%)
	Water (m ³)	39,238	43,706	(10.22%)
France	Electricity (kWh)	3,235,349	2,823,697	14.58%
	Gas (kWh)	616,984	577,619	6.82%
	Energy (kWh)eq	3,852,333	3,401,316	13.26%
	Water (m ³)	24,049	18,691	28.67%
Germany	Electricity (kWh)	1,020,862	1,064,211	(4.07%)
	Gas (kWh)	4,016,065	3,570,175	12.49%
	Energy (kWh)eq	5,036,927	4,634,386	8.69%
	Water (m ³)	20,855	21,128	(1.29%)
Sweden	Electricity (kWh)	5,430,615	5,409,638	0.39%
	Gas (kWh)	n/a	n/a	0.00%
	Energy (kWh)eq	5,430,615	5,409,638	0.39%
	Water (m ³)	31,470	31,319	0.48%
CLS Group	Electricity (kWh)	14,164,312	14,225,982	(0.43%)
	Gas (kWh)	10,079,224	10,005,958	0.73%
	Energy (kWh)eq	24,243,536	24,231,940	0.05%
	Water (m ³)	115,612	114,844	0.67%

CORPORATE, SOCIAL & ENVIRONMENTAL RESPONSIBILITY REPORT CONTINUED

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 the year ended 31 December 2015, 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 over the past 24 months 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 using the EPRA Best Practice Recommendations for Sustainability Reporting, and the tables below follow their recommended format.

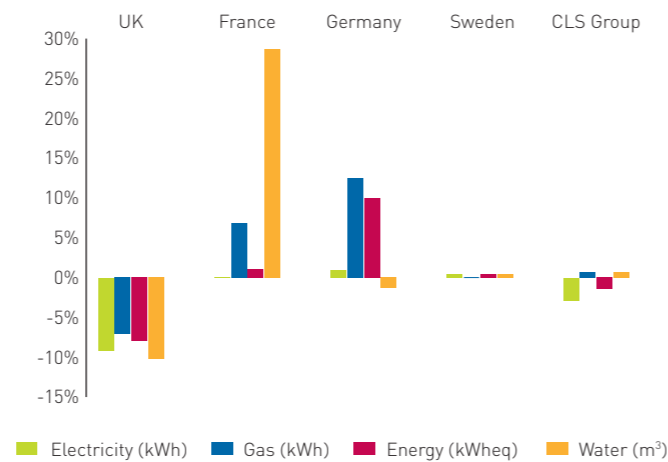
The Group's emissions are largely from the multi-let buildings managed by the Group which have 24 months of usage from January 2014 to December 2015 to be compared on a like-for-like basis. We do not report on properties let on a full repairing and insuring basis or developments.

Each region uses its own agreed calculated measure of floor areas in order to benchmark its energy and carbon emissions.

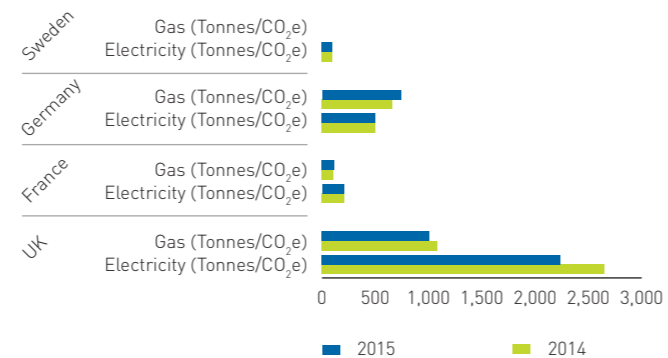
Scope one emissions are mostly attributable to space and water heating using gas; scope two emissions are based on location-based method as defined under the new scope two reporting guidelines and are attributable to cooling and ventilation of office space, water heating, small power and lighting.

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

RENEWABLE FUEL PERFORMANCE FOR 2015 (% change)



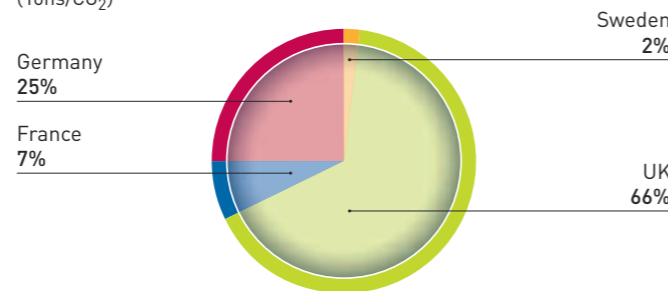
TOTAL EMISSIONS: LIKE-FOR-LIKE PORTFOLIO (CO₂e)



EMISSION PERFORMANCE COMPARISON: LIKE-FOR-LIKE PORTFOLIO

	2014	2015	Year on year (Improvement)/Worsening	% Change in performance	GHG Type
Gas (tonnes/CO ₂ e)	1,851	1,859	8	0.45%	Scope 1
Electricity (tonnes/CO ₂ e)	3,465	3,048	(417)	(12.05)%	Scope 2
CLS total (tonnes/CO₂e)	5,316	4,907	(409)	(7.70)%	Scope 1&2
CLS total (tonnes/CO ₂ e/sqm)	0.0229	0.0203	(0.0025)	(11.04)%	Scope 1&2/sqm

EMISSIONS IN 2015 BY GEOGRAPHY (Tons/CO₂)



SUSTAINABILITY PERFORMANCE: LIKE-FOR-LIKE PORTFOLIO

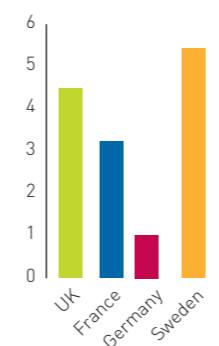
Broad Issue Type	Sustainability Performance Measure	UK HQ	UK	France	Germany	Sweden	Units
Energy	Total energy consumption from electricity [G4-EN3]	95,280	4,477,486	3,235,349	1,020,862	5,430,615	kWh
	Total energy consumption from district heating and cooling [G4-EN3]	n/a	n/a	Under review	Under review	Under review	kWh
	Total energy consumption from fuels [G4: EN3]	0	5,446,175	616,984	4,016,065	0	kWh
Greenhouse gas reporting	Total direct emissions (Scope 1) [G4-EN15]	55	1,005	114	741	0	metric tonnes CO ₂ e
	Total indirect emissions (Scope 2) [G4: EN16]	48	2,240	206	504	97	metric tonnes CO ₂ e
Water	Total water withdrawal by source [G4: EN8]	1,189*	39,238	24,049	20,855	31,470	cubic metres
Waste	Total weight of waste by disposal route [G4: EN23]	8	266	Under review	Under review	32	metric tonnes
	Percentage of waste by disposal route	73% Recycled 16% to Anaerobic Digestion 11% Waste to Energy	48% Recycled 8% to Anaerobic Digestion 44% Waste to Energy	Under review	Under review	Incineration (48%) Recycling (35%) Biological treatment (14%) Hazardous Waste (1%)	Proportion by weight

* Estimate.

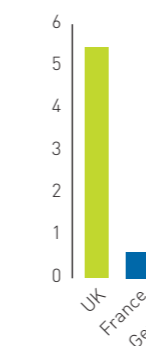
SUSTAINABILITY PERFORMANCE: INTENSITY MEASURES

Broad Issue Type	Sustainability Performance Measure	UK HQ	UK	France	Germany	Sweden	Intensity Indicator
Energy	Building energy intensity [G4-CRE3]	107	195	80	52	118	kWh/m ² /year
Greenhouse gas reporting	Greenhouse gas intensity from building energy [G4-CRE3]	54	64	7	13	2	kg CO ₂ e/ m ² /year
Water	Building water intensity [G4-CRE3]	1.32	0.770	0.502	0.216	0.684	m ³ /m ² / year

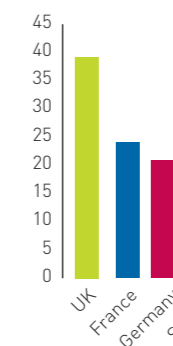
ELECTRICITY IN 2015 (million kWh)



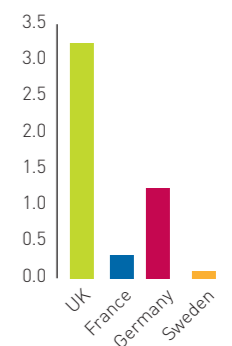
GAS IN 2015 (million kWh)



WATER IN 2015 (thousand m³)



EMISSIONS IN 2015 (thousand tons/CO₂)



DIRECTORS' REPORT

for the year ended 31 December 2015

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2015.

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 66.
- The Group objective, business model, strategy and KPI's are set out on pages 4 and 5.
- Important events affecting the Company are set out on pages 8 to 27.
- The principal risks and uncertainties are set out on pages 28 and 29.
- The use of financial instruments are set out on page 26, and in note 23 to the group financial statements.
- The risk management objectives are also detailed in note 23 to the group financial statements.

DIRECTORS

- Changes to Board composition during 2015 and subsequently are set out on pages 45 to 46.
- Directors remuneration and interest in shares is set out on pages 50 to 57.
- Related party transactions are set out in note 33 to the group financial statements.
- Biographical details of the Executive and Non-Executive Directors at 31 December 2015 are set out below.

Executive Directors

Sten Mortstedt, aged 76, has been Executive Chairman of the Company since its incorporation, and on 8 March 2016 he steps down as Chairman but remains an executive director. 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.

Henry Klotz, aged 71, was appointed Executive Vice Chairman in January 2011, having previously been Chief Executive Officer from May 2008. On 8 March 2016 he becomes Executive Chairman. He joined the Group in 1999 with responsibility for the management of the Swedish operation, and 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 Nasdaq Stockholm, and in which CLS holds an interest in 15.5% of the issued share capital. He is also Non-Executive Chairman of Bulgarian Land Development Plc, in which CLS holds an interest in 48.3% of the issued share capital, and a Non-Executive Director of Note AB, a technology company quoted on Nasdaq Stockholm, in which CLS holds an interest in 8.5% of the issued share capital.

Fredrik Widlund, aged 48, is the Chief Executive Officer and joined the Company in November 2014. His experience includes senior roles in business leadership, property and finance and prior to joining CLS he worked for 15 years at GE Capital including two years as Finance Director and four years as Managing Director of GE Capital Real Estate (UK), Regional CEO for GE's European leasing businesses and finally as Managing Director and Global Commercial Leader at its trade finance business, GE Capital International. Prior to his career with GE, he worked for Shell in London and Sweden. Fredrik has a degree in Economics from the University of Stockholm.

John Whiteley, aged 57, joined the Company in 2009 as Chief Financial Officer. He has over 23 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 Cooper, aged 56, 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 Project Director, Gas Distribution Sales at 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. He is also a non-executive director of Morgan Sindall plc.

Joseph Crawley, aged 56, 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 59, joined the Board in 2014 and is a member of the Audit Committee. She is a qualified Chartered Surveyor with over 30 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 a Past Master of the Worshipful Company of Chartered Surveyors.

Christopher Jarvis, aged 60, 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.

Thomas Lundqvist, aged 71, 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 2009 until 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.

Philip Mortstedt, aged 29, is the son of one of the founders of CLS, Bengt Mortstedt, and was appointed to the Board on 11 May 2015. He established an online media enterprise focused on motorsport, managing professional events for the past decade. He is also involved in the family's hotel and land developments in the Caribbean as well as in equity investments and residential property.

Anna Seeley, aged 44, rejoined the Board on 11 May 2015, and on 8 March 2016 she becomes Non-Executive Vice Chairman. She is a qualified Chartered Surveyor and has worked in the property industry for over 20 years. She has held various positions within the property departments of General Electric and the BT Group and, from 2001 to 2003, was the Company's Group Property Director and Board member. For the last 8 years she has been a director of Skansen Group Limited, a specialist office fit-out and refurbishment company. She holds a degree in property valuation and finance from City University and is the daughter of Sten Mortstedt.

Lennart Sten, aged 56, joined the Board in 2014 and is a member of the Remuneration Committee. 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 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 Nasdaq Stockholm, and of a number of private companies, including Inter IKEA Holding SA.

As explained in the Corporate Governance Report on page 46, all Directors will be subject to annual re-election at the Annual General Meeting in accordance with the UK Corporate Governance Code.

In his role as outgoing Executive Chairman, Sten Mortstedt 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 Mr Mortstedt.

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 2014 as set out in a Circular dated 13 March 2015 for the purchase of 1 in 80 shares at 1,950 pence per share was completed on 1 May 2015. It returned £10.4 million to shareholders, equivalent to 24.4 pence per share.

The interim distribution for 2015 as set out in a Circular dated 21 August 2015 for the purchase of 1 in 162 shares at 2,190 pence per share was completed on 23 September 2015. It returned £5.7 million to shareholders, equivalent to 13.5 pence per share.

A final distribution for 2015 will be put to shareholders in April 2016 for the purchase of 1 in 57 shares at a price of 1,810 pence per share which, if approved, will return a further £13.4 million to shareholders, equivalent to 31.8 pence per share.

PURCHASE OF THE COMPANY'S SHARES

As described above, and under the relevant authority granted at the 2015 Annual General Meeting, during the year the Company made two tender offer purchases totalling 798,480 shares at a cost of £16.1 million. Of these, 536,738 ordinary shares were purchased on 1 May 2015 at 1,950 pence per share and 261,742 shares were purchased on 23 September 2015 at 2,190 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 2016 Annual General Meeting to give the Company authority to make market purchases of up to 4,214,558 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 4,214,558 shares in aggregate.

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

SHARE CAPITAL

Changes in share capital are shown in note 24 to the group financial statements. At 31 December 2015 the Company's issued share capital consisted of 45,028,684 ordinary shares of 25 pence each, of which 2,888,103 shares were held as treasury shares and all of which ranked pari passu.

At the date of this report, 2,883,103 shares were held in treasury and the total number of voting rights in CLS Holdings plc was 42,145,581, 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.

Details of the Directors' interests in shares are shown in the Remuneration Committee Report on page 55.

DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2015

PROPERTY PORTFOLIO

A valuation of all the investment properties and properties held for sale in the Group at 31 December 2015 was carried out by Cushman and Wakefield for the UK (excluding Vauxhall Square) and Germany, Knight Frank for Vauxhall Square, Jones Lang Lasalle for France, and L Fällström AB for Sweden, which produced an aggregate market value of £1,425.4 million (2014: £1,310.1 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 42 to 49 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), including charitable donations, are summarised in the Corporate, Social and Environmental Responsibility Report on pages 30 to 37. No political donations to any parties, organisations or candidates, or political expenditure were made during 2015.

The Group has also published a CSR Report, which is available on line at www.clsholdings.com

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 2015, 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.

2016 ANNUAL GENERAL MEETING

The 2016 Annual General Meeting will be held on Wednesday, 20 April 2016. 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 28 and 29. 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 2 to 27. The financial position of the Group, its liquidity position and borrowing facilities are described in the Strategic Report and in notes 18 and 21 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)	Non pro rata allotments for cash (issuer)	None
9.8.4(8)	Non pro rata allotments for cash (major subsidiaries)	None
9.8.4(9)	Listed company is subsidiary of another company	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 48

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 55
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 48
9.8.6(3)	The going concern statement	Page 40
9.8.6(4)(a)	Amount of authority to purchase own shares available at year end	The Company had the authority to purchase 4,293,906 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 42
9.8.6(6)(b)	Details of non-compliance with the UK Corporate Governance Code	Pages 42 to 49
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 38 and 39

On behalf of the Board

David Fuller BA FCIS
Company Secretary
8 March 2016

CORPORATE GOVERNANCE REPORT

GOVERNANCE IS AN **INTEGRAL** PART OF THE WAY WE MANAGE OUR BUSINESS

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 fit the Group. Your Board recognises that through an effective structure of systems and controls which 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 helps to ensure that the Group succeeds in its business strategy and continues to look to the future with optimism.

As part of our commitment to achieving high standards of corporate governance we strengthened the composition of the Audit and Remuneration committees by the appointment of a third independent non-executive director to each committee, thereby complying with the Code's requirements for FTSE 350 companies.

During the year, Anna Seeley was appointed to the Board as a non-executive director and, from 8 March 2016, to Non-Executive Vice Chairman. As my daughter, she will represent the family's interest in the Group. She is also a Chartered Surveyor with considerable property experience and understands CLS well, having worked for the Group from 2001 to 2003. I am confident that she will make a valuable contribution to Board discussions.

It continues to be my belief that an effective Board should include 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 the Code's requirement in this regard. However, from a governance perspective, I consider the balance between non-executives and "independent" non-executives to have been one of our key strengths and is underlined by the Group's performance since listing in 1994. I thank our long-term shareholders for sharing this view.

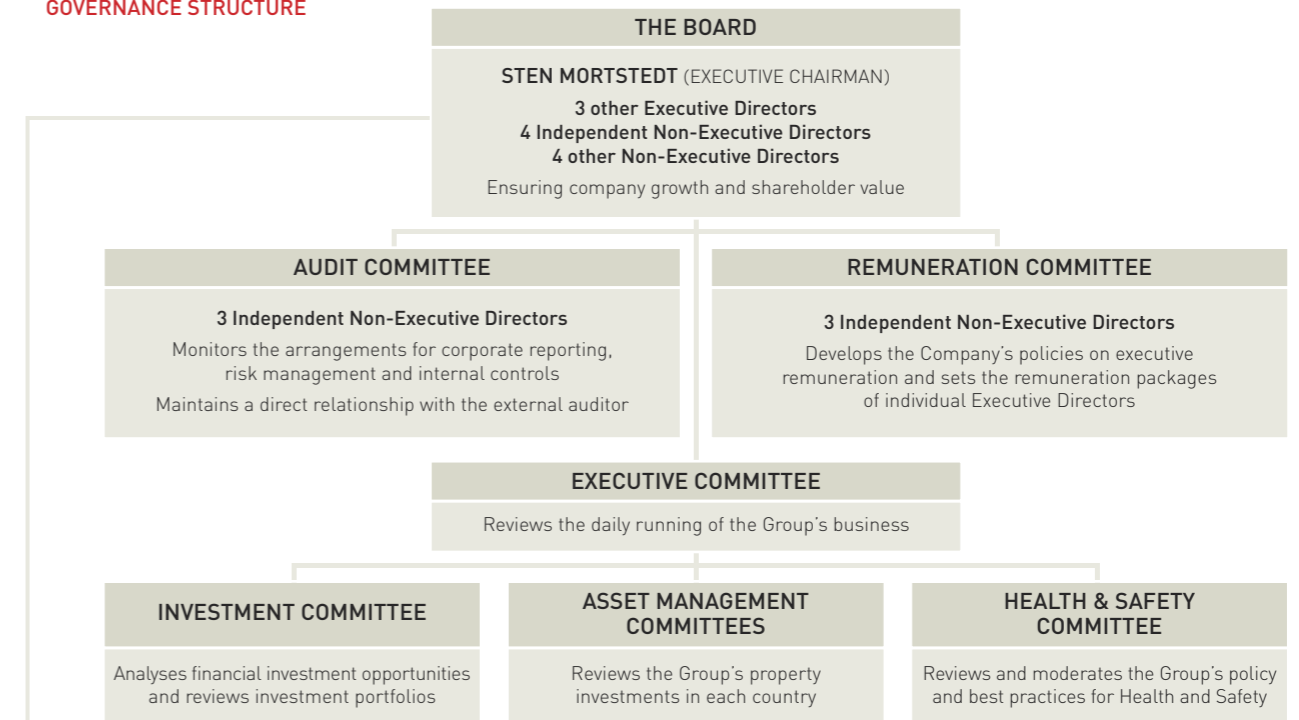
Sten Mortstedt
Executive Chairman

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 2014 (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).

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 2015 it complied with the Main Principles and the supporting principles as set out in Section 1 of the Code.

GOVERNANCE STRUCTURE



LEADERSHIP

The Board, its composition and responsibilities

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 over £5 million. The implementation of Board decisions and the day-to-day operations of the Group are delegated to the Executive Directors.

EXECUTIVE CHAIRMAN	STEN MORTSTEDT HENRY KLOTZ**	Proposing the overall strategy of the Group and ensuring the effective running of the Board
EXECUTIVE VICE CHAIRMAN	HENRY KLOTZ***	Supporting the Executive Chairman with developing Group strategy, and for overseeing the operation of the Group as a whole
NON-EXECUTIVE VICE CHAIRMAN	ANNA SEELEY**	Supporting the Executive Chairman with developing Group strategy and managing the effective running of the Board
CHIEF EXECUTIVE OFFICER	FREDRIK WIDLUND	Implementing Group strategy and for the day-to-day running of the Group
CHIEF FINANCIAL OFFICER	JOHN WHITELEY	Implementing Group strategy in relation to and ensuring compliance with all financial matters
SENIOR INDEPENDENT DIRECTOR	MALCOLM COOPER*	Providing another channel of communication for shareholders who do not wish to approach the Executive Chairman, Executive Vice Chairman or Chief Executive Officer Leads the Non-Executive Directors, and provides feedback to the Executive Chairman on his performance
NON-EXECUTIVE DIRECTORS	JOSEPH CRAWLEY ELIZABETH EDWARDS* CHRISTOPHER JARVIS* THOMAS LUNDQVIST PHILIP MORTSTEDT ANNA SEELEY LENNART STEN*	Providing independent oversight, objectively challenging the Executive Directors in Board discussions and decision-making

* Determined by the Board to be Independent in accordance with Code provision B.1.1.

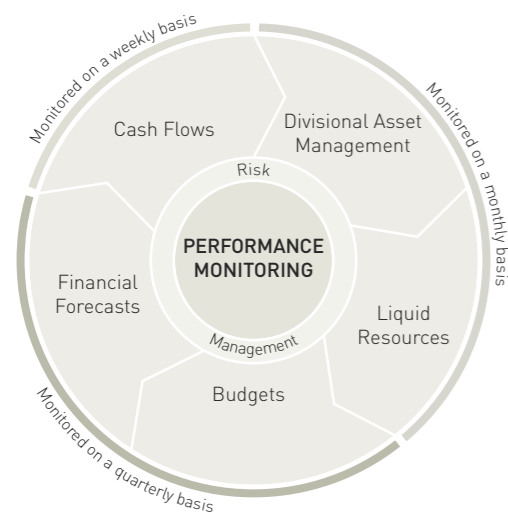
** With effect from 8 March 2016

*** Until 8 March 2016

PRINCIPAL ACTIVITIES OF THE BOARD IN 2015

March	May	August	November
Key Agenda Items			
Approval of the Year End Financial Report and Accounts 2014, April Tender Offer and Notice of AGM	Approval of the Trading Update	Approval of the Half-Yearly Financial Report and September Tender Offer	Approval of 2016 Budget and Forecasts for 2017 to 2019
Approval of Going Concern Statement	Discussion and confirmation of Board changes	Approval of Going Concern Statement	Strategy discussion on Vauxhall Square and Westminster Tower
Reports from: Audit Committee on Full Year report and feedback from auditors Remuneration Committee on Bonus plans	Group Policies update	Report from the Audit Committee on the Half-Yearly report and feedback from auditors	Reports from: Non-Executive Directors' Committee providing feedback on Board Evaluation Audit Committee on the audit planning process and audit matters
Keeping the Board updated through presentations			
UK Valuers Head of Group Treasury on current borrowing market and trends	Group Investment Officer on corporate bond investments and strategy	German Valuers Head of UK Property on strategy for UK assets	French Valuers
Standing Agenda Items			
Executive Reports covering markets, investments, portfolio developments, financing and operational matters			
Corporate Governance, including monitoring of principal risks and uncertainties, internal controls and risk management, Health and Safety and Investor Relations			

Performance Monitoring



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:

Meeting Attendance during the year	Number of meetings
Sten Mortstedt	4/4
Henry Klotz	4/4
Fredrik Widlund	4/4
John Whiteley	4/4
Malcolm Cooper	4/4
Joseph Crawley	4/4
Elizabeth Edwards	4/4
Christopher Jarvis	4/4
Thomas Lundqvist	4/4
Jennica Mortstedt ⁽¹⁾	1/1
Philip Mortstedt ⁽²⁾	3/3
Anna Seeley ⁽²⁾	3/3
Lennart Sten	4/4

(1) Resigned on 11 May 2015
(2) Appointed on 11 May 2015

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 40.

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 are reviewed and approved by the Board each year.

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. From 1 January 2016, the Executive Vice Chairman continued his responsibilities but on a part-time basis. On 8 March 2016 the role of Executive Vice Chairman reverted to a non-executive role and a revised statement was subsequently approved.

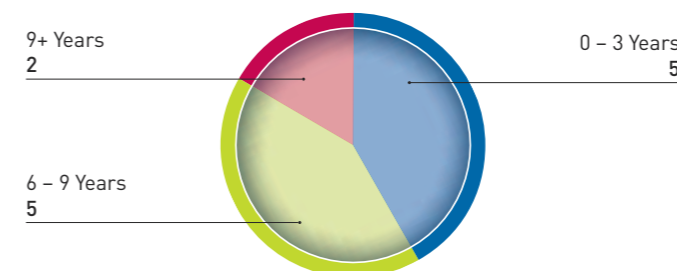
Non-Executive Directors

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 with 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.

As highlighted by this year's board evaluation, 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

Tenure of the Board



The biographies of the Directors can be found on pages **38-39**

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

Independence

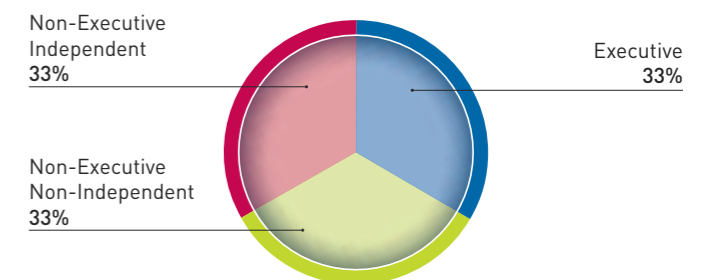
Guidance to the Code recommends that for FTSE 350 companies at least half the Board, excluding the Chairman, should comprise independent non-executive directors.

At the year end, the Board comprised four executive directors, four independent non-executive directors and four other non-executive directors. The Company was not compliant, therefore, with provision B.1.2. However, 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.

In accordance with provision B.2.3, the Board undertook a rigorous review as to whether it considered Malcolm Cooper and Christopher Jarvis 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, and Mr Jarvis's full time role with Jarvis and Partners, together with the amount of time dedicated to their roles as a non-executive director and their contributions to the Board in discussions generally, the Board were satisfied that they maintained the necessary levels of independence in addition to the Code's independence criteria.

In May 2016, Mr Cooper will have served on the Board for more than nine years. In light of provision B.1.1, and for the reasons set out above, the Board determined that he continued to remain independent.

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.

On 11 May 2015, Ms Anna Seeley and Mr Philip Mortstedt were appointed as Non-Executive Directors and Ms Jennica Mortstedt resigned as a Non-Executive Director. Mr Mortstedt replaced Ms Mortstedt as the representative of Mr Bengt Mortstedt, a founding shareholder who continues to have a major interest in the Group. No external consultancy or open adverts were used in the appointments of Ms Seeley or Mr Mortstedt.

As announced on 11 November 2015, from 1 January 2016, Mr Henry Klotz continued his responsibilities but on a part-time basis.

CORPORATE GOVERNANCE REPORT CONTINUED

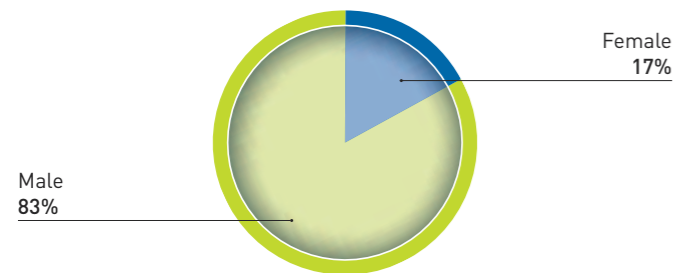
On 8 March 2016, Mr Sten Mortstedt stepped down as Executive Chairman but remained an Executive Director and was replaced by Mr Klotz. The role of Executive Vice Chairman reverted to a non-executive role and to which Ms Seeley was appointed.

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 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. In accordance with its policy on diversity, 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 the Board and its committees were working effectively and that there was a good mix of personalities, skills and experience. The Board would keep under review the need for further development experience. It recognised that the size of the Board, and balance of independence amongst its non-executives, should be considered when making any new appointments. The Directors were pleased with the way in which the Executive Chairman led the Board and had concluded critical strategic decisions. Since the previous evaluation, the Board had improved interaction with those below executive level, and would continue to do more.

The key themes arising from this year's evaluation, which will form an action plan for 2016, are: to continue to review succession planning in respect of employees below Board level; to continue to improve the Board's interaction with all employees; and to continue to hold meetings with only the Non-Executive Directors and the Executive Chairman present.

In addition, the Senior Independent Director discussed with the Executive Chairman 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 2015, 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, amongst other things, detail the return on capital, the 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. 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, we encourage them to meet 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 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. In accordance with the Code's requirements for FTSE 350 companies, all directors must seek re-election by shareholders annually. Accordingly, Ms Anna Seeley and Mr Philip Mortstedt 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 38 and 39.

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 its 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 page

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Risk Management and Internal Control

The Company has internal control and risk management systems in place for its financial reporting process and the preparation of the group accounts. It considers these systems appropriate for the size, diversity and complexity of the Group's operations, and they are monitored, reviewed and recommended by the Audit Committee in the first instance, and then approved 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 systems 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 signing the Annual Report and Accounts.

The Directors recognise that such systems 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 systems of internal control and risk management are monitored are set out below.

Internal Controls

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

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.

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 position and performance, business model and strategy. Following its 2015 review, it recommended the same to the Board.

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 Board meetings. Three-yearly rolling cash flow forecasts 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 8 to 27 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 operates 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 sustainability 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 has set up a rolling programme to review and test the principal areas of internal control risks throughout the Group. The results are reported to the Audit Committee and reviewed by the Board during the year.

In accordance with provision C.2.1, and as supported above, the Directors confirm that they have carried out a robust assessment of the principal risks facing the Group, including those which would threaten its business model, future performance, solvency or liquidity. The Group's principal risks and uncertainties, the areas which they impact and how they are mitigated are described on pages 28 and 29.

Viability Statement

In accordance with provision C.2.2 of the Code, the Board has assessed the prospects of the Group over a longer period than the twelve months that has in practice been the focus of the Going Concern statement.

The Board concluded that the Viability Statement should correspond with the way in which the Group models its forecasts. The Group produces a budget for the current year and forecasts over a further three years reflecting the Group's business model, strategy and risk appetite.

The forecasts provide a comprehensive view of the Group's entire operation, covering:

- cash flows
- financial resources
- long-term funding
- capital expenditure commitments
- administration costs

Cash flow forecasts are updated weekly and circulated to the Board. The budget and three year forecasts are set in November and updated in May and August to take into account foreign exchange movements, changes to the portfolio, interest rate expectations and development cost assumptions and the changes are reviewed by the Board.

As explained in the Audit Committee report, the forecasts are also stress-tested to reflect our principal risks, ensuring the Group has sufficient resources in severe cases, such as a steep property downturn, the loss of key tenants and significant rises in the costs of medium-term funding.

As a result, the Directors can confirm that they have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment.

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 page

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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 who 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.

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 2015 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. Shareholders may also choose to register their vote by electronic proxy on the Company's website.

At the 2016 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 Sten Mortstedt's 50.69% interest referred to in the Directors' Remuneration Report on page 55, as at 8 March 2016 the Company has been notified of the following interests above 3% in the Company's issued share capital:

	No. of shares	%
FIL Limited	3,441,928	8.16%
Bengt Mortstedt	2,785,412	6.61%
F&C Asset Management plc	2,124,509	5.04%
Schroder Investment Management Limited	1,796,075	4.26%

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

In December 2015, the Company was informed that due to an internal reorganisation by Mr Sten Mortstedt of those companies and trusts in which he had a controlling or beneficial interest, three subsidiaries of Victoria Investment Holdings Limited ("VIHL"), the investment vehicle for the Sten Mortstedt Family and Charity Trust, transferred their entire holding in the Company, to certain companies which were directly held and beneficially owned by Mr Mortstedt.

As at 31 December 2015, Sten Mortstedt held 50.69% of the Company's shares in issue, and was therefore seen as a controlling shareholder under the Listing Rules.

In order to continue compliance with the Listing Rule provision 9.2.2AR, the relationship agreement between the Company and VIHL was terminated, and a new agreement was entered into with Mr Mortstedt, as controlling shareholder.

The relationship agreement shall only be terminated in the event that Mr Mortstedt 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 under 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 and, since 14 December 2015, Mr Mortstedt 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 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 FRS101 of 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 Group and of the profit or loss of the Group 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 Group'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 position and performance, business model and strategy.

This statement of responsibilities was approved by the Board on 8 March 2016.

On behalf of the Board

David Fuller BA FCIS
Company Secretary

8 March 2016

REMUNERATION COMMITTEE REPORT

for the year ended 31 December 2015

ANNUAL STATEMENT

Dear Shareholder,

On behalf of the Board, I am pleased to present the 2015 Remuneration Report.

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 2016 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.clsholdings.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 2015 financial year. The annual report on remuneration together with this annual statement is subject to an advisory shareholder vote at the 2016 AGM.

Membership

The Committee welcomes Lennart Sten as a new member. Mr Sten's appointment ensures that the Committee is compliant with the Code's requirements on Remuneration Committees for FTSE 350 companies. The Committee met four times during 2015.

2015 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. Following consultation and subsequent shareholder approval, we introduced the 2012 Performance Incentive Plan (PIP), which operated in respect of the financial years 2012, 2013 and 2014, with the final deferred balance paid in respect of 2015 as the risk of forfeiture lapsed at the end of this year ("Cycle 1 of the PIP").

The Committee agreed that the PIP continues to meet the principle of the Policy and in particular aligns executive remuneration to Company performance. Therefore, in line with the Policy the Committee determined to start a new three year cycle of the PIP, for the financial years 2015, 2016 and 2017, with the final balance payable in respect of 2018 ("Cycle 2 of the PIP").

As a result of the start of Cycle 2 of the PIP, the Committee undertook its annual review of the appropriateness of the Key Performance Indicators (KPIs) and their associated targets.

The Committee concluded that the KPIs continued to represent a broad spectrum of Group performance. However, during this review, we recognised that the Administration Cost Ratio (as % of net rental income) target needed to be realigned such that it remained sufficiently challenging but was attainable. It is the Committee's opinion that the current target would become unattainable given that the Group anticipates wage growth (below executive director level) to be in excess of inflation and a reduction in net rental income caused by portfolio sales and redevelopments. We noted that in the property sector,

London continues to offer wage growth in excess of the national average and we need to ensure our remuneration structures are aligned with our industry in order to attract, retain and motivate our staff. As a result, the target has been amended as set out in the "At a glance" section below.

As outlined in the Strategic Report, the Committee determined that all of the KPIs had been met and that the make-up of the 2015 award accurately reflected the performance of the Group through an 81% of maximum contribution to Mr Widlund's 2015 PIP plan account. As set out in last year's report, meeting the KPI targets will also trigger the release of a further 5,000 shares as part of Mr Widlund's appointment as Group Chief Executive Officer. There remains 5,000 shares capable of vesting next year, subject to meeting the revised PIP KPIs.

Mr Klotz became part-time Executive Vice Chairman from 1 January 2016 and Executive Chairman from 8 March 2016. The Committee agreed that he would cease to be a participant of the PIP from 1 January 2016 and, therefore, would not accrue bonuses from that date. The Committee agreed that Mr Klotz be treated as a Good Leaver and should receive his 2015 Award and the final deferred balance from Cycle 1 of the PIP in full.

Operation of Remuneration Policy for 2016

The Committee monitors senior executive remuneration to ensure 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 continues to review the possible implementation of a Long-Term Incentive Plan for the Executive Directors and senior management, together with an all employee share scheme, and aims to have decided its position in time for the next Policy vote.

Executive salaries increased by the Group average rate of 3.0% on 1 January 2016. Following Mr Klotz's move to part time duties, Mr Widlund responsibilities in relation to Sweden were widened and therefore he was awarded a 5% increase.

In conclusion

We have provided an "At a glance" summary of 2015 remuneration and performance immediately after this statement, which highlights how we have operated our Policy in the year and also how we propose to operate the Policy in 2016.

Christopher Jarvis

Chairman
Remuneration Committee

Committee members attendance during the year ended 31 December 2015		Remuneration Committee regular attendees for part (by invitation)	
Chris Jarvis (Chairman)	4/4	Marcus Peaker	PwC
Malcolm Cooper	4/4	Fredrik Widlund	Chief Executive Officer
Lennart Sten (appointed to the Committee 25 November 2015)	n/a	David Fuller	Company Secretary and Secretary to the 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 20 April 2016. 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.clsholdings.com and on pages 48 to 56 of our 2013 Annual Report.

For ease of reference, in this section we summarise the key components of remuneration, and highlight the performance and remuneration outcomes for 2015 and how the policy will be implemented for 2016.

Element	Operation and Maximum Potential Value					
Base Salary	Annual review, which has resulted in the following salaries for the directors and non-executive directors for 2016:					
	Name	2015 Salary	2016 Salary to 7 March 2016	2016 Salary from 8 March 2016	%age Change	
	Sten Mortstedt	£358,750	£369,600	£300,000	-16%	
	Henry Klotz	£333,125	£99,937	£200,000	-40%	
	Fredrik Widlund	£310,000	£325,000	£325,000	5%	
	John Whiteley	£256,250	£264,000	£264,000	3%	
Fees		2015 Salary	2016 Salary		%age Change	
	Board Fee	£22,500	£27,500		22%	
	Senior Independent Director	£5,000	£5,000		0%	
	Committee Chairman	£8,000	£8,000		0%	
	Committee Membership	£5,000	£5,000		0%	
Benefits	No change					
Performance Incentive Plan ("PIP")	No change					
	For 2016 the following KPI Targets were reassessed:					
	Administration cost ratio					
	KPI	Maximum forfeiture	Bonus/forfeiture threshold	On target performance	Good performance	Maximum performance
	Old Target	20%	18%	16%	14%	12%
	New Target	21.75%	19.75%	17.75%	15.75%	13.75%
	All other performance conditions and targets remain the same for 2016					
Pension	No change					

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2015

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.

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 ('KPIs'). 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	2015 Achievement
1. Total Shareholder Return growth	5%	7%	12%	14%	16%	20.7%
2. Effective management of balance sheet (ROE)	5%	7%	12%	16%	20%	19.3%
3. Vacancy rate	10%	8%	5%	4%	3%	3.1%
4. Administration cost ratio (as % of Net Rental)	20%	18%	16%	14%	12%	15.9%
5. Personal performance rating	2	2.5	4	4.5	5	n/a*
6. EPRA NAV growth	0%	5%	7.5%	8.75%	10%	17.4%
7. NAV growth	0%	5%	7.5%	8.75%	10%	19.0%
8. Core profit over budget	-10%	-5%	0%	5%	10%	-2.5%

* Personal performance is a grading of the Executive Director by the Remuneration Committee in a range of 1-5 with 5 being the highest rating

KPI	Performance Breakdown		
	EVC £	CEO £	CFO £
1. Total Shareholder Return growth	99,938	93,000	51,250
2. Effective management of balance sheet (ROE)	32,144	29,913	24,726
3. Vacancy rate	82,282	76,570	12,684
4. Administration cost ratio (as % of Net Rental)	66,037	61,453	50,798
5. Personal performance rating	46,971	40,920	22,038
6. EPRA NAV growth	33,313	31,000	19,219
7. NAV growth	33,313	31,000	19,219
8. Core profit over budget	13,815	12,857	6,376
2015 Total Bonus	407,813	376,713	206,310
Bonus as a % of Salary	122.4%	121.5%	80.5%
Bonus Achieved as a % of Total Available Bonus	81.6%	81.0%	80.5%

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

ANNUAL REPORT ON REMUNERATION

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 2016 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"> • discovery of a material misstatement resulting in an adjustment in the audited consolidated accounts of the Company; • the assessment of any performance target or condition where an award was based on error, or inaccurate or misleading information; • 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; • action or conduct of an award holder which, in the reasonable opinion of the Board, amounts to employee misbehaviour, fraud or gross misconduct; • events or behaviour of an award holder which 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. <p>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.</p>

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

The Committee introduced a minimum shareholding requirement of 100% of salary for the CEO and 75% of salary for the CFO. The Committee has stated in this Report that it 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 its design.

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2015

For the year ended 31 December 2015, 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 2015 financial year for each Executive Director:

	Salary £000		Taxable Benefits £000		Bonus ⁽⁴⁾ £000		LTIP ⁽⁵⁾ £000		Pension £000		Other Fees £000		Total £000	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Sten Mortstedt ⁽¹⁾	359	350	-	-	-	-	-	-	-	-	425	400	784	750
Henry Klotz ⁽²⁾	333	325	12	10	408	217	452	158	3	1	-	-	1,208	711
Fredrik Widlund ⁽³⁾	326	52	4	1	269	291	40	-	16	5	-	-	656	349
John Whiteley	256	250	7	7	103	110	243	92	26	25	-	-	635	484

- (1) Companies 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 £15,517 (2014: £17,702) in respect of his role as Non-Executive Chairman of Catena AB and £7,758 (2014: £8,851) as Non-Executive Director of Note AB
- (3) Mr Widlund received total pension contributions of £31,000 (2014: £5,166) of which half was paid into his SIPP and half was paid as salary
- (4) The Bonus total includes 50% of the contribution into the Director's Plan Account for Cycle 2 of the PIP (see below for details of calculation) and, for Mr Widlund, £80,987.50 following the release of 5,000 shares pursuant to his recruitment remuneration (2014: £257,232 following release of 15,000 shares pursuant to recruitment remuneration), based on the middle market share price on 8 March 2016 of 1,617.75 pence
- (5) The LTIP (other than for Mr Widlund) is solely the payment of the final balance of Cycle 1 of the PIP as the risk of forfeiture lapsed at the end of 2015. The value of the notional shares has been based on the average market value of a share for the 30 day period to 31 December 2015 of 1,810 pence in accordance with the Regulations. The actual date of payment is 24 March 2016

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2015

ANNUAL REPORT ON REMUNERATION (CONTINUED)

ADDITIONAL REQUIREMENTS IN RESPECT OF THE SINGLE TOTAL FIGURE TABLE (AUDITED INFORMATION) 2015 PAYMENTS IN RESPECT OF THE PIP

Cycle 1

The following table sets out the calculation of the final payment of the deferred balance from Cycle 1 of the PIP which is disclosed in the LTIP column of the Single Total Figure of Remuneration as the risk of forfeiture lapsed in respect of 2015 (this qualifies the payment as an LTIP under the Regulations):

Plan Accounts	Henry Klotz	John Whiteley	Fredrik Widlund
Opening balance of Deferred Notional Shares	24,985	13,435	2,228
Value of opening balance of Deferred Notional Shares at Measurement Date ⁽¹⁾	£452,303	£243,214	£40,333
2015 Payment	£(452,303)	£(243,214)	£(40,333)
Value of closing balance of Deferred Notional Shares	-	-	-
Closing balance of Deferred Notional Shares	-	-	-

(1) The value of the notional shares has been based on the average market value of a share for the 30 day period to 31 December 2015 of 1,810.3 pence in accordance with the Regulations. The actual date of payment is 24 March 2016

Cycle 2

The following table sets out the calculation of the first payment under Cycle 2 of the PIP which is disclosed in the Bonus column of the Single Total Figure of Remuneration as the performance conditions are satisfied in respect of 2015:

Plan Accounts	Henry Klotz	John Whiteley	Fredrik Widlund
Opening balance of Deferred Notional Shares	-	-	-
Value of opening balance of Deferred Notional Shares at Measurement Date	-	-	-
2015 Contribution ⁽¹⁾	£407,813	£206,310	£376,713
2015 Payment	£(407,813)	£(103,155)	£(188,356)
Value of closing balance of Deferred Notional Shares ⁽²⁾	-	£103,155	£188,357
Closing balance of Deferred Notional Shares ⁽³⁾	-	5,698	10,404

(1) The 2015 bonus performance conditions and their level of satisfaction are set out on page 48 in the "At a glance" section of the Report
(2) Henry Klotz received his 2015 Award in full as explained on page 50
(3) 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 2015, which was 1,810.3 pence per share

In the context of the operation of the PIP, Deferred Notional Shares are a mechanism that allows the deferred cash element of the award to be linked to the share price. The Committee confirms that there is no intention of issuing shares, or deferred shares, and therefore it does not constitute a share-based payment. There are no other members of the PIP other than those set out above.

The following table sets out the 2015 Company contribution for each of the participants:

	Henry Klotz	John Whiteley	Fredrik Widlund
Salary	£333,125	£256,250	£310,000
Maximum Company Contribution	£499,688	£256,250	£465,000
2015 Company Contribution	£407,813	£206,310	£376,713
Percentage of Maximum Contribution earned	81.6%	80.5%	81.0%

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 (2014: two). Participants are required to contribute 5% of basic UK salary (2014: 5%), which is matched by a contribution from the Company of 10% (2014: 10%). 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 a salary supplement. 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.

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 2015:

	Fee £000		Other Board Fees £000		Additional Fees £000		Total £000	
	2015	2014	2015	2014	2015	2014	2015	2014
Malcolm Cooper ⁽¹⁾	23	23	18	18	-	-	41	41
Joseph Crawley	23	23	-	-	-	-	23	23
Elizabeth Edwards ⁽²⁾	23	14	1	-	-	-	24	14
Christopher Jarvis ⁽³⁾	23	23	13	13	-	-	36	36
Thomas Lundqvist ⁽⁴⁾	23	23	-	-	6	13	29	36
Jennica Mortstedt ⁽⁵⁾	8	23	-	-	-	-	8	23
Philip Mortstedt ⁽⁶⁾	14	-	-	-	-	-	14	-
Anna Seeley ⁽⁶⁾	14	-	-	-	-	-	14	-
Lennart Sten ⁽⁷⁾	23	9	1	-	-	-	24	9

(1) Mr Cooper received the following fees: Board membership £22,500; Senior Independent Director £5,000; Audit Committee Chairmanship £8,000; and Remuneration Committee membership £5,000
(2) Ms Edwards received the following fees: Board membership £22,500; and pro rata Audit Committee membership £436
(3) Mr Jarvis received the following fees: Board membership £22,500; Remuneration Committee Chairmanship £8,000; and Audit Committee membership £5,000
(4) Mr Lundqvist received £6,375 in respect of certain finance-related matters and, at the Remuneration Committee's request, liaising with the Sten Mortstedt family and charity investment company on executive remuneration issues
(5) Left the Board on 11 May 2015
(6) Joined the Board on 11 May 2015
(7) Mr Sten received the following fees: Board membership £22,500; and pro rata Remuneration Committee membership £436

Payments to Past Directors

There were no payments to past directors of the Company during the year, whether for loss of office or otherwise.

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 Deferred Notional Shares	Awards	Total
Sten Mortstedt ⁽¹⁾	21,361,193	-	-	21,361,193
Henry Klotz	55,763	-	-	55,763
Fredrik Widlund	16,589	10,404	5,000 ⁽³⁾	31,993
John Whiteley	14,000	5,698	-	19,698
Malcolm Cooper	4,124	-	-	4,124
Joseph Crawley ⁽²⁾	236,298	-	-	236,298
Elizabeth Edwards	-	-	-	-
Christopher Jarvis	4,844	-	-	4,844
Thomas Lundqvist	79,251	-	-	79,251
Philip Mortstedt	1,566	-	-	1,566
Anna Seeley	-	-	-	-
Lennart Sten	2,953	-	-	2,953

(1) Sten Mortstedt's interest in shares is held in certain companies which are directly held and beneficially owned by Sten Mortstedt
(2) Joseph Crawley's interest in shares is as a result of his wife being a beneficiary of a trust in which the shares are held
(3) Release of second tranche of recruitment remuneration award

As explained above, the conditional PIP Deferred 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 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, excluding Conditional PIP Deferred Notional Shares, represented the following percentages of salary:

Henry Klotz: 306% (2014: 336%)

Fredrik Widlund: 120% (2014: 0%)

John Whiteley: 100% (2014: 84%)

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

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2015

ANNUAL REPORT ON REMUNERATION (CONTINUED)

Share Options

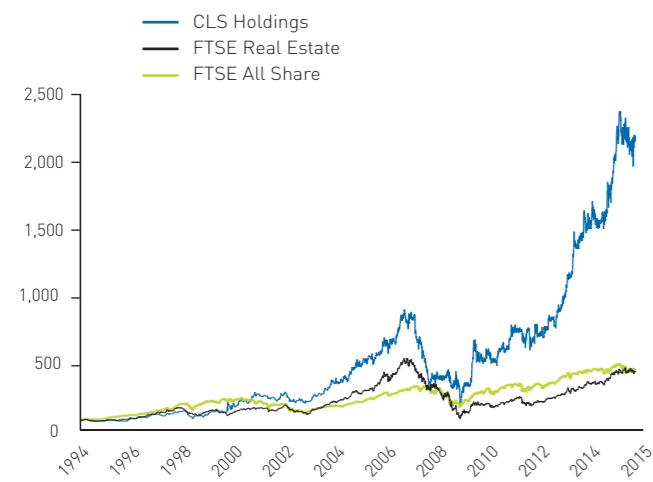
There were no share plans in operation or options outstanding at the year end.

The highest mid-market share price in the year was 2,009.5 pence, the lowest 1,442.5 pence, and the average was 1,791.7 pence. The closing share price on 31 December 2015 was 1,825.5 pence.

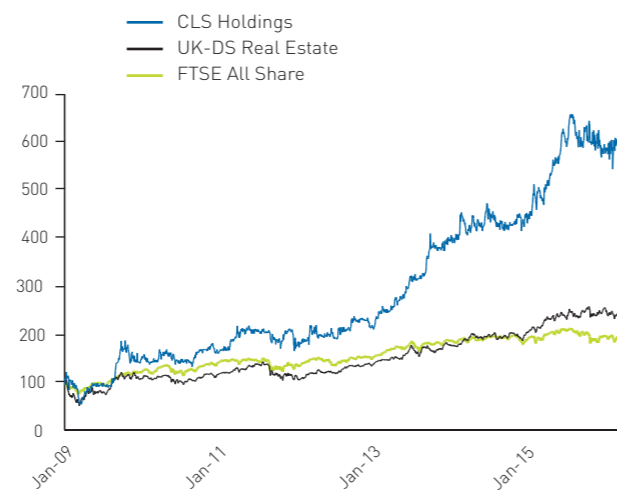
Total Returns to Shareholders 1994-2015

The Company's TSR performance since it was listed on the London Stock Exchange is set out below, 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. In addition, to comply with the Regulations the same information has been provided for the period 2009-2015.

TOTAL RETURNS TO SHAREHOLDERS 1994-2015
(100 = 1994)



TOTAL RETURN TO SHAREHOLDERS 2009-2015
(100 = 2009)



Total Remuneration for the Chief Executive Officer

	2015	2014	2013	2012	2011	2010	2009
CEO's total single figure (£000)	656	349	712	352	417	481	452
Bonus awarded as % of maximum	81.0%	89.0%	86.5%	83.5%	81.7%	100%	100%

The Company has not operated an LTIP over this period and therefore no awards were capable of vesting.

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 2014 and 2015 compares with the percentage change in the average of each of those components of pay for employees.

	Salary			Taxable Benefits			Bonus		
	2015 £000	2014 £000	Percentage Increase	2015 £000	2014 £000	Percentage Increase	2015 £000	2014 £000	Percentage Increase
CEO ⁽¹⁾	310	310	5.2%	4	4	nil	269	291	(35.4%)
All Employees	4,488	4,375	2.6%	162	167	(3.1%)	1,722	1,775	(3.0%)

(1) Annualised in 2014

The Group's pay review taking effect from 1 January 2015 awarded average percentage increases in wages and salaries of 3.0%. The nature and level of benefits to employees in the year ended 31 December 2015 was broadly similar to those of the previous year.

Relative importance of spend on pay

	2015 £000	2014 £000	% Change
Remuneration paid to all employees of the Group	9,376	8,900	5.3%
Distributions to shareholders	19,115	15,912	20.1%
Group revenue ⁽¹⁾	118,900	99,600	19.4%

(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

See "At a glance" section set out on page 51.

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.

DIRECTORS' CONTRACTS

Name		Contract Date	Notice Period
Sten Mortstedt	Executive	1 January 2005	12 months
Henry Klotz	Executive	10 November 2015	6 months
Fredrik Widlund	Executive	3 November 2014	12 months
John Whiteley	Executive	1 October 2009	6 months
Malcolm Cooper	Non-Executive	15 June 2007	3 months
Joseph Crawley	Non-Executive	25 November 2008	3 months
Elizabeth Edwards	Non-Executive	13 May 2014	3 months
Christopher Jarvis	Non-Executive	25 November 2008	3 months
Thomas Lundqvist	Non-Executive	1 October 1995	3 months
Philip Mortstedt	Non-Executive	11 May 2015	3 months
Anna Seeley	Non-Executive	11 May 2015	3 months
Lennart Sten	Non-Executive	1 August 2014	3 months
Jennica Mortstedt ⁽¹⁾	Non-Executive	11 May 2010	3 months

(1) Ms Mortstedt resigned from the Board on 11 May 2015

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 £40,800 (2014: £10,800). 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 and 2015 Annual General Meetings:

	Directors' Remuneration Policy (from 16 April 2014 AGM)		Directors Remuneration Report (from 15 April 2015 AGM)	
	Number of votes	% of votes cast	Number of votes	% of votes cast
In Favour	32,260,368	82.4	31,514,704	89.7
Against	6,900,471	17.6	3,612,405	10.3
Total votes cast	39,160,839		35,127,109	
Votes withheld	194,020		41,430	

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 noted these comments from 2014. Since then the old share option schemes have lapsed and executive remuneration increases in 2015 and for 2016 are broadly in line with the wider employee population.

On behalf of the Board

Christopher Jarvis

Chairman
Remuneration Committee

8 March 2016

AUDIT COMMITTEE REPORT

REPORT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

Dear Shareholder

The Audit Committee reviews and reports to the Board on financial reporting, including the valuation assumptions for the property portfolio, internal control and risk management. It also reviews the performance, independence, effectiveness and annual remuneration of the external auditor.

Committee Membership

The Committee welcomes Elizabeth Edwards as a new member. Ms Edwards's appointment ensures that the Committee is compliant with the Code's requirements on Audit Committees for FTSE 350 companies. All members of the Committee are considered to be independent under the Code Guidance. For the purposes of the Code, Mr Cooper, Ms Edwards and Mr Jarvis are regarded as having recent and relevant accounting and financial experience.

The Chief Executive Officer, 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.

The Committee's terms of reference are available on the Company's website at www.clsholdings.com

For Board biographies see pages

→ 38-39

Committee members attendance during the year ended 31 December 2015	
Malcolm Cooper (Chairman)	3/3
Chris Jarvis	3/3
Elizabeth Edwards (appointed to Audit Committee 25 November 2015)	n/a
Audit Committee regular attendees for part (by invitation)	
Mark Beddy	Deloitte LLP, independent external auditor
Fredrik Widlund	Chief Executive Officer
John Whiteley	Chief Financial Officer
David Fuller	Company Secretary and Secretary to the Audit Committee
Cushman & Wakefield	Independent external valuers (UK and Germany)
Knight Frank	Independent external valuers (Vauxhall Square)
Jones Lang LaSalle	Independent external valuers (France)

OUR PRINCIPAL ACTIVITIES IN 2015

March	August	November
Review of year end results	Review of half-year results	Audit planning meeting
Meeting the UK Valuers	Meeting the German Valuers	Meeting the French Valuers
Review of: <ul style="list-style-type: none"> Property valuations Significant accounting, reporting and judgemental matters including going concern Principal risks Monitoring of internal controls and risk management Reappointment of auditor at AGM Fair, balanced and understandable 	Review of: <ul style="list-style-type: none"> Property valuations Significant accounting, reporting and judgemental matters including going concern Code requirements Principal risks Monitoring of internal controls and risk management 	Review of: <ul style="list-style-type: none"> Principal risks Monitoring of internal controls and risk management KPIs Internal audit function Committee performance Terms of reference Whistleblowing Non-audit fees
Receive Auditor's Report	Receive Auditor's Report	Receive Auditor's planning report, review the year end audit scope and materiality, and agree 2015 audit fee

Significant issues considered by the Committee	How they were addressed
Property Valuations	The Committee met with the Group's UK valuers, Cushman and Wakefield and Knight Frank, to which it invited the whole Board, and discussed the methodology used for the bi-annual valuations of the Group's UK properties and developments. It received 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 was satisfied with the explanations in relation to the portfolio and its associated key risks, such as specific local market updates, vacancy levels and rental demand, which management were addressing.
Accounting for other financial investments	The Committee reviewed how management accounted for its other financial investments, principally in corporate bonds and in Catena AB. The Committee agreed with the value of these investments.
Revenue Recognition	The Committee considered the appropriateness of the recognition of tenant incentives ensuring that these were appropriately spread over the lease term and of the accounting for material surrender premiums that had been received. The Committee was satisfied that there was sufficient management oversight and that revenue had been appropriately accounted for.
Management Override of Controls	The Committee assessed the framework for financial controls to be regularly reviewed by management and brought to the Committee for review. The external auditor confirmed to the Committee that there were defined lines of reporting and control processes in place within the Group.

KEY AREAS DISCUSSED AND REVIEWED BY THE COMMITTEE

External Audit Process

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 from 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 this Annual Report and Accounts in order to receive his report on the external audit process. The Committee is 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 concluded 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 Committee discussed with management and subsequently agreed the statutory audit fee and the scope of the statutory audit.

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 Business, Innovation and Skills and the Financial Reporting Council. In compliance with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, the Committee intends to undertake a competitive tender process for the financial year ending 2017 so as to ensure auditor independence, continued quality of judgement, and the most efficient use of shareholder funds.

Viability Statement

The Committee discussed how best to assess the Group's prospects over a term which was considered appropriate. It was decided that the statement should correspond with the way in which the Group models its forecasts, being the current year plus a further three years. Further details are contained in the Corporate Governance Report on pages 47 and 48.

AUDIT COMMITTEE REPORT CONTINUED

Principal Risks

The Committee introduced a standing discussion item in relation to monitoring and reviewing the Group's principal business risks, challenging management on their appropriateness and how they were to be mitigated, details of which can be found on pages 28 and 29.

Internal Control and Risk Management

The Committee introduced a further standing discussion item in relation to monitoring and reviewing the Group's internal controls and risk management systems, with a continuous control testing and reporting programme throughout the organisation. Further details are contained in the Corporate Governance Report on page 47.

Going Concern

Whilst a matter for the whole Board (see page 40), the Committee reviews the Group's financial forecasts, debt maturity forecasts and associated sensitivity analysis. With supporting reviews from the external auditor, and a recommendation from management, the Committee concluded that the going concern risk was low and, following agreement from the Board, it was removed from the list of principal risks and uncertainties.

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 350.

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. This ongoing review has not highlighted any matters of concern.

Non-Audit Fees

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 in June 2016 and the Committee will review 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 non-audit services provided by the Company's auditor during the year were £95,500 (2014: £14,300)

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

As set out above, the Committee considers that it has complied with the provision of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Anti-Bribery and Whistleblowing

The Company has implemented an anti-bribery policy and provided training for all staff. An additional annual compliance check is undertaken for all staff. The Committee reviewed as being appropriate the Whistleblowing Policy, under which employees may report suspicion of fraud, financial irregularity or other malpractice. No reports of any such matters were received during the year.

On behalf of the Board

Malcolm Cooper
Chairman
Audit Committee

8 March 2016

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 2015 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, including Financial Reporting Standard 101 Reduced Disclosure Framework; 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 statement of changes in equity, the group statement of cash flows, the related notes to the group financial statements 1 to 33, the parent Company balance sheet and the related notes 1 to 15. 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 Generally Accepted Accounting Practice, including Financial Reporting Standard 101 Reduced Disclosure Framework.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the Directors' Report.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 40 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 28 and 29 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- the Director's explanation on page 40 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. 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.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

**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
<p>The assessment of the carrying value of the investment property portfolio, specifically the process, assumptions and judgements used to derive the property valuations.</p> <p><i>Investment properties are held at £1,366.8m at 31 December 2015, see Note 13 for full disclosure, making this the most quantitatively material balance in the financial statements.</i></p> <p><i>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 of which the most significant is Vauxhall Square.</i></p> <p><i>The key judgements made are those relating to rental values, occupancy rates, yields and the assessment of development and completion milestones.</i></p>	<p>We assessed management's process for reviewing the valuations of the property portfolio.</p> <p>We obtained the external valuation reports and met with the external valuers of the property portfolio to discuss, understand and challenge the valuation process, performance of the portfolio, significant assumptions and critical judgement areas, including estimated rental values, occupancy rates, yields and development milestones. For the judgements made on the valuation of Vauxhall Square, we engaged a real estate specialist and chartered surveyor to identify the key judgements and paid particular attention to the costs of construction and contingencies.</p> <p>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 Cushman & Wakefield as valuers of the German assets.</p> <p>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.</p> <p>Finally, we performed audit procedures to assess the integrity of information provided to the valuer to ensure that it was consistent with the leases.</p> <p>Our work on the valuation of the investment property portfolio was led by the Group audit team, supplemented by specific procedures by component auditors.</p>
<p>Accounting for the Group's other investments.</p> <p><i>At 31 December 2015, the Group held £116.5m (2014 – £96.6m) of listed investments. The listed investments are traded in an active market and therefore the focus of the risk is on the completeness and accuracy of transactions in those investments and the risk of impairment</i></p>	<p>We have obtained and challenged management's workings for the investments held by the Group and disclosed in the financial statements.</p> <p>We tested the acquisitions and disposals of the investments by confirming the details to transaction agreements on a sample basis.</p> <p>For listed investments, we agreed the carrying value to third party market data on a sample basis and challenged whether, in the case of listed bonds, there had been any impairment by reference to external credit information.</p>

The only change relating to the risks identified above is that last year our risk in relation to investments also covered material unlisted investments, specifically First Camp and BLD. As First Camp is now a subsidiary and the investment in BLD is fully impaired there remain no material balances in relation to unlisted investments and the risk has changed accordingly.

The description of risks above should be read in conjunction with the significant issues considered by the Audit Committee as set out on page 59 and the critical accounting judgements as presented in note 3 of these financial statements.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these 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 £15.4 million (2014: £13.5 million), 2% (2014: below 2%) of net assets. As an investment property company, the main focus of management is to generate long-term capital value from the investment property portfolio and, therefore, we consider net assets to be the most appropriate basis for materiality. 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 £63.2 million.

In addition to net assets, we consider EPRA adjusted profit before tax to be a critical performance measure for the Group and we applied a lower materiality of £2.2 million (2014: £2.1 million), which is 5% (2014: less than 5%) of EPRA adjusted profit 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, investments and complex financial instruments.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £307,000 (2014: £269,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report 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, and consistent with our conclusion on scoping in the prior year, we focused our Group audit scope primarily on the audit work at each key location, being the UK, France, Germany and Sweden. All locations continue to be subject to a full audit. These locations represent the principal business units and account for 100% (2014: 96.7%) of the Group's net assets, and 100% (2014: 100%) of revenue and profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

Our audit work at each of the four locations has been executed by Deloitte component auditors at levels of materiality applicable to each individual entity which were lower than Group materiality and ranged from £10.8 million to £6.1 million (2014: £8.8 million to £5.4 million) with lower materialities being used for those items impacting EPRA adjusted profit before tax, consistent with the Group audit approach.

The audit work on the key audit risks above has been led by the Group audit team, supplemented by specific procedures by the component auditors. 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.

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.

All component audit partners are included in our team briefing where their risk assessment is discussed and there is frequent two-way communication between the Group and component teams. This, together with the Group team having responsibility for the significant audit risks, has meant it has not been necessary for a member of the Group team to visit the component locations.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Remuneration Committee 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.

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

Matters on which we are required to report by exception	
<i>Adequacy of explanations received and accounting records</i>	<p>Under the Companies Act 2006 we are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> • 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. <p>We have nothing to report in respect of these matters.</p>
<i>Directors' remuneration</i>	<p>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 Remuneration Committee Report to be audited is not in agreement with the accounting records and returns.</p> <p>We have nothing to report arising from these matters.</p>
<i>Corporate Governance Statement</i>	<p>Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.</p> <p>We have nothing to report arising from our review.</p>
<i>Our duty to read other information in the Annual Report</i>	<p>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:</p> <ul style="list-style-type: none"> • 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. <p>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.</p>
Respective responsibilities of directors and auditor	<p>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). 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.</p> <p>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.</p>

Scope of the audit of the financial statements	<p>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.</p>
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**Mark Beddy FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP**
Chartered Accountants and Statutory Auditor
London, United Kingdom
8 March 2016

GROUP INCOME STATEMENT

for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Continuing operations			
Group revenue		118.9	99.6
Net rental income	4	99.0	82.2
Administration expenses		(19.5)	(13.6)
Other expenses		(13.8)	(4.9)
Group revenue less costs		65.7	63.7
Net movements on revaluation of investment properties	13	98.0	186.0
Profit on sale of investment properties		4.3	8.7
Gain on sale of corporate bonds		0.7	-
Fair value gain on reclassification of an associate as a subsidiary		-	0.2
Gain arising from acquisition		-	1.2
Operating profit		168.7	259.8
Finance income	8	10.0	7.7
Finance costs	9	(27.5)	(28.1)
Share of loss of associates after tax	15	-	(2.6)
Profit before tax		151.2	236.8
Taxation	10	(19.1)	(42.0)
Profit for the year	6	132.1	194.8
Attributable to:			
Owners of the Company		129.9	194.9
Non-controlling interests		2.2	(0.1)
		132.1	194.8
Earnings per share from continuing operations (expressed in pence per share)			
Basic	11	305.7	449.0

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Profit for the year		132.1	194.8
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Foreign exchange differences		(8.7)	(14.7)
Items that may be reclassified to profit or loss			
Fair value (losses)/gains on corporate bonds and other financial investments	16	(0.2)	3.2
Fair value losses taken to net gain on sale of corporate bonds and other financial investments	16	-	0.2
Revaluation of property, plant and equipment	14	2.9	6.5
Deferred tax on net fair value losses/(gains)	20	0.5	(1.3)
Total items that may be reclassified to profit or loss		3.2	8.6
Total comprehensive income for the year		126.6	188.7
Total comprehensive income attributable to:			
Owners of the Company		126.0	187.5
Non-controlling interests		0.6	1.2
		126.6	188.7

The notes on pages 70 to 96 are an integral part of these group financial statements.

GROUP BALANCE SHEET

at 31 December 2015

	Notes	2015 £m	2014 £m
Non-current assets			
Investment properties	13	1,366.8	1,310.1
Property, plant and equipment	14	78.9	60.4
Goodwill		1.1	1.1
Investments in associates	15	1.5	1.5
Other financial investments	16	121.0	99.9
Deferred tax	20	3.3	4.8
		1,572.6	1,477.8
Current assets			
Trade and other receivables	17	13.5	10.8
Properties held for sale		58.6	-
Derivative financial instruments	22	0.5	-
Cash and cash equivalents	18	100.7	100.2
		173.3	111.0
Total assets		1,745.9	1,588.8
Current liabilities			
Trade and other payables	19	(54.2)	(68.1)
Current tax		(7.7)	(7.7)
Borrowings	21	(220.3)	(192.8)
Derivative financial instruments	22	-	(1.0)
		(282.2)	(269.6)
Non-current liabilities			
Deferred tax	20	(114.7)	(105.9)
Borrowings	21	(575.2)	(549.5)
Derivative financial instruments	22	(5.8)	(6.3)
		(695.7)	(661.7)
Total liabilities		(977.9)	(931.3)
Net assets		768.0	657.5
Equity			
Share capital	24	11.3	11.5
Share premium	26	83.0	82.9
Other reserves	27	85.1	88.8
Retained earnings		583.4	469.7
Equity attributable to owners of the Company		762.8	652.9
Non-controlling interests		5.2	4.6
Total equity		768.0	657.5

The financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 8 March 2016 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr E H Klotz
Director

The notes on pages 70 to 96 are an integral part of these group financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
Arising in 2015:							
Total comprehensive income for the year	-	-	(3.9)	129.9	126.0	0.6	126.6
Issue of share capital	-	0.1	-	-	0.1	-	0.1
Purchase of own shares	(0.2)	-	0.2	(16.1)	(16.1)	-	(16.1)
Expenses thereof	-	-	-	(0.1)	(0.1)	-	(0.1)
Total changes arising in 2015	(0.2)	0.1	(3.7)	113.7	109.9	0.6	110.5
At 1 January 2015	11.5	82.9	88.8	469.7	652.9	4.6	657.5
At 31 December 2015	11.3	83.0	85.1	583.4	762.8	5.2	768.0
Arising in 2014:							
Total comprehensive income for the year	-	-	(7.4)	194.9	187.5	1.2	188.7
Adjustment arising from change in non-controlling interest	-	-	-	-	-	3.4	3.4
Purchase of own shares	(0.2)	-	0.2	(15.4)	(15.4)	-	(15.4)
Expenses thereof	-	-	-	(0.1)	(0.1)	-	(0.1)
Total changes arising in 2014	(0.2)	-	(7.2)	179.4	172.0	4.6	176.6
At 1 January 2014	11.7	82.9	96.0	290.3	480.9	-	480.9
At 31 December 2014	11.5	82.9	88.8	469.7	652.9	4.6	657.5

The notes on pages 70 to 96 are an integral part of these group financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2015

Notes	2015 £m	2014 £m
Cash flows from operating activities		
Cash generated from operations	72.1	53.3
Interest received	6.9	8.1
Interest paid	(22.9)	(24.4)
Income tax paid	(7.2)	(2.5)
Net cash inflow from operating activities	48.9	34.5
Cash flows from investing activities		
Purchase of investment properties	(81.4)	(4.2)
Capital expenditure on investment properties	(16.6)	(45.2)
Proceeds from sale of investment properties	34.8	37.1
Purchases of property, plant and equipment	(9.3)	(11.3)
Purchase of corporate bonds	(40.9)	(70.9)
Proceeds from sale of corporate bonds	28.5	82.9
Purchase of equity investments	(6.2)	(5.1)
Proceeds from sale of equity investments	0.5	3.3
Dividends received from equity investments	1.0	0.7
Costs on foreign currency transactions	(0.1)	(0.9)
Net cash inflow from business acquisition	-	2.9
Loans to associate undertakings	-	(1.0)
Distributions received from associate undertakings	-	0.8
Net cash outflow from investing activities	(89.7)	(10.9)
Cash flows from financing activities		
Purchase of own shares	(16.2)	(15.5)
New loans	301.6	32.6
Issue costs of new loans	(2.8)	(0.2)
Repayment of loans	(236.2)	(65.0)
Net cash inflow/(outflow) from financing activities	46.4	(48.1)
Cash flow element of net increase/(decrease) in cash and cash equivalents		
Foreign exchange loss	5.6	(24.5)
Net increase/(decrease) in cash and cash equivalents	(5.1)	(5.1)
Cash and cash equivalents at the beginning of the year	0.5	(29.6)
Cash and cash equivalents at the end of the year	100.2	129.8
18	100.7	100.2

The notes on pages 70 to 96 are an integral part of these group financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

31 December 2015

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 40 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 the following amendment for the first time which has not had a material impact on the results for the year:

- Annual improvements to IFRSs: 2011-2013 cycle

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 (2009, 2010 and 2014)
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Disclosure Initiative (Amendments to IAS 7)
- Annual Improvements to IFRSs: 2010-2012 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 15 and IFRS 9. In respect of IFRS 15 the Group is undertaking an assessment of the impact of this standard. In respect of IFRS 9, it is not practical provide an estimate of the effect of this standard until it 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:

- assets and liabilities are translated at the closing rate at the date of the balance sheet;
- income and expenses for each income statement are translated at the average exchange rates; and
- 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2015

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED**2.5 Property, plant and equipment**

Property, plant and equipment is carried at fair value, based on market value as determined by professional external valuers at the balance sheet date, except for fixtures and fittings which are 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:

Fixtures and fittings	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.

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:

- 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
- 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 which 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 2015

4 SEGMENT INFORMATION

The Group has two operating divisions – Investment Property and Other Investments. Other Investments comprise the hotel at Spring Mews, corporate bonds, shares in Catena AB, Bulgarian Land Development Plc and First Camp Sverige Holding 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 2015 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	37.8	13.0	13.8	16.2	4.5	-	85.3
Other property-related income	0.8	0.2	0.1	-	0.4	17.5	19.0
Service charge income	6.5	-	4.5	3.3	0.3	-	14.6
Service charges and similar expenses	(9.7)	-	(4.7)	(3.5)	(2.0)	-	(19.9)
Net rental income	35.4	13.2	13.7	16.0	3.2	17.5	99.0
Administration expenses	(4.2)	(0.1)	(1.4)	(1.4)	(0.4)	(6.0)	(13.5)
Other expenses	(4.3)	(0.4)	(0.7)	(1.1)	-	(7.3)	(13.8)
Group revenue less costs	26.9	12.7	11.6	13.5	2.8	4.2	71.7
Net movements on revaluation of investment properties	62.3	8.7	6.7	19.5	0.8	-	98.0
Profit/(loss) on sale of investment property	3.2	1.5	-	(0.4)	-	-	4.3
Gain on sale of corporate bonds	-	-	-	-	-	0.7	0.7
Segment operating profit/(loss)	92.4	22.9	18.3	32.6	3.6	4.9	174.7
Finance income	-	-	-	-	-	10.0	10.0
Finance costs	(17.0)	(3.2)	(2.3)	(2.5)	(0.5)	(2.0)	(27.5)
Segment profit/(loss) before tax	75.4	19.7	16.0	30.1	3.1	12.9	157.2
Central administration expenses							(6.0)
Profit before tax							151.2

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)
Net rental income	31.7	13.3	17.0	14.9	4.6	0.7	82.2
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)
Group revenue less costs	26.5	12.7	14.4	12.6	4.3	(0.4)	70.1
Net movements on revaluation of investment properties	185.1	(0.4)	3.4	7.0	(9.1)	-	186.0
Profit on sale of investment property	6.8	-	1.9	-	-	-	8.7
Fair value gain on reclassifying an associate as a subsidiary	-	-	-	-	-	0.2	0.2
Gain arising from acquisition	-	-	-	-	-	1.2	1.2
Segment operating profit/(loss)	218.4	12.3	19.7	19.6	(4.8)	1.0	266.2
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)
Segment profit/(loss) before tax	208.3	9.0	16.7	17.2	(5.7)	(2.3)	243.2
Central administration expenses							(6.4)
Profit before tax							236.8

Other segment information:

	Assets		Liabilities		Capital expenditure	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Investment Property						
London	824.2	717.9	458.5	402.4	53.7	45.5
Rest of UK	102.5	100.2	79.9	81.8	0.3	-
France	227.1	229.8	172.7	184.7	2.2	2.3
Germany	263.3	239.5	162.7	160.2	19.1	29.4
Sweden	50.3	49.7	35.0	36.6	0.6	3.0
Other Investments	278.5	251.7	69.1	65.6	12.0	30.1
	1,745.9	1,588.8	977.9	931.3	87.9	110.3

Included within the assets of other investments are investments in associates of £1.5 million (2014: £1.5 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2015

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:

	2015 £m	2014 £m
Administration expenses of the operating segments	13.5	7.2
Central administration expenses	6.0	6.4
Total administration expenses of the Group	19.5	13.6
Less: administration expenses of Other Investments	(6.0)	(0.8)
Property-related and central administration expenses	13.5	12.8
Net rental income	99.0	82.2
Less: net rental income of First Camp	(14.0)	(0.7)
Net rental income of Investment Properties	85.0	81.5
Administration cost ratio	15.9%	15.7%

6 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2015 £m	2014 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the parent company and group accounts	0.4	0.4
Fees payable to the Company's auditor for:		
Other services to the Group	0.2	-
The audit of the Company's subsidiaries pursuant to legislation	0.1	0.1
Depreciation of property, plant and equipment (note 14)	1.3	0.3
Employee benefits expense (note 7)	12.7	8.3

7 EMPLOYEE BENEFITS EXPENSE

	2015 £m	2014 £m
Wages and salaries	9.6	6.3
Social security costs	1.9	0.9
Pension costs – defined contribution plans	0.5	0.3
Other employee-related expenses	0.7	0.8
	12.7	8.3

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 50 to 57.

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

	2015				2014		
	Property number	Other operations number	First Camp number	Total number	Property number	Other operations number	Total number
Male	43	1	45	89	39	1	40
Female	45	-	40	85	38	-	38
	88	1	85	174	77	1	78

8 FINANCE INCOME

	2015 £m	2014 £m
Interest income	7.2	7.0
Other finance income	1.0	0.7
Foreign exchange variances	1.8	-
	10.0	7.7

9 FINANCE COSTS

	2015 £m	2014 £m
Interest expense		
Bank loans	13.3	13.3
Debenture loan	3.0	3.2
Zero coupon note	1.1	1.3
Secured notes	3.1	3.2
Unsecured bonds	4.5	4.8
Amortisation of loan issue costs	2.0	1.9
Total interest costs	27.0	27.7
Less interest capitalised on development projects	(0.4)	(2.9)
	26.6	24.8
Loss on partial redemption of zero coupon note	1.2	1.3
Movement in fair value of derivative financial instruments		
Interest rate swaps: transactions not qualifying as hedges	(0.4)	0.5
Interest rate caps: transactions not qualifying as hedges	0.1	0.4
Foreign exchange variances	-	1.1
	27.5	28.1

10 TAXATION

	2015 £m	2014 £m
Current tax charge	5.6	7.2
Deferred tax charge (note 20)	13.5	34.8
	19.1	42.0

A deferred tax credit of £0.5 million (2014: charge of £1.3 million) was recognised directly in equity (note 20).

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:

	2015 £m	2014 £m
Profit before tax	151.2	236.8
Tax calculated at domestic tax rates applicable to profits in the respective countries	31.9	52.3
Expenses not deductible for tax purposes	0.1	0.6
Tax effect of fair value movements on investments	(0.6)	0.9
Change in tax basis of United Kingdom properties, including indexation uplift	(6.6)	(3.5)
Non-taxable income	(0.4)	(2.8)
Change in tax rate	(5.0)	-
Deferred tax on losses not recognised	(0.6)	(3.3)
Other deferred tax adjustments	0.3	(0.2)
Tax effect of unrecognised losses in associates and joint ventures	-	0.3
Deferred tax liability released on disposals	-	(0.8)
Gain arising from acquisition	-	(0.3)
Adjustment in respect of prior periods	-	(1.2)
Tax charge for the year	19.1	42.0

The weighted average applicable tax rate of 21.1% (2014: 22.1%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

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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.

	2015 £m	2014 £m
Earnings		
Profit for the year	129.9	194.9
Net movements on revaluation of investment properties	(98.0)	(186.0)
Other gains and losses	(2.9)	(1.2)
Profit on sale of investment properties	(4.3)	(8.7)
Gain on sale of corporate bonds	(0.7)	-
Change in fair value of derivative financial instruments	(0.3)	0.9
Impairment of carrying value of associates	-	2.2
Fair value gain on reclassification of an associate as a subsidiary	-	(0.2)
Deferred tax relating to the above adjustments	12.3	31.7
EPRA earnings	36.0	33.6
	2015 Number	2014 Number
Weighted average number of ordinary shares		
Weighted average number of ordinary shares in circulation	42,494,950	43,410,928
Earnings per Share	2015 Pence	2014 Pence
Basic	305.7	449.0
EPRA	84.7	77.4

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.

	2015 £m	2014 £m
Net Assets		
Basic net assets attributable to owners of the Company	762.8	652.9
Adjustment to increase fixed rate debt to fair value, net of tax	(27.7)	(29.2)
Goodwill as a result of deferred tax	(1.1)	(1.1)
EPRA triple net assets	734.0	622.6
Deferred tax on property and other non-current assets, net of minority interest	110.9	102.4
Fair value of derivative financial instruments	5.3	7.3
Adjustment to decrease fixed rate debt to book value, net of tax	27.7	29.2
EPRA net assets	877.9	761.5
	2015 Number	2014 Number
Number of ordinary shares		
Number of ordinary shares in circulation	42,140,581	42,924,061
Net Assets Per Share	2015 Pence	2014 Pence
Basic	1,810.1	1,521.1
EPRA	2,083.2	1,774.1
EPRA triple net	1,741.8	1,450.5

13 INVESTMENT PROPERTIES

	London £m	Rest of UK £m	France £m	Germany £m	Sweden £m	Total £m
At 1 January 2015	705.0	97.6	225.1	235.5	46.9	1,310.1
Acquisitions	39.3	-	-	18.5	-	57.8
Capital expenditure	14.2	0.3	2.2	0.6	0.6	17.9
Disposals	(21.6)	(5.8)	-	(3.1)	-	(30.5)
Net movement on revaluation of investment properties	62.3	8.7	6.7	19.5	0.8	98.0
Rent-free period debtor adjustments	0.9	0.1	0.4	-	(0.1)	1.3
Exchange rate variances	-	-	(11.5)	(11.6)	(0.9)	(24.0)
Transfer to properties held for sale	-	(9.2)	(7.3)	-	(42.1)	(58.6)
Transfer to property, plant and equipment	-	-	-	-	(5.2)	(5.2)
At 31 December 2015	800.1	91.7	215.6	259.4	-	1,366.8
	London £m	Rest of UK £m	France £m	Germany £m	Sweden £m	Total £m
At 1 January 2014	519.9	97.9	240.6	214.4	60.1	1,132.9
Acquisitions	2.3	-	-	27.4	1.9	31.6
Capital expenditure	42.8	-	2.3	2.0	1.1	48.2
Disposals	(22.4)	-	(6.2)	-	-	(28.6)
Transfer to property, plant and equipment	(22.7)	-	-	-	-	(22.7)
Net movement on revaluation of investment properties	185.1	(0.4)	3.4	7.0	(9.1)	186.0
Rent-free period debtor adjustments	-	0.1	0.6	(0.1)	(0.1)	0.5
Exchange rate variances	-	-	(15.6)	(15.2)	(7.0)	(37.8)
At 31 December 2014	705.0	97.6	225.1	235.5	46.9	1,310.1

The investment properties (and the hotel, landholding and owner-occupied property detailed in note 14) were revalued at 31 December 2015 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: Cushman and Wakefield; Knight Frank (2014: DTZ; Knight Frank)

Rest of UK: Cushman and Wakefield (2014: DTZ)

France: Jones Lang LaSalle

Germany: Cushman and Wakefield (2014: Colliers International)

Sweden: L Fällström AB (2014: 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 the inside front cover. 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 £38.7 million (2014: £49.6 million).

Interest capitalised within capital expenditure in the year amounted to £0.4 million (2014: £2.9 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 hotel and 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 (2014: £nil).

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14 PROPERTY, PLANT AND EQUIPMENT

	Hotel £m	Land and buildings £m	Owner- occupied property £m	Fixtures and fittings £m	Total £m
Cost or valuation					
At 1 January 2014	–	–	2.6	1.5	4.1
Additions	–	10.9	–	0.4	11.3
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
At 31 December 2014	21.3	32.1	4.1	4.5	62.0
Additions	–	12.0	–	0.2	12.2
Transfer from investment properties	–	5.2	–	–	5.2
Exchange rate variances	–	(0.5)	–	–	(0.5)
Revaluation	5.4	(4.4)	1.9	–	2.9
At 31 December 2015	26.7	44.4	6.0	4.7	81.8
Comprising:					
At cost	–	–	–	4.7	4.7
At valuation 31 December 2015	26.7	44.4	6.0	–	77.1
	26.7	44.4	6.0	4.7	81.8
Accumulated depreciation and impairment					
At 1 January 2014	–	–	(0.2)	(1.1)	(1.3)
Depreciation charge	–	–	–	(0.3)	(0.3)
At 31 December 2014	–	–	(0.2)	(1.4)	(1.6)
Depreciation charge	(0.2)	(0.4)	–	(0.7)	(1.3)
At 31 December 2015	(0.2)	(0.4)	(0.2)	(2.1)	(2.9)
Net book value					
At 31 December 2015	26.5	44.0	5.8	2.6	78.9
At 31 December 2014	21.3	32.1	3.9	3.1	60.4

A hotel, an owner-occupied property and a landholding were revalued at 31 December 2015 based on the external valuation performed by Cushman and Wakefield, Knight Frank and L Fällström AB (2014: DTZ, Knight Frank and CB Richard Ellis), respectively, as detailed in note 13.

The other land and buildings were revalued based on an external valuation performed by Forum Fastighetsekonomi AB.

15 INVESTMENTS IN ASSOCIATES

	Net assets £m	Goodwill £m	Impairment £m	Total £m
At 1 January 2015	6.2	1.3	(6.0)	1.5
Share of loss of associates after tax	(5.2)	–	5.2	–
Exchange rate differences	(0.4)	–	0.4	–
At 31 December 2015	0.6	1.3	(0.4)	1.5
	Net assets £m	Goodwill £m	Impairment £m	Total £m
At 1 January 2014	15.6	1.5	(8.0)	9.1
Share of loss of associates after tax	(0.4)	–	(2.2)	(2.6)
Dividends received	(0.8)	–	–	(0.8)
Disposal	(6.8)	–	3.5	(3.3)
Exchange rate differences	(1.4)	(0.2)	0.7	(0.9)
At 31 December 2014	6.2	1.3	(6.0)	1.5

16 OTHER FINANCIAL INVESTMENTS

Investment type	Destination of Investment	2015 £m	2014 £m
Available-for-sale financial investments carried at fair value	Listed corporate bonds	24.0	19.1
	UK Eurozone	4.2	3.9
	Other	45.2	38.8
		73.4	61.8
Listed equity securities	UK	0.3	0.2
	Sweden	42.8	34.6
Unlisted investments	Sweden	4.5	3.3
		121.0	99.9

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
At 1 January 2015	34.8	61.8	3.3	99.9
Additions	4.4	40.9	1.8	47.1
Disposals	–	(25.6)	(0.5)	(26.1)
Fair value movements recognised in reserves on available-for-sale assets	4.6	(4.8)	–	(0.2)
Exchange rate variations	(0.7)	1.1	(0.1)	0.3
At 31 December 2015	43.1	73.4	4.5	121.0
	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods* £m	Total £m
At 1 January 2014	34.6	69.4	0.3	104.3
Acquisitions arising from business combinations	–	–	3.0	3.0
Additions	2.5	70.9	2.6	76.0
Disposals	(0.6)	(80.9)	(2.7)	(84.2)
Fair value movements recognised in reserves on available-for-sale assets	2.6	0.6	–	3.2
Fair value movements recognised in profit before tax on available-for-sale assets	0.1	–	0.1	0.2
Exchange rate variations	(4.4)	1.8	–	(2.6)
At 31 December 2014	34.8	61.8	3.3	99.9

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

Corporate Bond Portfolio

At 31 December 2015

Sector	Banking	Insurance	Travel and Tourism	Telecoms and IT	Energy and Resources	Other	Total
Value	£30.6m	£6.6m	£7.6m	£13.9m	£12.9m	£1.8m	£73.4m
Running yield	7.6%	6.8%	8.2%	7.8%	11.2%	6.9%	8.3%
Issuers	RBS HSBC Lloyds Investec Barclays Unicredit SNS Bank Credit Agricole Bank of Ireland Deutsche Bank Societe Generale	Old Mutal PGH Capital Brit Insurance	SAS Stena British Airways	Dell Millicom T-Mobile Centurylink Telecom Italia	Enel Sadrill Transocean ArcelorMittal Freeport-McMoRan	Stora Enso	

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17 TRADE AND OTHER RECEIVABLES

	2015 £m	2014 £m
Current		
Trade receivables	5.8	4.6
Prepayments	2.3	1.7
Accrued income	1.8	1.5
Other debtors	3.6	3.0
	13.5	10.8

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 (2014: none). No trade and other receivables were interest-bearing.

Included within other debtors is £1.0 million (2014: £1.1 million) due after more than one year.

18 CASH AND CASH EQUIVALENTS

	2015 £m	2014 £m
Cash at bank and in hand	100.7	95.2
Short-term bank deposits	-	5.0
	100.7	100.2

At 31 December 2015, Group cash at bank and in hand included £11.0 million (2014: £11.0 million) which was restricted by a third-party charge.

19 TRADE AND OTHER PAYABLES

	2015 £m	2014 £m
Current		
Trade payables	6.4	1.6
Social security and other taxes	6.7	2.1
Other payables	10.7	34.1
Accruals	15.8	15.3
Deferred income	14.6	15.0
	54.2	68.1

20 DEFERRED TAX

	2015 £m	2014 £m
Deferred tax assets:		
- after more than 12 months	(3.3)	(4.8)
Deferred tax liabilities:		
- after more than 12 months	114.7	105.9
	111.4	101.1

The movement in deferred tax was as follows:

	2015 £m	2014 £m
At 1 January	101.1	68.0
Charged in arriving at profit after tax	13.5	34.8
(Credited)/charged to other comprehensive income	(0.5)	1.3
Deferred tax on acquisition	-	1.3
Exchange rate variances	(2.7)	(4.3)
At 31 December	111.4	101.1

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:

	Tax losses £m	Other £m	Total £m
Deferred tax assets			
At 1 January 2015	(1.3)	(3.5)	(4.8)
Charged in arriving at profit after tax	1.2	1.1	2.3
Credited to other comprehensive income	-	(0.8)	(0.8)
At 31 December 2015	(0.1)	(3.2)	(3.3)

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

	UK capital allowances £m	Fair value adjustments to investment properties £m	Other £m	Total £m
Deferred tax liabilities				
At 1 January 2015	10.6	91.8	3.5	105.9
(Credited)/charged in arriving at profit after tax	(0.1)	11.3	-	11.2
Charged to other comprehensive income	-	0.1	0.2	0.3
Exchange rate variances	-	(0.4)	(2.3)	(2.7)
At 31 December 2015	10.5	102.8	1.4	114.7

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2015

20 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 2015 the Group did not recognise deferred tax assets of £5.6 million (2014: £10.6 million) in respect of losses amounting to £22.7 million (2014: £47.0 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.

21 BORROWINGS

At 31 December 2015	Current £m	Non-current £m	Total borrowings £m
Bank loans	190.5	409.8	600.3
Debenture loans	1.8	25.5	27.3
Zero coupon note	-	8.4	8.4
Unsecured bonds	23.9	64.6	88.5
Secured notes	4.1	66.9	71.0
	220.3	575.2	795.5

At 31 December 2014	Current £m	Non-current £m	Total borrowings £m
Bank loans	187.4	350.9	538.3
Debenture loans	1.6	27.4	29.0
Zero coupon note	-	11.2	11.2
Unsecured bonds	(0.3)	89.1	88.8
Secured notes	4.1	70.9	75.0
	192.8	549.5	742.3

Arrangement fees of £4.5 million (2014: £3.7 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 1.4% and 6.9%, including margin (2014: 3.1% and 6.9%) and at floating rates of typically LIBOR, EURIBOR or STIBOR, plus a margin. Floating rate margins range between 0.8% and 3.8% (2014: 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 (2014: £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 £21.8 million in aggregate in February 2025. £4.0 million (2014: £3.6 million) of the zero coupon note was bought back in the year at a cost of £5.2 million (2014: £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. The Group has an option to redeem all outstanding bonds subject to an early repayment premium. The bonds were listed on Nasdaq 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.

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

At 31 December 2015	Bank loans £m	Debenture loans £m	Zero coupon note £m	Unsecured bonds £m	Secured notes £m	Total £m
Within one year or on demand	191.5	1.8	-	24.1	4.2	221.6
More than one but not more than two years	57.1	2.0	-	-	4.2	63.3
More than two but not more than five years	186.2	7.6	-	65.0	12.5	271.3
More than five years	168.8	15.9	8.4	-	50.7	243.8
	603.6	27.3	8.4	89.1	71.6	800.0
Unamortised issue costs	(3.3)	-	-	(0.6)	(0.6)	(4.5)
Borrowings	600.3	27.3	8.4	88.5	71.0	795.5
Less amount due for settlement within 12 months	(190.5)	(1.8)	-	(23.9)	(4.1)	(220.3)
Amounts due for settlement after 12 months	409.8	25.5	8.4	64.6	66.9	575.2

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

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

	At 31 December 2015		At 31 December 2014	
	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	5.8	6.2	6.2	7.5
Euro	1.8	6.0	5.0	0.7

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

	At 31 December 2015			At 31 December 2014		
	% 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	20	3.3	0.7	68	3.0	1.4
Euro	65	3.4	0.9	72	3.2	1.2

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2015

21 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
At 31 December 2015			
Sterling	247.2	198.8	446.0
Euro	60.5	207.0	267.5
Swedish Krona	-	75.0	75.0
Other	-	7.0	7.0
	307.7	487.8	795.5
At 31 December 2014			
Sterling	205.4	202.2	407.6
Euro	25.3	228.0	253.3
Swedish Krona	-	81.4	81.4
	230.7	511.6	742.3

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

	Carrying amounts		Fair values	
	2015 £m	2014 £m	2015 £m	2014 £m
Current borrowings	220.3	192.8	220.4	192.8
Non-current borrowings	575.2	549.5	609.6	586.0
	795.5	742.3	830.0	778.8

Arrangement fees of £4.5 million (2014: £3.7 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:

	2015 £m	2014 £m
Floating rate:		
- expiring within one year	39.7	39.0
- expiring after one year	-	-
	39.7	39.0

22 DERIVATIVE FINANCIAL INSTRUMENTS

	2015 Assets £m	2015 Liabilities £m	2014 Assets £m	2014 Liabilities £m
Non-current				
Interest rate swaps	-	(5.8)	-	(6.3)
Current				
Forward foreign exchange contracts	0.5	-	-	(1.0)
	0.5	(5.8)	-	(7.3)

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 2015 was £135.7 million (2014: £41.8 million). The average period to maturity of these interest rate swaps was 6.1 years (2014: 4.1 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 2015 the Group had £20.0 million of outstanding net foreign exchange contracts (2014: £2.6 million).

23 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:

- 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.
- 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.
- 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.
- 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.
- 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 2015

23 FINANCIAL INSTRUMENTS CONTINUED

The gearing ratio at the year end was as follows:

	2015 £m	2014 £m
Debt	800.0	746.0
Liquid resources	(174.1)	(162.0)
Net debt	625.9	584.0
Equity	768.0	657.5
Net debt to equity ratio	81%	89%

Debt is defined as long-term and short-term borrowings before unamortised issue costs as detailed in note 21. 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 2015 the Group was subject to a minimum equity ratio of total equity to total assets of 22.5% imposed by unsecured bonds of £89.1 million (2014: £89.1 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 £65.0 million (2014: £65.0 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	2015 Income statement £m	2014 Income statement £m
Cash +50 basis points	0.5	0.3
Variable borrowings (including caps) +50 basis points	(2.4)	(2.5)
Cash -50 basis points	(0.5)	(0.3)
Variable borrowings (including caps) -50 basis points	1.0	1.8

(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	2015 Net assets £m	2015 Profit before tax £m	2014 Net assets £m	2014 Profit before tax £m
1% increase in value of sterling against the euro	(2.2)	(0.4)	(1.4)	(0.2)
1% increase in value of sterling against the Swedish krona	(0.3)	(0.1)	(0.4)	-
1% fall in value of sterling against the euro	2.2	0.4	1.4	0.2
1% fall in value of sterling against the Swedish krona	0.3	0.1	0.4	-

(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 listed equity securities, which is an amount management believes to be reasonable in the current market:

Scenario: Shift of 10% in valuations	2015 Other Comprehensive Income £m	2014 Other Comprehensive Income £m
10% fall in value	(11.7)	(9.7)
10% increase in value	11.7	9.7

(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 2015

23 FINANCIAL INSTRUMENTS CONTINUED

At 31 December 2015 the Group held £121.0 million (2014: £99.9 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	2015 £m	2014 £m
Investment grade	9.4	5.8
Non-investment grade	56.6	50.7
Not rated	55.0	43.4
Total	121.0	99.9

(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 2015	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings	221.6	63.3	271.3	243.8
Interest payments on borrowings [†]	27.1	27.0	30.4	33.9
Trade and other payables	54.2	-	-	-
Forward foreign exchange contracts:				
Cash flow hedges				
- Outflow	(20)	-	-	-
- Inflow	20	-	-	-

At 31 December 2014	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings	194.2	188.8	237.7	125.5
Interest payments on borrowings [†]	22.0	17.5	37.2	16.4
Trade and other payables	68.1	-	-	-
Forward foreign exchange contracts:				
Cash flow hedges				
- Outflow	(2.6)	-	-	-
- Inflow	2.6	-	-	-

[†] 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.

24 SHARE CAPITAL

	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 2015	42,924,061	2,903,103	45,827,164	10.8	0.7	11.5
Issued	15,000	(15,000)	-	-	-	-
Cancelled following tender offers	(798,480)	-	(798,480)	(0.2)	-	(0.2)
At 31 December 2015	42,140,581	2,888,103	45,028,684	10.6	0.7	11.3

	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 2014	43,953,790	2,903,103	46,856,893	11.0	0.7	11.7
Cancelled following tender offers	(1,029,729)	-	(1,029,729)	(0.2)	-	(0.2)
At 31 December 2014	42,924,061	2,903,103	45,827,164	10.8	0.7	11.5

Ordinary shares have a nominal value of 25 pence each.

25 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 13 March 2015 for the purchase of 1 in 80 shares at 1,950 pence per share was completed in April. It returned £10.4 million to shareholders, equivalent to 24.4 pence per share.

A tender offer by way of a Circular dated 21 August 2015 for the purchase of 1 in 162 shares at 2,190 pence per share was completed in September. It returned £5.7 million to shareholders, equivalent to 13.5 pence per share.

A further tender offer will be put to shareholders in April 2016 for the purchase of 1 in 57 shares at a price of 1,810 pence per share which, if approved, will return £13.4 million to shareholders, equivalent to 31.8 pence per share.

26 SHARE PREMIUM

	2015 £m	2014 £m
At 1 January	82.9	82.9
Ordinary shares issued from treasury shares	0.1	-
At 31 December 2015	83.0	82.9

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2015

27 OTHER RESERVES

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Other reserves £m	Total £m
At 1 January 2015	22.2	33.2	5.3	28.1	88.8
Purchase of own shares:					
– cancellation pursuant to tender offer	0.2	–	–	–	0.2
Exchange rate variances	–	(8.6)	–	–	(8.6)
Property, plant and equipment					
– net fair value gains in the year	–	–	4.7	–	4.7
– deferred tax thereon	–	–	(0.4)	–	(0.4)
Available-for-sale financial assets:					
– net fair value losses in the year	–	–	(0.2)	–	(0.2)
– deferred tax thereon	–	–	0.6	–	0.6
At 31 December 2015	22.4	24.6	10.0	28.1	85.1

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

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.

28 CASH GENERATED FROM OPERATIONS

	2015 £m	2014 £m
Operating profit	168.7	259.8
Adjustments for:		
Net movements on revaluation of investment properties	(98.0)	(186.0)
Depreciation and amortisation	1.3	0.3
Profit on sale of investment property	(4.3)	(8.7)
Gain on sale of corporate bonds	(0.7)	–
Non-cash rental income	(1.3)	(0.5)
Share-based payment expense	0.2	–
Other gains and losses	(2.9)	(1.2)
Fair value gain on reclassification of an associate as a subsidiary	–	(0.2)
Changes in working capital:		
(Increase)/decrease in debtors	(2.5)	(2.0)
Increase/(decrease) in creditors	11.6	(8.2)
Cash generated from operations	72.1	53.3

29 CONTINGENCIES

At 31 December 2015 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.

30 COMMITMENTS

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

Operating lease commitments – where the Group is lessor	2015 £m	2014 £m
Within one year	83.2	81.3
More than one but not more than five years	253.7	248.6
More than five years	202.5	227.8
	539.4	557.7

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 2015 the Group had contracted capital expenditure of £4.7 million (2014: £1.7 million). At the balance sheet date, the Group had conditionally exchanged contracts to acquire an investment property for £6.1 million (2014: nil). There were no authorised financial commitments which were yet to be contracted with third parties (2014: none).

31 SUBSIDIARIES

The group financial statements include the financial statements of CLS Holdings plc and all of its subsidiaries, which are listed below. All are 100% owned unless otherwise stated:

United Kingdom

Registered Office: 86 Bondway, London SW8 1SF

62 London Road Limited	CLS Germany Limited	Fetter Lane Apartments Limited	Sentinel House Limited
Apex Tower Limited	CLS Hanover Place Limited	Great West House Limited	Shard of Glass Limited
Benwell House Limited	CLS Holdings UK Limited	GWH Birkenhead Limited	Southern House Limited
Brent House Limited	CLS Horton Road Limited	Hygeia Harrow Limited	Spring Gardens Limited
Brideglen Impex Limited	CLS London Limited	Ingrove Limited	Spring Gardens II Limited
Buspace Studios Limited	CLS London Properties plc	Instant Office Limited	Spring Gardens III Limited
Cassini Pascal Limited	CLS Northern Properties Limited	Kennington Road Limited	Spring Mews (Block D) Limited
Centenary Court Limited	CLS One Limited	Larkhall Lane Limited	Spring Mews (Development Management) Limited
Central London Securities Limited	CLS Peterborough Limited	Melita House Limited	Spring Mews (Hotel) Limited
Chancel House Limited	CLS Residential Investments Limited	Mirenwest Limited	Spring Mews (Student) Limited
Citadel Finance Limited	CLS Spring Gardens Limited	New Malden House Limited	Spring Mews Limited
Citadel Holdings plc	CLS UK Properties Limited	New Printing House Square Limited	Three Albert Embankment Limited
Cl Tower Investments Limited	CLSH Management Limited	NYK Investments Limited	Tweedwind (Three) Limited
CLS Bromley Limited	Coventry House Limited	One Elmfield Park Limited	Vauxhall Corporate Director Limited
CLS Capital Partners Limited	Crosspoint House Limited	One Leicester Square Limited	Vauxhall Homes Limited
CLS Chancery House Limited	Dukes Road Limited	Quayside Lodge Limited	Vauxhall Square Limited
CLS Cliffords Inn Limited	Elmfield Road Limited	Rayman Finance Limited	Vauxhall Square One Limited
CLS England and Wales Limited	Falcon Quest Limited	Reflex Bracknell Limited	Wandsworth Road Limited
CLS Gateway House Limited		Rex House Limited	

United Kingdom

Registered Office: 15 Atholl Crescent, Edinburgh EH3 8HA

CLS Aberdeen Limited
CLS Scotland Limited
Ladywell House Limited
Sidlaw House Limited

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2015

31 SUBSIDIARIES CONTINUED

France

Registered Office: Le 6e Sens, 186 Avenue Thiers, 69006 Lyon

120 Jean Jaures Holding Sàrl	Euralille 2 Sàrl	Immobilière 13 Sàrl	Rhone Alpes Sàrl
120 Jean Jaures Sàrl	Foch SCI	Le D'Aubigny SCI	Rue Stephenson Sàrl
Avenue du Park SCI	Forum France SCI	Le Quatuor SCI	Scala Sàrl
BV France Sàrl	Georges Clemenceau Sàrl	Le Sigma Sàrl	SCI Frères Peugeot
Capitaine Guynemer Sàrl	HE France Sàrl	Leclerc SCI	SCI Pierre Valette
Chorus Sàrl	Immobilière V SA	Mission Marchand Sàrl	Sego Sàrl
Citadel Services Sàrl	Immobilière 6 Sàrl	Panten Sàrl	Solferino SCI
Debussy SCI	Immobilière 8 Sàrl	Parc SCI	
De Musset Sàrl	Immobilière 10 Sàrl	Petits Champs Sàrl	
EPP Levallois Sàrl	Immobilière 12 Sàrl	Petits Hotels Sàrl	

Germany

Registered Office: Brodschangen 4, D-20457 Hamburg

CLS Germany Management GmbH
Jarrestrasse Immobilien GmbH

Luxembourg

Registered Office: 55 Avenue de la Gare, L-1611 Luxembourg

Adlershofer Sàrl	CLS Luxembourg Sàrl	Grossglockner Sàrl	Salisbury Hill Sàrl
Albertina Sàrl	CLS Palisade Sàrl	Haydn Sàrl	Satimood Sàrl
Cavernet Sàrl	CLS Sweden Sàrl	Hermalux Sàrl	Schönbrunn Sàrl
Chronotron Sàrl	CLS Tangentis Sàrl	Kapellen Sàrl	St Stephan Sàrl
CLS Citadel Sàrl	Freepost Sàrl	Lipizzaner Sàrl	Valencia Investments Sàrl
CLS Europe Sàrl	Frohbösestrasse Sàrl	Naropere Sàrl	Zillertal Sàrl
CLS Investments Sàrl	Garivet Sàrl	Prater Sàrl	

Netherlands

Registered Office: Burgemeester van Reenensingel 101, 2803 Da Gouda

120 Jean Jaures BV	Hammersley International BV	Petits Champs BV	Rhone Alpes BV
Capitaine Guynemer BV	Immobilière 8 BV	Petits Hotels BV	Runton Holdings BV
Chorus BV	Malmros Property BV	Portapert Properties III BV	Sigma BV
CLS Management BV	Mission Marchand BV	Portapert Properties UK BV	Stockport Investments BV
Forum d'Aubigny BV	Parc Avenue du Park BV	Rasstaf BV	

Jersey

Registered Office: PO Box 167, 3rd Floor, 2 Hill Street, St Helier JE4 8RY

Hawkswell Limited

British Virgin Islands

Registered Office: PO Box 71, Craigmuir Chambers, Road Town, Tortola BVI

Pantheon Securities Limited

Sweden

Registered Office: Skönabäck 122, 274 91 Skurup

Auriolen AB	Vanerparken Development AB	Vanerparken Property Investments KB
Förvaltnings AB Klio	Vanerparken Investment AB	
Jarrestrasse Holding AB (94.5%)	Vanerparken Property Development KB	
Museion Förvaltning AB		

Sweden

Registered Office: Västmannagatan 10, 111 24 Stockholm

Endicott Sweden AB
HolmAcc II Mezzanine AB
Rasstaf Sweden AB

Sweden

Registered Office: Saltmätargatan 9, 2 tr, 113 59 Stockholm

Wyatt Media Group AB (98.872%)
Wyatt Sales AB
Xtraworks AB

Sweden

Registered Office: Box 11132, 404 23 Gothenburg

First Camp Sverige Holding AB (58.02%)
100% subsidiaries of First Camp Sverige Holding AB (unless otherwise stated):

AB Kärradals Camping i Kärra	Brf Wermelandia stugor	First Camp Malmö AB
Brf Gunnarsö (83.45%)	First Camp Bråviken AB	First Camp Mölle AB
Brf Kolmården (64.28%)	First Camp Gunnarsö AB	First Camp Sverige AB
Brf Möllen (62.93%)	First Camp Holding Kärredal AB	First Camp Torekov AB
Brf Solcamp	First Camp Karlstad AB	First Camp Tylösand AB
Brf Solgläntan (82.90%)	First Camp Kungshamn AB	First Camp Umeå AB
Brf Umeå Stugor	First Camp Luleå AB	Svalans Stugförmedling AB

Sweden

Registered Office: Västra Trädgårdsgatan 8, 111 53 Stockholm

First Camp Bostadsträtter [number] KB (42 companies numbered 1 to 42)
Solvik Camping och Stugby AB

32 ASSOCIATES

The group financial statements include the Group's share of the results and net assets of the following associates:

Name	Country of incorporation	Holding
Bulgarian Land Development plc	Isle of Man	48.3%
Nyheter 24 AB	Sweden	20.0%
Lociloci AB	Sweden	24.6%

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2015

33 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 £12,500 was made (2014: £25,000), of which £nil (2014: £6,250) remained outstanding at the balance sheet date.

At 31 December 2015, the Group had a convertible loan of SEK 5.0 million (2014: SEK 5.0 million), due from Nyheter24 Media Network AB, an associate company. Until 1 May 2015, this loan was interest free, and thereafter attracted 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.

Transactions with Directors

Distributions totalling £9,235,402 (2014: £8,813,580) 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 SEK 400,000 (2014: SEK 400,000). 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 SEK 400,000 per annum. No balances were outstanding at the balance sheet date (2014: £nil).

Skansen Group Limited, a company in which Anna Seeley and Thomas Lundqvist are directors, rented office space from a Group company, Vauxhall Square Limited, at an arm's length rent of £46,530 per annum (2014: £nil) plus annual service charge of £21,650 (2014: £23,255). No balances were outstanding at the balance sheet date.

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. Directors fees of £425,000 (2014: £400,000) were paid to a company owned by Sten Mortstedt.

	2015 £000	2014 £000
Short-term employee benefits	2,421	2,060
Post-employment benefits	45	35
Other long-term benefits	736	250
	3,202	2,345

COMPANY BALANCE SHEET

at 31 December 2015

	Notes	2015 £m	2014 £m
Fixed assets			
Investment in subsidiary undertakings	6	256.5	185.6
Current assets			
Trade and other receivables	7	116.1	148.3
Cash and cash equivalents		0.1	0.1
Total assets		372.7	334.0
Current liabilities			
Trade and other payables	8	(4.4)	(3.1)
Borrowings	9	(23.9)	(45.0)
Non-current liabilities			
Borrowings	9	(64.6)	(89.1)
Total liabilities		(92.9)	(137.2)
Net assets		279.8	196.8
Equity			
Share capital	10	11.3	11.5
Share premium	11	83.0	82.9
Other reserves	12	27.0	26.8
Profit and loss account	12	158.5	75.6
Shareholders' funds		279.8	196.8

These financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 8 March 2016 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr E H Klotz
Director

The notes on pages 98 to 101 are an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

31 December 2015

1 GENERAL INFORMATION

These separate financial statements are presented as required by the Companies Act 2006 and prepared on the historical cost basis.

The Company has applied UK GAAP Financial Reporting Standard 101 'Reduced Disclosure Framework' ("FRS 101") incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

CLS Holdings plc is the ultimate parent company of the CLS Holdings group. Its primary activity (which occurs exclusively within the United Kingdom) is to hold shares in subsidiary companies.

2 BASIS OF ACCOUNTING

The Company meets the definition of a qualifying entity under Financial Reporting Standard 100 issued by the Financial Reporting Council and, accordingly, in the year ended 31 December 2015 the Company decided to adopt FRS 101 and has undergone the transition from reporting under UK GAAP. These financial statements, therefore, have been prepared under FRS 101. The transition is not considered to have a material effect on the financial statements.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions.

Where required, equivalent disclosures are given in the consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies are summarised below.

3.1 Going concern

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 Director's Report on page 38.

3.2 Investments in subsidiaries

Investments in subsidiaries are accounted for at cost less, where appropriate, provisions for impairment. Dividend income is recognised when received.

3.3 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.

3.4 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 from proceeds, net of tax.

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.

3.5 Foreign currencies

The financial statements are presented in sterling, which is the currency of the primary economic environment in which the Company operates, known as its functional currency. Transactions in currencies other than the Company's functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in other currencies are translated into sterling at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in other currencies are translated into sterling at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured at historical cost in a foreign currency are not translated.

4 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 £99.1 million (2014: £32.8 million).

Audit fees for the Company were £0.1 million (2014: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Committee Report on pages 50 to 57.

5 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 13 March 2015 for the purchase of 1 in 80 shares at 1,950 pence per share was completed in April. It returned £10.4 million to shareholders, equivalent to 24.4 pence per share.

A tender offer by way of a Circular dated 21 August 2015 for the purchase of 1 in 162 shares at 2,190 pence per share was completed in September. It returned £5.7 million to shareholders, equivalent to 13.5 pence per share.

A further tender offer will be put to shareholders in April 2016 for the purchase of 1 in 57 shares at a price of 1,810 pence per share which, if approved, will return £13.4 million to shareholders, equivalent to 31.8 pence per share.

6 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2015 £m	2014 £m
At 1 January	185.6	178.3
Additions	83.0	29.9
Disposals	-	(1.7)
Impairment	(12.1)	(20.9)
At 31 December	256.5	185.6

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.

7 TRADE AND OTHER RECEIVABLES

	2015 £m	2014 £m
Current		
Amounts owed by subsidiary undertakings	116.0	147.2
Prepayments and accrued income	0.1	0.2
Other debtors	-	0.9
	116.1	148.3

8 TRADE AND OTHER PAYABLES

	2015 £m	2014 £m
Current		
Trade payables	0.2	0.1
Amounts owed to subsidiary undertakings	1.4	-
Accruals	2.5	3.3
Arrangement fees	-	(0.3)
Social security and other taxes	0.3	-
	4.4	3.1

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

31 December 2015

9 BORROWINGS

	Current £m	Non-current £m	Total borrowings £m
At 31 December 2015			
Unsecured bonds	24.1	65.0	89.1
Arrangement fees	(0.2)	(0.4)	(0.6)
	23.9	64.6	88.5
At 31 December 2014			
Bank loan	45.0	–	45.0
Unsecured bonds	–	89.7	89.7
Arrangement fees	–	(0.6)	(0.6)
	45.0	89.1	134.1

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. The Group has an option to redeem all outstanding bonds subject to an early repayment premium. The bonds were listed on Nasdaq Stockholm on 5 July 2011.

10 SHARE CAPITAL

	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 2015	42,924,061	2,903,103	45,827,164	10.8	0.7	11.5
Issued	15,000	(15,000)	–	–	–	–
Cancelled following tender offers	(798,480)	–	(798,480)	(0.2)	–	(0.2)
At 31 December 2015	42,140,581	2,888,103	45,028,684	10.6	0.7	11.3

	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 2014	43,953,790	2,903,103	46,856,893	11.0	0.7	11.7
Cancelled following tender offers	(1,029,729)	–	(1,029,729)	(0.2)	–	(0.2)
At 31 December 2014	42,924,061	2,903,103	45,827,164	10.8	0.7	11.5

Ordinary shares have a nominal value of 25 pence each.

11 SHARE PREMIUM

	2015 £m	2014 £m
At 1 January	82.9	82.9
Ordinary shares issued from treasury shares	0.1	–
At 31 December	83.0	82.9

12 PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

	Other reserves			Profit and loss account £m
	Capital redemption reserve £m	Other £m	Total £m	
At 1 January 2015	22.2	4.6	26.8	75.6
Purchase of own shares	0.2	–	0.2	(16.1)
Expenses thereof	–	–	–	(0.1)
Profit for the year	–	–	–	99.1
At 31 December 2015	22.4	4.6	27.0	158.5

	Other reserves			Profit and loss account £m
	Capital redemption reserve £m	Other £m	Total £m	
At 1 January 2014	22.0	4.6	26.6	58.3
Purchase of own shares	0.2	–	0.2	(15.4)
Expenses thereof	–	–	–	(0.1)
Profit for the year	–	–	–	32.8
At 31 December 2014	22.2	4.6	26.8	75.6

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2015 £m	2014 £m
Balance at 1 January	196.8	179.5
Profit for the year	99.1	32.8
Issue of share capital	0.1	–
Purchase of own shares	(16.2)	(15.5)
Balance at 31 December	279.8	196.8

14 CONTINGENCIES

At 31 December 2015 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.

15 COMMITMENTS

At 31 December 2015, the Company had no contracted capital expenditure (2014: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2014: £nil).

FIVE YEAR FINANCIAL SUMMARY

31 December 2015

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Group revenue	118.9	99.6	91.2	80.2	80.1
Net rental income	99.0	82.2	73.1	62.9	63.0
Income from non-property activities	–	–	–	–	0.8
Administration expenses	(19.5)	(13.6)	(12.4)	(10.5)	(12.1)
Other expenses	(13.8)	(4.9)	(3.5)	(2.9)	(2.2)
Group revenue less costs	65.7	63.7	57.2	49.5	49.5
Net movements on revaluation of investment properties	98.0	186.0	(0.2)	16.2	18.0
Profit on sale of investment properties	4.3	8.7	4.5	–	–
Gain/(loss) on sale of corporate bonds and other financial investments	0.7	–	14.1	(0.4)	0.5
Gain arising from acquisition	–	1.2	–	–	–
Profit on sale of subsidiaries/joint venture/associates	–	–	1.8	–	2.2
Fair value gain on reclassification of associate	–	0.2	14.9	–	–
Operating profit	168.7	259.8	92.3	65.3	70.2
Finance income	10.0	7.7	7.6	10.6	12.2
Finance costs	(27.5)	(28.1)	(23.7)	(25.6)	(47.7)
Share of (loss)/profit of associates after tax	–	(2.6)	(4.8)	5.8	3.0
Profit before tax	151.2	236.8	71.4	56.1	37.7
Taxation	(19.1)	(42.0)	(8.2)	(9.4)	1.1
Profit for the year	132.1	194.8	63.2	46.7	38.8
Share buy-backs paid and proposed	19.1	15.9	15.0	13.2	12.3
Net Assets Employed					
Non-current assets	1,572.6	1,477.8	1,257.0	1,110.5	1,037.0
Current assets	173.3	111.0	142.8	115.2	67.3
	1,745.9	1,588.8	1,399.8	1,225.7	1,104.3
Current liabilities	(282.2)	(269.6)	(121.3)	(172.2)	(182.9)
Non-current liabilities	(695.7)	(661.7)	(797.6)	(636.4)	(553.9)
Net assets	768.0	657.5	480.9	417.1	367.5
Ratios	2015	2014	2013	2012	2011
Net assets per share (pence)	1,810.1	1,521.1	1,094.1	963.1	817.5
EPRA net assets per share (pence)	2,083.2	1,774.1	1,268.4	1,154.4	983.1
Earnings per share (pence)	305.7	449.0	146.9	106.0	82.0
EPRA earnings per share (pence)	84.7	77.4	66.2	65.3	64.9
Net gearing (%)	82.0	89.4	125.0	111.6	131.9
Adjusted net gearing (%)	71.3	76.7	107.8	92.7	109.3
Interest cover (times)	3.19	3.34	3.18	3.49	2.44

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)
Philip Mortstedt	(Non-Executive Director)
Anna Seeley	(Non-Executive Director)
Lennart Sten *	(Non-Executive Director)

* member of Remuneration Committee

† member of Audit Committee

‡ Senior Independent Director

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David Fuller BA, FCIS

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