



Actively adding value...



CLS Holdings plc
Annual Report and Accounts 2017



Actively adding value...

We own and actively manage properties in well-connected locations that satisfy the needs of our customers.

Our knowledge of the UK, German and French property markets informs our proactive investment strategy.

By understanding customer's needs and market dynamics, we actively add value for our occupiers and shareholders.

Chairman's statement – p.2

Country business reviews – p.22

Corporate social responsibility report – p.32

Financial statements – p.90

Contents

Strategic report

- 2 Chairman's statement
- 4 Business model and strategy
- 12 Our investors
- 13 Chief Executive's review
- 16 Strategy at a glance
- 18 Key Performance Indicators
- 20 Principal risks and uncertainties
- 22 Business reviews
- 28 Chief Financial Officer's review
- 32 Corporate social responsibility report

Corporate governance

- 38 Chairman's introduction
- 40 Corporate governance report
- 54 Nomination Committee report
- 56 Audit Committee report
- 62 Remuneration Committee report
- 77 Directors' report

Financial statements

- 82 Independent auditor's report to the members of CLS Holdings plc
- 90 Group income statement and statement of comprehensive income
- 91 Group balance sheet
- 92 Group statement of changes in equity
- 93 Group statement of cash flows
- 94 Notes to the Group financial statements
- 123 Company balance sheet
- 124 Company statement of changes in equity
- 125 Notes to the Company financial statements
- 129 Five year financial summary
- 130 Glossary of terms

Statutory and alternative performance measures

Throughout the strategic report we use a range of financial and non-financial measures to assess our performance in accordance with European Public Real Estate Association (EPRA) measures. EPRA is a recognised body in the property industry which is involved in the formulation of accounting metrics and sustainability reporting, which give the European listed real estate sector greater transparency and consistency. These standards also provide visibility and comparability to industry stakeholders in addition to being appreciated by the investment community. Management uses these measures to monitor the Group's financial performance alongside International Financial Reporting Standards (IFRS) measures because they help illustrate the underlying financial performance and position of the Group. We have defined and explained each of these EPRA measures in the glossary of terms on pages 130 and 131. The EPRA measurements should be considered in addition to measures of financial performance, financial position or cash flows reported in accordance with IFRS.

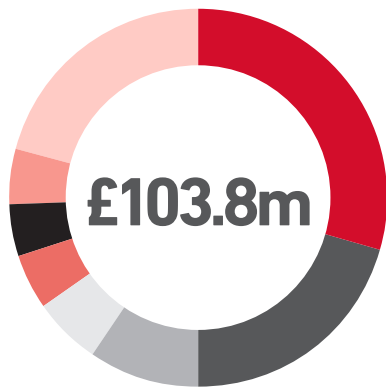
Our business at a glance

Solid, stable and diversified portfolio

We are a FTSE 250 property investment company with a £1.8 billion portfolio in the UK, Germany and France, offering geographical diversification with local presence and knowledge.

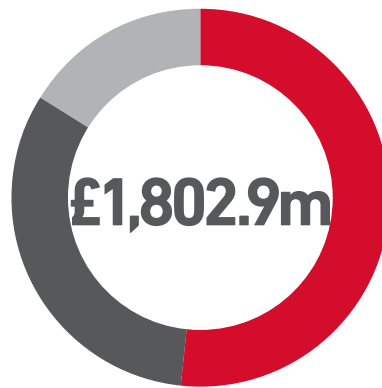
- Our core business is owning and managing high-yielding offices in good, non-prime locations close to major transport links.
- We are an active manager, repositioning properties through lease restructuring, refurbishments and developments, and working closely with our customers.

- 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.



Rent by sector

- Government – 29.6%
- Business services – 20.6%
- Manufacturing – 9.6%
- IT – 5.8%
- Student lets – 4.6%
- Finance – 4.4%
- Retail – 4.7%
- Other – 20.7%



Property value by geography¹

- UK – 51.8%
- Germany – 32.1%
- France – 16.1%

¹ Comprises investment property, properties held for sale, hotel and landholding.

Front cover images

Top Roßstraße, Dortmund
Middle Reflex, Bracknell
Bottom Jean Jaurès, Levallois, Paris



For more information about our properties see our website www.clsholdings.com

£934.0m

United Kingdom
(see pages 22–23)

Property portfolio by value

The map shows the value of the property portfolio which comprises investment property, properties held for sale, hotel and landholding.

Contracted rent

£103.8m

No. of tenants

712

No. of properties

129

Total floor space

7.0m sq ft

£578.9m

Germany
(see pages 24–25)

£290.0m

France
(see pages 26–27)

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
United Kingdom	54.1	55.0	243,252	54.4	58.5	12.1	5.5%
Germany	24.4	25.0	312,471	34.1	37.8	15.3	7.1%
France	15.2	15.6	80,836	15.3	16.1	15.3	4.4%
Total Portfolio	93.7	95.6	636,559	103.8	112.4	42.7	5.8%

Valuation data

	Market value of property £m	Valuation movement in the year			EPRA net topped up net initial yield	EPRA net initial yield	Reversion	Over-erented	True equivalent yield
		Underlying £m	Foreign exchange £m	EPRA net initial yield					
United Kingdom	906.9	40.9	–	5.4%	5.6%	9.8%	8.0%	6.1%	
Germany	574.4	35.2	17.7	5.2%	5.4%	9.1%	6.0%	5.7%	
France	290.0	21.6	11.1	4.6%	5.2%	2.5%	2.4%	5.3%	
Total Portfolio	1,771.3	97.7	28.8	5.2%	5.5%	8.5%	6.5%		

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
United Kingdom	4.49	5.57	5.5	2.9	11.2	34.8	4.8	3.1	12.0	35.4
Germany	4.65	4.81	5.6	6.2	12.3	9.9	5.9	6.6	12.3	10.3
France	2.92	6.04	0.7	0.8	2.3	11.7	0.6	0.8	2.2	11.8
Total Portfolio	4.31	5.39	11.8	9.9	25.8	56.4	11.3	10.5	26.5	57.5

Note: The above tables comprise data of the investment properties and properties held for sale; they exclude the hotel, landholding and First Camp land and buildings.

Financial highlights



EPRA NAV¹ 286.0p

+16.5%

(2016: 245.6p see note 12)

Basic NAV 252.0p

+17.2%

(2016: 215.1p see note 12)

Profit before tax £191.4m

+91.2%

(2016: £100.1m)

Cost of debt lowered further to

2.51%

(2016: 2.91%)

1 Key Performance Indicator.

EPRA eps 12.8p

+4.1%

(2016: 12.3p see note 11)

Basic eps 38.7p

+64.0%

(2016: 23.6p see note 11)

Full year's dividend 6.35p

+10.1%

(2016: £23.5 million see note 25)

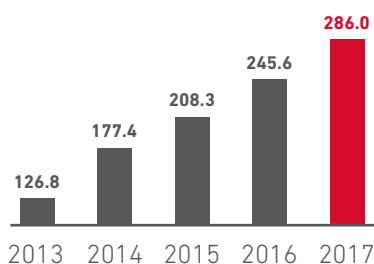
Valuation uplift²

5.8%

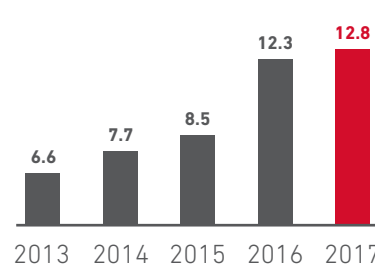
(2016: 7.6%)

2 Investment properties, properties held for sale, hotel and landholding.

EPRA NAV (pence)



EPRA EPS (pence)



Operational highlights



– Repositioning our portfolio

Sold £170m of properties in the UK, £25m in Germany and £7m in France, and invested £188m in Germany and £50m in the UK.

– Enhancing our assets

Close to completing the developments of 16 Tinworth Street, London SW8 and Ateliers Victoires, Paris, and invested a further £16m of property refurbishment expenditure.

– Active asset management

Completed the extensions of 15 leases with the Department for Work and Pensions, securing annual rentals of £6.6m and enhancing the aggregate value of the properties by £21m. Completed a further 158 lease events securing annual rentals of £12.8m.

– High occupancy levels

Like-for-like occupancy levels remained high at 94.9%.

– Positioning for the future

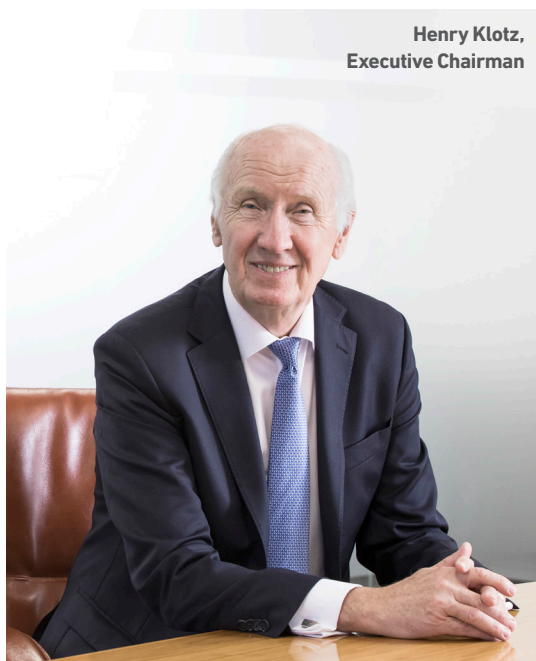
Acquired vacancies of 168,000 sq ft representing an estimated rental value of £1.6m, to be let in 2018.

– Distributions and share split

Changed the distribution method from tender buy-backs to dividends from April 2017 and subdivided each ordinary share into 10 shares to make the shares more attractive to a wider investor base.

– Financing initiatives

Financed or refinanced £222.1m of debt, and repaid an amortising bond which had a coupon of 10.765%, thereby reducing the weighted average cost of debt to an all-time low of 2.51% at 31 December 2017.



Henry Klotz,
Executive Chairman

In the year we disposed of properties valued at £158.9 million and acquired assets for £238.5 million in aggregate, which will lead to a significant increase in our future underlying core profit. Disposals generated proceeds of £241.9 million, and an aggregate gain of £43.7 million, primarily due to the disposal of Vauxhall Square for £144.1 million, which had virtually no impact on rental income as the site was prepared for development and had few remaining tenants.

The properties we subsequently acquired in Germany for £187.7 million offer us multiple opportunities for asset management to drive further growth in the business.

You will find further information about our property portfolio in the Business Reviews.

People and culture

The Board understands that as the Group grows, our culture must also evolve. We have a diverse workforce from many nationalities whose hard work and dedication is at the heart of our success. I am very pleased to report that as part of our commitment to our employees we have implemented key initiatives brought about by our recent staff survey, including the introduction of a flexible and "smart" working policy and the implementation of a Share Incentive Plan, both of which I expect will contribute greatly to our open, professional and entrepreneurial culture and further align the interest of employees and shareholders.

Sustainability

Where opportunities present themselves, we invest across the Group in on-site renewable and low-carbon technology, such as photovoltaic panels, ground source systems and combined heat and power plants. We have a commitment to improving the built environment through our operational management, and our impact on climate change is minimised and controlled through life-cycle awareness. The advantage of operating in different countries is that we have a wider base from which to learn. We have a committed in-house team dedicated to environmental issues across all our core markets and we are working hard to implement best practice in all areas.

Performance

The Group's well-established strategy of long-term investment in commercial properties in the three main markets of Europe has been reflected once more in the excellent results for 2017 and the strong financial position of the Group at the year end. The year was both exceptional and transformational for CLS in many ways, with the disposal of our large development site in Vauxhall, substantial acquisitions in Germany, and the introduction of dividends as a means of distributing cash to shareholders. These initiatives drove both a market-leading TSR of 67.1% and our financial results for the year. Our focus on multi-let office properties, with a geographical diversification and strong cash flows, delivered an excellent uplift in EPRA NAV of 16.5%, and a profit before tax of £191.4 million (2016: £100.1 million).

Property portfolio

We continuously review each property in our portfolio to ensure that each asset is aligned with our medium to long-term strategy to achieve the best return for our shareholders. We focus on cash flow and return on equity as the core components of stable growth, supported by the regeneration of our portfolio, which enables us to continue to generate value.

“We are addressing the changing needs of our customers and thereby enhancing our properties for the future.”



TSR 2017

67.1%

(KPI, see page 18)

EPRA NAV uplift

16.5%

Dividend uplift

10.1%

Board changes

In March, Bengt Mortstedt, a co-founder of the Company and holder of 6.89% of its shares, was reappointed to the Board as a non-executive director in place of Philip Mortstedt. In May, Joe Crawley stepped down as a non-executive director after nine years on the Board, and in December Thomas Lundqvist also retired as non-executive director. Thomas had been on the Board for 23 years and served both as a non-executive director and in the early days as a member of the executive team.

On behalf of the Board, I would like to thank Thomas, Joe and Philip for their commitment and contribution to the Company, and to welcome back Bengt to the Board.

Dividend

In May, we subdivided each ordinary share of 25 pence into ten ordinary shares of 2.5 pence each. We also restored dividend payments as our distribution method, replacing tender offer buy-backs, and these will be paid twice-yearly. In line with the increased core profit, excellent cash flow and a strong balance sheet, the Board is pleased to propose a final dividend for 2017 of 4.30 pence per share, making a total for the year of 6.35 pence, an increase over last year of 10.1%.

Outlook

Last year, I said that I felt confident that the Group was well positioned to deliver long-term value to our shareholders, and our 2017 results have supported this view.

The future of our industry and how we work is rapidly evolving, with increased urbanisation and changing requirements from customers,

and we have seen new market entrants offering alternatives to traditional leases. The CLS Group is comfortable with shorter leases and tenant breaks if required, and will continue to offer value for money to our occupiers.

The growth of major cities is advantageous to our locations as office-based corporate workforces expect to be in convenient locations with good transport links. As the office environment is changing, it is key that we adapt our designs and layouts to ensure that spaces such as receptions, coffee shops and common areas are attractive and modern. We are increasing our investment in information technology, conducting customer surveys, and investing in smart meters and energy management, all to address the changing needs of our customers and thereby enhancing our properties for the future.

We have seen some uncertainties in occupier demand and investors' decisions in the UK following the referendum on Brexit. However, the German economy is performing strongly, and we are seeing attractive investment opportunities despite increased competition. In France, market sentiment has improved during the year.

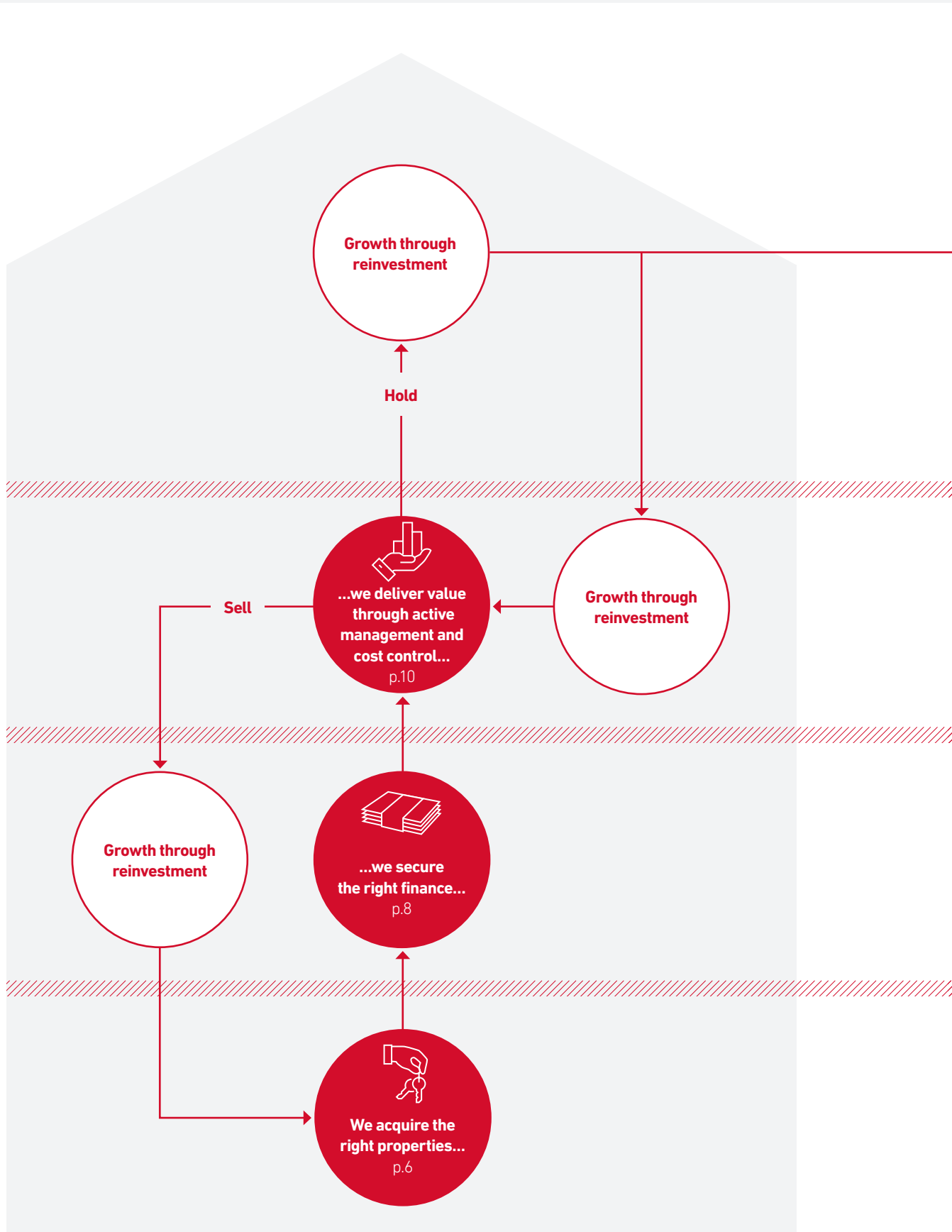
In summary, I sense that the long-term view for our markets is perhaps more positive now than a year ago given the economic growth in evidence around the world. I remain convinced that it is a strength for our portfolio to be spread across the largest cities in the UK, Germany and France as, fundamentally, the demand for office space is driven by a solid economy and the location of the asset. Further expansion in Germany remains one of our priorities and I expect that the Group's portfolio here will continue to grow.

Our balance sheet is robust and we have significant liquid resources to enhance our business by investing in the right properties in our core markets, whilst continuing to maximise value-adding opportunities in our existing portfolio. Our strategy is clear and I am confident we will continue to deliver value for our shareholders in 2018 and beyond.

Henry Klotz

Executive Chairman

Creating sustainable, long-term shareholder value through hands-on management



Our corporate objective is to create sustainable long-term value through owning and actively managing high-yielding office properties in key European cities.

→ Rewarding shareholders, customers, and employees

- Approximately half of our EPRA earnings are distributed to shareholders. This represents £25.9 million of the £52.2 million of EPRA earnings in 2017. The balance is reinvested in the business, increasing the size of the Company. In this way shareholders can be rewarded partly in cash and partly in the capital appreciation of their shares. As we are not a REIT, we are not restricted in the amount we are required to distribute to shareholders, which benefits the business in the longer term.
- Our tenants are our customers. They benefit from a landlord who understands their needs and who provides cost-effective accommodation through investing its profits back into its business.
- We reward employees for their work and their loyalty, through bonus schemes which reflect the success of the business, which aligns their interests with our shareholders and our customers.

We deliver value through active management and cost control

- The key to active management is to perform it in-house, because, by using our own employees, we harness greater motivation, response times and attention to detail than if tasks were to be outsourced.
- In-house management includes asset management (leasing), property management (refurbishments), facilities management (day-to-day maintenance), development management, tenant billing and debt collection, and purchase ledger and service charge management.
- By performing all of these functions in-house we control costs through efficient working, and we maintain our revenue stream through providing a first-rate service to our customers.

We secure the right finance

- Most of our properties are held in their own SPV, and are financed with bank loans borrowed by the SPV on a non-recourse basis to the rest of the Group.
- We have the flexibility to borrow at fixed or floating rates of interest and by borrowing against each asset, we are able to use a level of gearing suitable to the specific property.
- Where properties are more suited to being financed together, such as on the acquisition of a larger portfolio, we finance them under one loan, often with the flexibility to withdraw properties from charge and to substitute others.
- Our bank borrowing is typically for five or seven years, and as most of our debt is obtained from local banks, we have active relationships with over 20 banks around Europe, which spreads our risk.

We acquire the right properties

- We invest in commercial real estate in the UK, Germany and France.
- 95% of our properties are offices.
- We look to acquire properties in good, non-prime locations with good transport links and located in key European cities.
- Many of our properties are multi-let to a wide variety of occupiers, giving us the opportunity to add value whilst spreading our risk.
- The cost of buying investment properties is met partly from the Group's liquid resources and partly from external financing. Liquid resources are supplemented by disposal proceeds from selling assets which present limited further opportunities to add value.



Actively adding value...

We acquire the right properties

We invest in commercial real estate across three European countries – the UK, Germany and France – with a focus on providing well-managed, cost-effective offices in key European cities.

In 2017, we looked to invest in the strongest economy in Europe, Germany, which had relatively high yields and abundant active management opportunities. 2017 was a record year for CLS: we acquired £238.5 million of investment properties – including £187.7 million in Germany and £49.9 million in the UK – the most acquisitions the Group has ever made in a calendar year. By far the most important was a portfolio of twelve properties in Germany which was given the working title of “Metropolis”. At a gross cost of £140.1 million, and a net initial yield of 6.3%, the properties generated a net rent of £8.9 million per annum and the top five tenants, representing 28% of contracted rent, comprised Bosch Group, Panalpina World Transport, Alpine Electronics, Level 3 Communications and The State Government of North Rhine-Westphalia. In aggregate, the portfolio of 963,596 sq ft (89,521 sqm) of multi-let office space, was let to 157 tenants, with a weighted average unexpired lease term of 3.3 years, and the 11% vacancy rate provided us with ample opportunity to add value to the investment.

Also in Germany, we bought Gothic Haus in Dortmund for £33.5 million. It was a multi-let property comprising 239,992 sq ft (22,296 sqm) of office space which, with an occupancy rate of 94.6%, generated a rental income of £2.3 million per annum, reflecting a net initial yield of 7.1%. The property had a diversified tenant base which provided a stable income from 15 tenants and a weighted average unexpired lease term of 3.3 years. It was located on the “Buro Corridor” and adjacent to the Kohlgartenstrasse U-Bahn station, from which the city centre could be reached in less than ten minutes by train.

Network Perlach in Munich, acquired in March for £14.0 million, comprised 9,449 sqm (101,708 sq ft) of office space which, with an occupancy rate of 88% on acquisition, generating a rental income of £0.6 million per annum, reflecting a net initial yield of 5.1%, or 6.2% when fully let. The property had a stable income from a diversified tenant base, and an estimated rental value of some £1.0 million, reflecting an ERV yield of 7.4%.

Hansastraße, Dortmund



Roßstraße, Düsseldorf



Acquisitions in 2017

£238.5m

Tenants acquired

206

Contracted rent acquired

£15.7m

Vacancies acquired

9%

“Project Jamaica” was five properties in the UK acquired in January 2017 for £31.6 million, generating rents of £2.5 million per annum from 10 tenants and representing a net initial yield of 7.9%. The properties had an aggregate office area of 107,000 sq ft (9,940 sqm) and a weighted average unexpired lease term of 4.4 years, and comprised four properties in the south east of England and one in Birmingham. The portfolio offers a number of opportunities to work with existing and potential new tenants, as well as development potential.

Columbia, Bracknell was purchased in November for £14.7 million. The property comprised 54,291 sq ft (5,043 sqm) of office space which, with an occupancy rate of 79%, generated an annual rental income on acquisition of £0.88 million, and a net initial yield of 5.6%. Once fully let, it was expected to produce £1.17 million per annum, reflecting a net initial yield of 7.5%. It had been extensively refurbished throughout and had a diversified tenant base, providing a stable income from 10 tenants and a weighted average unexpired lease term of 3.1 years. It was well-located between the main train station and the town centre, which had recently undergone a £240 million regeneration.



Actively adding value...

We secure the right finance

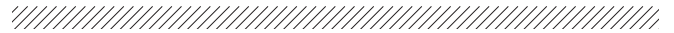
We utilise diversified sources of borrowing to reduce risk, and we target a low cost of debt.



New Printing House Square, London



New Printing House Square, London



“We have been able to lock in low interest rates in recent years.”



The Group's financing strategy is predominantly to hold each property in a separate subsidiary and to finance the property on a non-recourse basis to the other companies in the Group. This means we have 52 loans from 21 banks across Europe, and, as the majority of debt has a duration of 5 to 7 years, we refinance around 20% of it each year. As a consequence, we have been able to lock in low interest rates in recent years, which has brought down our average cost of debt.

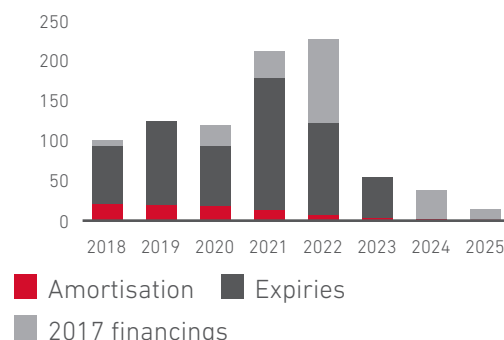
Our objective in 2017 was to maintain a low cost of debt and a high level of fixed-rate debt taken out at historically low interest rate levels. In aggregate we financed or refinanced £222.1 million of loans at a weighted average of 1.63%. Over half of the financing was for the new acquisitions of Metropolis (£82.3 million), Gotic Haus (£21.1 million) Project Jamaica (£13.0 million) and Network Perlach (£9.5 million).

We also took the opportunity to redeem the last high-cost legacy debt within the Group, an amortising bond taken out in 1992 at a fixed rate of 10.765%. This redemption not only reduced the Group's average cost of debt by 25 basis points, but it also took advantage of the gain made on the disposal of Vauxhall Square, reducing the cash tax payable on that transaction by £1.8 million.

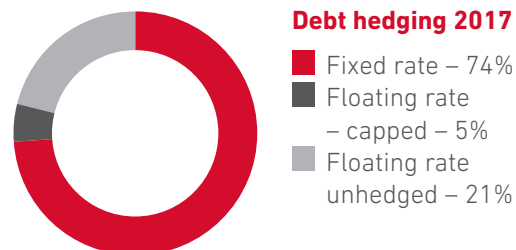
We constantly evaluate unsecured lending options, particularly in the light of the development of the debt market in recent years, but on balance we believe that the benefits of low-cost secured borrowing outweigh those of unsecured borrowing at this time.

At 31 December 2017, the Group's weighted average cost of debt was 2.51%, the lowest in the Group's history, and the Group's loans (excluding First Camp) less cash and corporate bonds, represented 36% of the value of the Group's properties.

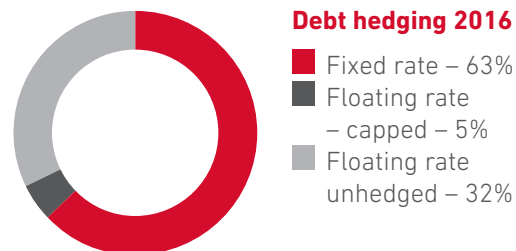
Debt maturity at 31 December 2017 (£m)



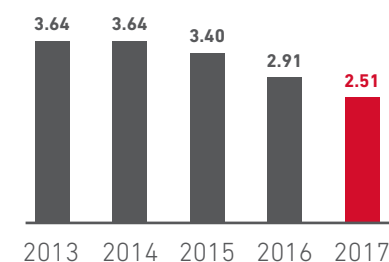
Debt hedging 2017



Debt hedging 2016



History of average cost of debt (%)





Actively adding value...

We deliver value through active management and cost control

We believe that active management means a hands-on approach by our own staff.



Jean Jaurès,
Levallois, Paris



Vor dem Lauch,
Stuttgart

Administration cost ratio

14.2%

Capital expenditure in 2017

£22.9m

Under refurbishment

95,000 sq ft



The key to active management is to provide it in-house, because, by using our own employees, we harness greater motivation, response times and attention to detail than if tasks were to be outsourced.

In-house management includes asset management, property management, facilities management, development management, tenant billing and debt collection, and purchase ledger and service charge management.

Asset management involves finding tenants and negotiating new leases, negotiating lease extensions with existing occupiers, and relocating tenants wishing to expand or contract their space in a building. The key to asset management is to maintain a close relationship so that we understand the needs of the customer.

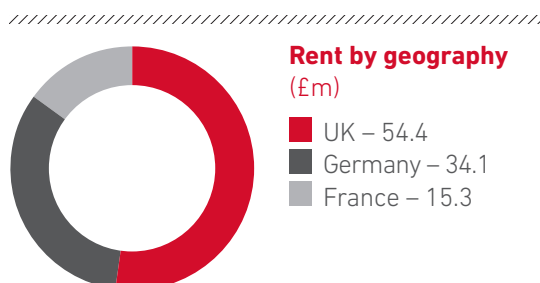
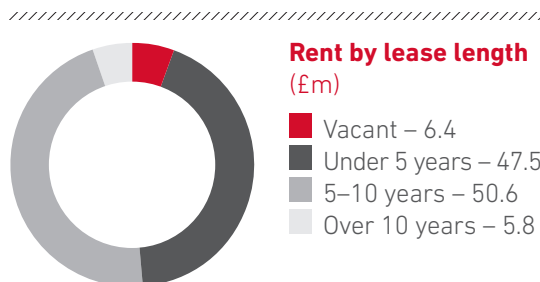
Property management focuses on planned maintenance, repairs and minor refurbishments. Facilities management ensures the safe and efficient running of our buildings, supporting our occupiers' day-to-day accommodation needs.

Our in-house development team identifies opportunities within the portfolio to secure value-enhancing planning permissions, and oversees the construction of redevelopments and major refurbishments.

Tenant billing and debt collection works closely with the asset managers and property managers to maximise cash flow. By maintaining our own purchase ledgers we are able to control cash flow and costs at each property, and produce service charges for customers on a timely and controlled basis.

By performing all of these functions in-house we add value through cost control and maintaining our revenue stream through customer satisfaction.

Since first gaining planning consent in 2012 for a 1.54 million sq ft mixed-use development scheme at Vauxhall Square, we have actively enhanced the consent, changing its size and composition, and at each stage adding value. In 2017, the undeveloped site was sold for £144.1 million, at a gain of 39% above the book value of the property.



The above charts include the erv of vacant space.

On 31 March 2018, 15 leases with the Secretary of State for Communities and Local Government were due to expire or had break clauses which could be exercised by the tenant. Most were used as Job Centres by the Department for Work and Pensions. In 2017, 13 of the leases were renewed for an average of 6.8 years, and the fourteenth was extended on a short-term basis. By derisking the lease events, we reduced the annual rent receivable from £7.3 million to £6.6 million, and added £21 million to the fair value of the properties.

We have actively sought to reduce the carbon footprint of the Group through a number of initiatives, such as the installation of photovoltaic arrays on buildings which fall under our direct management. In 2017, we installed our seventh such array at One Elmfield Park, Bromley, and have four others planned for 2018. The energy saved by these initiatives will lead to a reduction in the occupancy costs for our customers.

In 2017, we conducted a survey of 163 occupiers in a selection of our London properties and from this we have devised an action plan which addresses improvements to facilities and changes to the style of fit-outs.

Our investors

Aligning the business with the interests of its owners

Share split

At the Annual General Meeting on 26 April 2017 it was resolved to sub-divide each of the Company's ordinary shares. On 8 May 2017, each of the existing ordinary shares of 25 pence each was subdivided into ten new ordinary shares of 2.5 pence each.

Dividends

In February 2017, the Company announced that distributions would be by dividend, beginning in April 2017 with £16.3 million (40 pence per share), making a total of £23.5 million for 2016, an increase of 23.0% on 2015 and 47.6% above 2014.

In September 2017, we paid an interim dividend of 2.05 pence per share (£8.4 million) and the Board has proposed a final dividend of 4.30 pence per share (£17.5 million), making a total for the year of £25.9 million, and an uplift of 10.1% over 2016.

Dividend policy

The Company expects sufficient cash flow to be able to meet the growth requirements of the business, maintain an appropriate level of debt and provide cash returns to shareholders via a dividend. It is our intention to pay a progressive dividend fully covered by EPRA earnings. Approximately one-third of the annual dividend will be paid as an interim in September, with the balance paid as a final dividend in April.

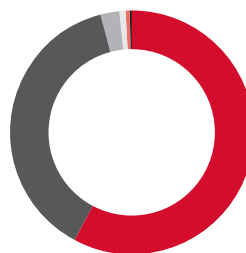
Investor engagement

March 2018	Annual results presentation Annual results roadshows: London, Edinburgh
April 2018	Annual General Meeting
August 2018	Half-year results presentation
September 2018	Half-year results roadshows: London, Edinburgh

Top 10 shareholders

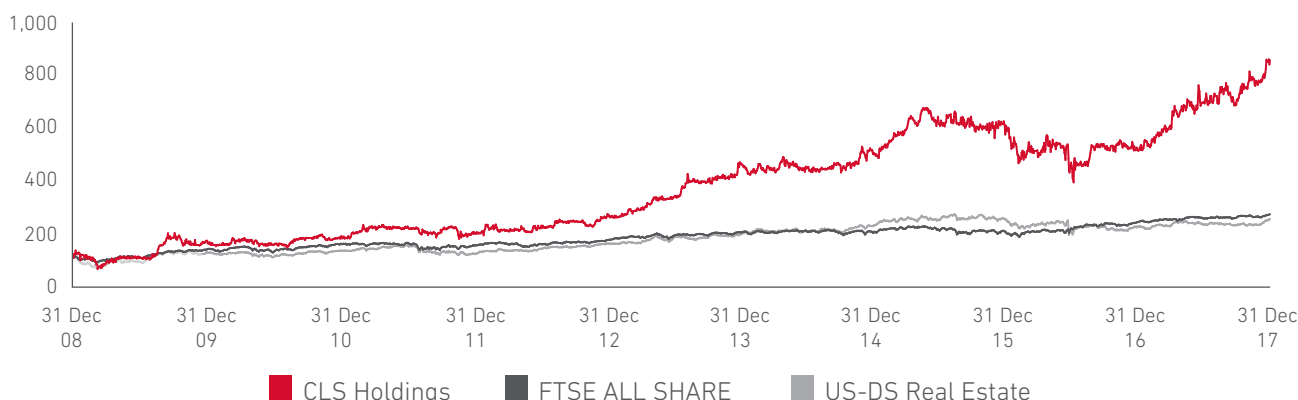
- The Sten and Karin Mortstedt Family and Charity Trust – 51.0%
- Fidelity International – 10.0%
- Bengt Morstedt – 6.9%
- Invesco Perpetual – 5.3%
- Bank of Montreal – 5.3%
- Schroder Investment – 3.2%
- AXA – 1.7%
- Kames Capital – 1.4%
- Legal & General Investment – 1.2%
- NW Brown Investment – 0.9%

Shareholders by sector



- Directors & related parties – 57.9%
- Domestic institutions – 38.1%
- Private individuals – 2.4%
- Foreign institutions – 0.9%
- Domestic brokers – 0.5%
- Hedge funds – 0.1%
- Foreign brokers – 0.1%

Total returns to shareholders 2008–2017



Chief Executive's review

Our strategy is delivering real results



Fredrik Widlund,
Chief Executive Officer

In aggregate we sold assets with a book value of £158.9 million, representing some 10% of the portfolio. By far the most significant disposal was Vauxhall Square in London, which had been valued at £100 million at 31 December 2016, and for which we received net proceeds of £144.1 million. This time last year, we explained that the scheme's bias towards residential towers did not suit our skill set or risk appetite, and the sale clarified our future strategy whilst adding 7p pence to NAV. We also sold a further six properties in Germany, France and the United Kingdom which met our disposal criteria. Since the year end we have sold a further two properties, one each in Germany and the UK, for an aggregate of £12.4 million, and I expect further similar disposals over the next 24 months.

We successfully redeployed the proceeds into Germany (£187.7 million) and the UK (£49.9 million). The largest acquisition was the Metropolis portfolio of 12 properties across major cities in Germany for £140.1 million, yielding 6.3%, and, attractively for us, with around 11% of the portfolio vacant.

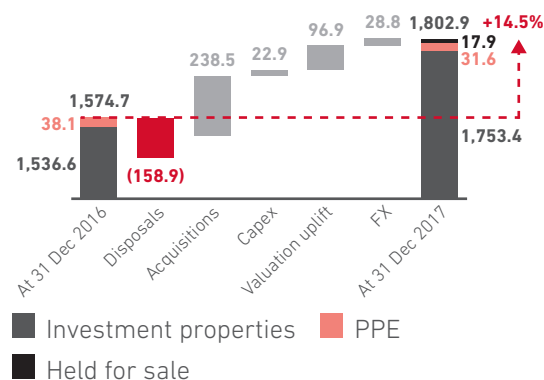
Overview

2017 was an important year for CLS. We made great progress in our strategy of repositioning part of the property portfolio, created opportunities for active asset management to add further value, and significantly reduced short-term letting risks and longer-term financing risks. In addition, we generated a 16.5% increase in EPRA net asset value, a total accounting return of 18.9% and pre-tax profits of £191.4 million, and we introduced dividends as our distribution method to shareholders.

Repositioning the property portfolio

In 2017, the Board's medium-term strategy to reposition part of the property portfolio gained momentum. Our disposal criteria were threefold: first, assets which were low yielding with limited potential; secondly, investments on which the risk/reward ratio was unfavourably balanced; and thirdly, properties which were too small to have a meaningful impact on the Group. By contrast, we invested predominantly in Europe's strongest economy, Germany, and in assets with higher yields, vacancies and active management opportunities. We targeted larger, multi-let properties.

Movement in property portfolio 2017 (£m)



We progressed the developments of 16 Tinworth Street, SE11 and Ateliers Victoires in central Paris, both of which are close to practical completion, with the former due to become our Group headquarters. On the latter terms have been agreed for a conditional pre-let of the entire building. Three significant refurbishments were completed towards the end of the year, in Bromley, Leatherhead and Birmingham, and in total £22.9 million was spent on capital expenditure. We have a rolling refurbishment programme and intend to keep investing in the portfolio to ensure that our properties continue to meet the needs of our customers both now and in the future.

Our strategy is delivering real results

Investing in asset management opportunities

Buying properties with vacancies is an investment in future rental growth, but it has a short-term cost. For many years, one of our KPIs has been to maintain the Group's vacancy rate at below 5.0%. At the end of 2016, the vacancy rate was 2.9%; at 31 December 2017, it had risen to 5.8%. Inherent in the acquisition strategy has been the purchase of properties with vacancies to which we can turn our asset management attention. The average vacancy rate within the acquisitions in the year was 9.0%, whilst the average vacancy rate at 1 January 2017 of disposals made in 2017 was 3.0%. Excluding the effects of these acquisitions and disposals, the like-for-like vacancy rate at the end of 2017 was 5.1%. Included within this figure are three recently-completed major refurbishments which added 1.5% to the rate; without these coming on stream together, our core vacancy rate would have been 3.6%. We look forward to reducing the rate through hands-on management in 2018.

Another impact of the rise in vacancies was a fall in the net initial yield of the portfolio to 5.2% (31 December 2016: 5.6%). Lettings in 2018 should increase the yield, whilst further acquisitions with vacant space will temporarily reduce it and increase the vacancy rate.

Active asset management

At CLS we believe that we get a more efficient and committed performance from our own employees than if their roles were outsourced, and so we perform all of our asset management in-house. This is also key in ensuring a close and long-term relationship with our customers. As predicted last year, the most significant deal in 2017 was the renewal of all 15 leases with the Secretary of State for Communities and Local Government which were due to expire or break on 31 March 2018. The impact of these re-lettings was an uplift in the value of those properties of £21 million at 31 December 2017.

We have also been busy integrating new properties into the organisation and getting to know our new customers, in addition to managing the existing portfolio. By the end of 2017 we had 712 tenants (2016: 525 tenants) within 129 properties (2016: 115 properties). We have always

targeted multi-let properties, to avoid overreliance on single relationships, and the acquisitions in 2017 have enhanced this further. In aggregate across the Group, 1.2 million sq ft (113,113 sqm) of space expired or was vacated, and 1.0 million sq ft (90,900 sqm) was renewed or was let. 169,000 sq ft (15,700 sqm) were vacant within the new acquisitions, and 80,000 sq ft (7,389 sqm) of refurbished space became available for letting towards the end of the year.

Value uplifts across the board

At 31 December 2017, there were uplifts in valuations across the entire Group, with a 5.8% increase in values in local currencies (7.7% in sterling). In the UK, the portfolio rose by 4.7%, Germany added 6.6% in local currency, partly through rental growth and partly through a fall in yields, and the French portfolio rose by 8.2%, entirely from yield compression in a very competitive market. In aggregate, the fair value uplifts of the property portfolio added 22.8 pence to EPRA NAV in the year.

Results

Profit before tax of £191.4 million (2016: £100.1 million) was driven by the uplift in the fair value of the property portfolio of £94.2 million (2016: £36.1 million) and the profit on sale of properties of £43.7 million (2016: £9.1 million). EPRA earnings of 12.8 pence (2016: 12.3 pence) were dampened by a favourable movement in foreign exchange rates in 2016 which had a 1.1 pence per share impact. The underlying business strengthened, with contracted rents growing 13.8%, and I look forward to further growth in underlying earnings from our strategy to reposition the portfolio towards more growth opportunities.

Long-term capital growth

CLS has a business based fundamentally on cash flow, a principle to which we adhere strictly for existing properties and acquisitions alike. By maintaining close contact with our customers, we are able to keep the vacancy rate low, and so the difference between our net initial yield of 5.2% and our cost of debt of 2.51% becomes the chief driver of cash flow. In 2017, net cash from operating activities was £43.2 million (2016: £40.1 million) and EPRA earnings

“The benefits of the Group’s geographical diversification are self-evident.”



Valuation uplift

5.8%

Core vacancy

3.6%

Contracted rent

+13.8%

were £52.2 million (2016: £50.9 million). Of this, £25.9 million (2016: 23.5 million) will be distributed to shareholders, with the balance available to reinvest in the business, together with proceeds of disposals. The results of such reinvestment are evident in the growth in EPRA NAV of 125% in the past four years.

In 2017, our cost of debt fell to its lowest ever level of 2.51% (31 December 2016: 2.91%), mainly due to our redeeming the last expensive legacy debt in the balance sheet, which had been taken out in 1992 at a fixed rate of 10.765%. Our financing is largely insulated to any economic softening; 74% of our debt is now at fixed rates and for an average duration of 4.2 years.

A culture built on relevance and sustainability

The world is changing. Occupiers’ requirements and employees’ preferences are becoming more demanding. This is a trend which is likely to continue, and one which we embrace. We work closely with our customers to ensure the space which we provide is to their needs and specifications, and fitting to a cost-conscious mindset. Likewise, we listen to our employees and design their work experience accordingly. When our employees in London and Hamburg move into new premises this spring, all of our offices will be in newly-built or refurbished premises which incorporate recommendations and suggestions from our latest employee survey.

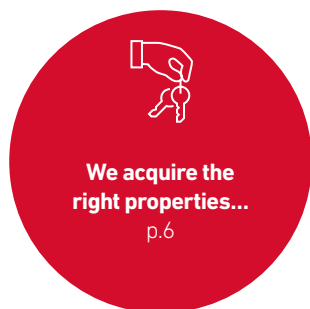
We have a rolling programme to make our buildings more sustainable, and we work closely with tenants to ensure the best standards of recycling and environmental welfare are followed. Full details of our work on sustainability is set out in the Corporate social responsibility report on page 32.

The future

With the uncertainty of the Brexit negotiations and the strength suggested by the economic forecasts of the two largest economies in continental Europe, the benefits of the Group’s geographical diversification are self-evident. At 31 December 2017, the United Kingdom comprised 52% of the portfolio (2016: 61%), Germany 32% (2016: 23%), and France 16% (2016: 16%). Our investment strategy remains geographically flexible and based on the characteristics of individual assets. We will continue to investigate opportunities in each of our three core countries, and to dispose of properties with limited potential and reinvest the proceeds in better prospects. 2017 was the year in which the repositioning of CLS accelerated, and I envisage further progress in the year ahead.

Fredrik Widlund
Chief Executive

Link to business model



Strategy

Invest in high-yielding properties, predominantly offices, with a focus on cash returns

Diversify market risk by investing in geographical area with differing characteristics

Strategy implementation

- We target modern, high quality, well-let properties in good non-prime locations in key European cities.

- We invest in the UK, Germany and France and in sterling and euros.

Key Performance Indicators

(see details on pages 18–19)

TSR – absolute

TSR – relative

EPRA NAV growth

Target a low cost of debt

- We keep the cost of debt well below the net initial yield of the properties to enhance the return on equity
- We use interest rate caps and hedges to control interest rate risk.

Utilise diversified sources of finance to reduce risk

- We maintain strong links with banks and other lending sources across Europe.
- We restrict the exposure of the Group to any one bank.
- We own properties in single purpose vehicles, financed by non-recourse bank debt in the currency used to purchase the asset.

Cost of debt

Maintain high level of liquid resources

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

Maintain high occupancy rates

- We use in-house local property managers who maintain close links with occupiers to understand their needs.
- We focus on the quality of service and accommodation for our customers.

Vacancy rate

Maintain a diversified customer base underpinned by a strong core income stream

- We avoid heavy reliance on any one customer or business sector.

Administration cost ratio

Maintain strict cost control

- We perform as many back office functions as possible in-house, and monitor our performance against our peer group.



Our performance in 2017

- Our TSR in 2017 was 67.1%, the best in the FTSE Real Estate Super Sector index.
- Return on equity was 19.9%.
- EPRA NAV growth before dividends was 18.9%.
- 22 properties acquired for £238.5m at 6.6% NIY and with 9.0% vacancy.
- 7 properties sold for £199.8m.

Priorities for 2018

- We shall continue to dispose of properties with limited potential and reinvest the proceeds in better prospects.
- We expect those opportunities will include properties with an element of vacancies for us to address and add value.
- We expect better investment opportunities will arise in the UK and Germany.

Link to principal risks (see details on pages 20–21)

Property investment risk

- Weighted average cost of debt reduced to 2.51% (2016: 2.91%), the lowest level it has been.
- During the year we took out 15 loans for £222.1m at an average interest rate of 1.63%, of which £174.0m was at fixed rates which averaged 1.54%.
- We have 52 loans from 21 banks.
- No bank provides more than 14.4% of our borrowings.
- 78 of our 129 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.
- At 31 December 2017, we had liquid resources of £206.7m and undrawn bank facilities of £72.9m.

- With 74% of the Group's debt already at fixed rates, we have the versatility to chose whether to take out new loans at fixed or floating rates.
- The £80m of loans expiring in 2018 will be refinanced on a case-by-case basis.
- We intend to maintain at least £100m of liquid resources to provide the Group with financing flexibility.

Funding risk

Other investment risk

- At 31 December 2017 our occupancy rate was 94.2% (2016: 97.1%).
- Excluding the effect of acquisitions and disposals in the year, and three large refurbishments which became available to let towards the end of the year, our core occupancy rate was 96.4%.
- We have 712 customers.
- 30% of our income is derived from government occupiers, and a further 23% from major corporations.
- The weighted unexpired lease term is 5.4 years.
- Our administration cost ratio for 2017 was 14.2%.

- We will prioritise letting the vacancies bought last year and those generated by refurbishments.
- We also expect to buy more vacancies in the year which will receive immediate attention.
- We will maintain close and regular contact with customers, particularly in the UK as Brexit approaches.
- We will maintain strict financial control on the cost of running the business as it continues to expand.

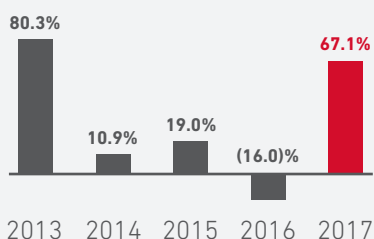
Sustainability risk

Taxation risk

Political and economic risk

Total Shareholder Return – Absolute

[Link to strategy](#) 



Definition

The annual growth in capital in purchasing a share in CLS, assuming dividends are reinvested in the shares when paid.¹

Why this is important to CLS

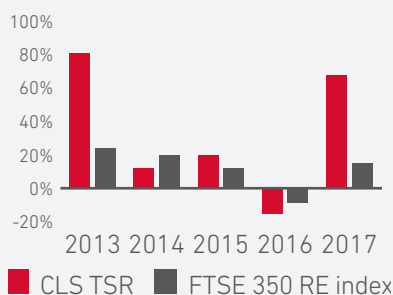
This KPI measures the increase in the wealth of a CLS shareholder over the year. In 2017 our target Total Shareholder Return (absolute) was between 12% and 16%.

Progress

In 2017, the total shareholder return was 67.1%.

Total Shareholder Return – Relative

[Link to strategy](#) 



Definition

The annual growth in capital in purchasing a share in CLS, assuming dividends are reinvested in the shares when paid, compared to the TSR of the other 25 companies in the FTSE 350 Real Estate Super Sector Index.

Why this is important to CLS

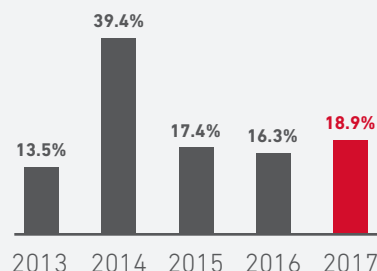
This KPI measures the increase in the wealth of a CLS shareholder over the year, against the increase in the wealth of the shareholders of a peer group of companies. We target Total Shareholder Return (relative) of between the median and upper quartile.

Progress

In 2017, the TSR was 67.1%, making CLS the best performing share of the FTSE 350 Real Estate Super Sector Index of 26 companies.

EPRA NAV (plus dividends)

[Link to strategy](#) 



Definition

The aggregate of the change in EPRA NAV plus dividends paid, as a percentage of the opening EPRA NAV, also known as Total Accounting Return.

Why this is important to CLS

This KPI measures the increase in the EPRA net assets per share of the Company before the payment of dividends, and so represents the value added to the Company in the year. In 2017 our target EPRA NAV growth was between 6% and 9%.

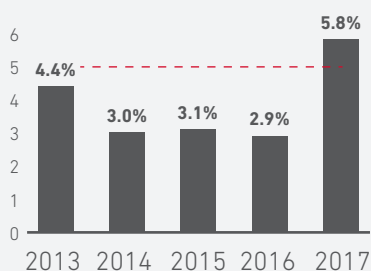
Progress

In 2017, EPRA NAV (plus dividends) was 18.9%.

¹ For the purposes of calculating this KPI for executive remuneration, the market price is calculated as the average closing share price in December, not the closing share price at the end of December, to avoid bonuses being paid based on distorting fluctuations around the year end.

Vacancy Rate History

Link to strategy 



Definition

The ERV of vacant lettable space, divided by the aggregate of the contracted rent of let space and the ERV of vacant lettable space.

Why this is important to CLS

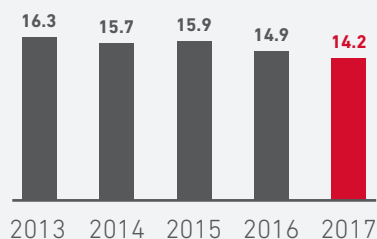
This KPI measures the potential rental income of unlet space and, therefore, the cash flow which the Company would seek to capture. We target a vacancy rate of between 3% and 5%; if the rate exceeds 5%, other than through recent acquisitions, we may be setting our rental aspirations too high above the current market; if it is below 3% we may be letting space too cheaply.

Progress

At 31 December 2017, the vacancy rate was 5.8%, or 5.1% on a like-for-like basis.

Administration Cost Ratio

Link to strategy 



Definition

The administration costs of the Group, excluding those of the Other Investments segment, divided by the net rental income of the Group, excluding the net income of First Camp.

Why this is important to CLS

This KPI measures the administration cost of running the core property business by reference to the net rental income that it generates, and provides a direct comparative to most of our peer group. In 2017 our target administration cost ratio was between 16.50% and 14.50%.

Progress

In 2017, the administration cost ratio was 14.2% (see note 5).

Other Performance Indicators

In addition to the key performance indicators of the Group, which are all tied to executive remuneration, the Group also has other performance indicators by which it measures its progress, and these include:

- Cost of debt – we seek to maintain a cost of debt at least 200 bps below the Group's net initial yield. At 31 December 2017, the cost of debt was 2.51% and the net initial yield 5.2%.
- Sustainability – we seek to minimise our impact on the environment by targeting a 5% reduction in carbon emissions each year in our like-for-like managed portfolio. In 2017 we achieved a 7% reduction (2016: 11.4%).
- Customer retention – through our active asset management we seek to retain more than 50% of our tenants by value. In 2017, 66% of our leasing transactions were lease renewals (2016: 54%).
- Health & Safety – we work hard to ensure that the health and safety of our employees, customers, advisors, contractors and the general public is not compromised and pride ourselves on remaining below the UK National Accident Frequency rate. For 2017, the national rate was 910 per 100,000 people; CLS's was 119. This rate is calculated by dividing the number of accidents reported in the year by the number of people occupying our buildings.

Strategy



We acquire the right properties...



...we secure the right finance...



...we deliver value through active management and cost control...

Link to Remuneration

All of the Group's Key Performance Indicators are linked to executive remuneration, see page 62.

Principal risks and uncertainties

A stable risk environment

Risk	Areas of impact	Change in risk in year (pre-mitigation)	Mitigation
Property investment			
Underperformance of investment portfolio due to: <ul style="list-style-type: none"> • Cyclical downturn in property market • Changes in supply of space and/or occupier demand • Poor asset management 	Cash flow Profitability Net asset value Banking covenants	Increased	Geographically-diversified portfolio with 48% of the Group's properties being outside the UK, in two of the most stable economies in Europe.
	Rental income Cash flow Vacancy rate Void running costs Property values Net asset value	Increased	47% of UK income is derived from Government tenants. Minimal exposure to the type of tenant who may want to relocate from the UK to elsewhere in Europe. In-house asset management enables management to highlight and address tenant needs.
	Rental income Cash flow Vacancy rate Void running costs Property values Net asset value	Unchanged	Asset management is not outsourced, property teams proactively manage customers to ensure changing needs are met, and review the 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.
Other investments			
Underperformance of corporate bond portfolio	Net asset value Liquid resources	Increased	The Group invests only in bonds with a minimum issue size of £350m, with no investment being more than 5% of the Group's portfolio; the portfolio size can be no greater than 50% of the Group's cash and other financial investments.
Sustainability			
Increasing building regulation and obsolescence	Rental income Cash flow Vacancy rate Net asset value Profitability Liquid resources	Unchanged	Continual assessment of all properties against emerging regulatory changes. Fit-out and refurbishment projects benchmarked against third party schemes.
Increasing energy costs and regulation	Net asset value Profitability Liquid resources	Unchanged	Investment in energy efficient plant and building-mounted renewable energy systems.
Funding			
Unavailability of financing at acceptable prices	Cost of borrowing Ability to invest or develop	Unchanged	The Group has a dedicated treasury team and relationships are maintained with some 21 banks, thus reducing credit and liquidity risk. The exposure on refinancing debt is mitigated by the lack of concentration in maturities.
Adverse interest rate movements	Cost of borrowing Cost of hedging	Increased	74% of borrowings are at fixed rates and 5% are subject to interest rate caps.

Risk	Areas of impact	Change in risk in year (pre-mitigation)	Mitigation
Breach of borrowing covenants	Cost of borrowing	Increased	Borrowing agreements contain cure clauses to rectify LTV breaches through part repayment of the loan or the depositing of cash.
Foreign currency exposure	Net asset value Profitability	Reduced	Property investments are partially funded in matching currency. The difference between the value of the property and the amount of financing is generally unhedged and monitored on an ongoing basis.
Financial counterparty credit risk	Loss of deposits Cost of rearranging facilities Incremental cost of borrowing	Unchanged	The Group has a dedicated treasury team and relationships are maintained with 21 banks, thus reducing credit and liquidity risk. The exposure on refinancing debt is mitigated by the lack of concentration in maturities.

Political and economic

Impact of UK exit from the EU	Net asset value Profitability Availability of funding	Increased	47% of rents in the UK are derived from central government departments. On a macro level, the Group operates in the three largest and most stable economies in Europe.
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People

Failure to recruit suitable staff to accommodate investment expansion	Rental income Cash flow Vacancy rate Void running costs Property values Net asset value	Increased	Staffing levels and recruitment are addressed as part of investment decisions.
Failure to recruit, develop and retain staff and key executives with the right skills	Profitability Net asset value	Unchanged	The semi-annual appraisal process assesses capabilities and generates training plans. Staff turnover and engagement is monitored across the Group. Succession planning is in place for all senior management roles.

Catastrophic event

Large scale terrorist or cyber attack, environmental disaster or power shortage	Profitability Net asset value	Increased	Business continuity and crisis management plans are in place. Cyber penetration testing is carried out periodically.
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The following are no longer considered principal risks and uncertainties by the Board:

Development risk	with the sale of Vauxhall Square there are no major developments planned in our portfolio
Taxation risk	tax rates are falling across the countries in which we operate and significant tax rises are not currently on the agenda of political leaders in power
Break-up of the euro	election results in France and Germany have provided political stability across Europe
Major health & safety incidents	major development projects bring with them an increased risk of accidents and with the sale of Vauxhall Square our developments are now smaller in size and risk

Business review: United Kingdom

Repositioning for long-term income growth

UK overview

The UK economic outlook continues to be dominated by the potential effects of Brexit but the feared sharp slowdown has not materialised and the consensus GDP forecast for 2018 has improved following a better than expected performance in 2017. The uncertainty of the Brexit negotiations has also created some uncertainties for occupiers and investors but the UK, and London in particular, offers one of the most liquid and transparent property markets in the world and we will continue to invest in properties where we see long-term value and opportunities for hands-on asset management.



Acquisitions

In January, we acquired a portfolio of five properties, four in London and one in Birmingham, for £31.6 million in aggregate and at a net initial yield of 7.9%. There are opportunities for adding value to four of the properties in their existing state, and one has a medium-term development potential which we are progressing. In November, we bought Columbia, Bracknell for £14.7 million. This was 11% vacant and should produce a yield of 7.5% when fully let. More details of these acquisitions are set out on page 7.

Disposals

The planning consent attached to Vauxhall Square, SE8 had been gained over four years. Its sale in May for net proceeds of £144.1 million generated a gain of 39% above its book value, and added 7p to the Group's net asset value. It was a site sold with planning consent for a 1.6 million sq ft mixed-use development of residential, office, hotel, retail and student accommodation, including two 52-storey residential towers. The bias towards residential towers did not suit our skill set or risk appetite, and the sale took a significant amount of potential development risk off the balance sheet.

Three other UK properties were sold in the year: Centenary Court, Bradford for £14.2 million; Benwell House, Sunbury for £9.2 million; and Chailey House, Bedford for £1.9 million. Centenary Court, a 105,200 sq ft office building, was due to fall vacant on a tenant break in 2021; Benwell House was sold with vacant possession to a purchaser for an alternative use; and Chailey House was a small asset acquired with the Neo portfolio in 2013.

Since the year end, we have sold Clifton House and 126/128 Park Road, Peterborough for £6.2 million.

Asset management

In October, we renewed leases to the Secretary of State for Communities and Local Government on 14 properties reserving £6.6 million per annum for an average of 6.8 years to the first lease break. Excluding these, on average new lettings in the year were achieved at 2.1% above their estimated rental values (ervs) at 31 December 2016, and rent reviews were settled at 1.6% above ervs. Overall, during 2017 ervs were broadly unchanged, and the UK portfolio remained net reversionary. Those leases which were reversionary were £5.7 million, or 10.6%, under-rented, of which we expect to capture over a third in 2018. Of the £4.1 million of over-renting, £2.8 million is on leases with at least five years unexpired. The vacancy rate of



United Kingdom

£934.0m

Value of properties

52%

Percentage of Group's property interests

243,252 sqm

Lettable space

5.5%

Vacancy rate

217

Number of tenants

66%

Government and major corporates



Hygeia, Harrow, London

the UK portfolio at 31 December 2017 was 5.5% (2016: 4.0%), of which 3.5% comprised recently completed refurbishments and acquisitions. During 2017, 827,152 sq ft (76,845 sqm) became vacant, and we let or renewed leases on 698,071 sq ft (64,853 sqm). 130,092 sq ft (12,086 sqm) of vacant space was sold, predominantly at Vauxhall Square, 32,238 sq ft (2,995 sqm) of refurbishments became available, and 13,089 sq ft (1,216 sqm) of vacant space was acquired through acquisitions.

Developments

16 Tinworth Street, SE11, an £8.6 million, 7-storey development of 9,181 sq ft (853 sqm) of office and residential accommodation, will house the Group's headquarters when it reaches practical completion in the spring.

In January 2018, we secured a resolution to grant planning permission for a new 10-storey residential and office development at Quayside Lodge, Fulham SW6 to replace a 30,000 sq ft office building. The 160,000 sq ft (14,865 sqm) development will provide 11,500 sq ft of office space, 110 residential units, of which 35% will be affordable, 200 cycle spaces and electric car charging points.

Valuation

The UK portfolio was revalued upwards by 4.7% in the year, reflecting a 3.6% increase in like-for-like rental values, and yield compression of 20 bps, largely reflecting the longer leases with the Secretary of State.

“The sale of Vauxhall Square for £144.1 million generated a gain of 39% above its book value.”

Strategy in action



Reception at Cassini Court

Cassini Court, Leatherhead

Acquired: 2016

Two-storey office building: 17,500 sq ft

Location: Randalls Research Park, Leatherhead

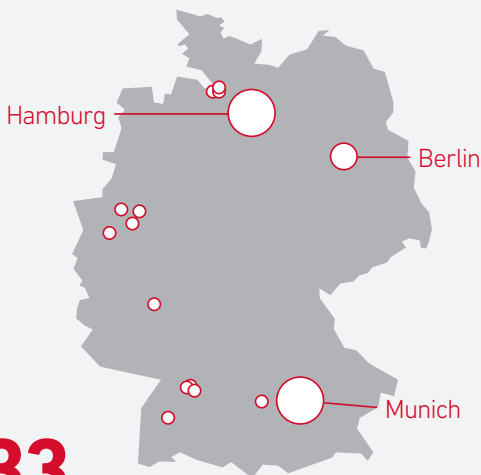
Following a negotiated lease termination, our in-house team carried out a face-lifting refurbishment of the property which dramatically enhanced its appeal. The tired 1990s reception was extensively redesigned with modern sustainable materials, providing an attractive, light and welcoming entrance. With new refurbished office areas and improved landscaping the property is generating good viewings and we look forward to securing lettings in 2018 at increased rental levels.

Business review: Germany

Actively looking to invest in major cities

Germany overview

The German economy continues to perform strongly and the forecast GDP growth for 2018 was recently upgraded again. Unemployment is falling and vacancy levels for offices in the big seven cities are at record low levels. There has been limited supply of new offices and this is now driving rental growth. The underlying strength of Germany's well-diversified economy is highly reassuring. Despite increased competition, both from German and foreign investors, we consider Germany to offer one of the most attractive investment opportunities in Europe.



33

Number of properties

Germany

£578.9m

Value of investment properties

32%

Percentage of Group's property interests

312,471 sqm

Lettable space

7.1%

Vacancy rate

338

Number of tenants

37%

Government and major corporates

Albert-Einstein-Ring, Hamburg



Acquisitions

In 2017, we spent £187.7 million on acquisitions in Germany in three transactions: a portfolio, and individual purchases in Dortmund and Munich. Project Metropolis, was a portfolio of twelve properties, comprising three in Hamburg and in Stuttgart, four in a cluster of Dortmund, Dusseldorf, Witten and Marl, and one each in Munich and Wiesbaden. At a cost of £140.1 million, the portfolio generated net annual rent of £8.9 million and a net initial yield of 6.3%. Being 11% vacant, it provides good opportunities to add value.

Gotic Haus in Dortmund was acquired in October for £33.5 million. On acquisition this multi-let office building of 239,992 sq ft (22,296 sqm) produced an annual rental income of £2.3 million and a net initial yield of 7.1%. Its vacancy rate on acquisition was 5.4%. Network Perlach in Munich, a 101,708 sq ft (9,449 sqm) multi-let office building, was acquired for £14.0 million in May, and generated a rent of £0.6 million. With a vacancy rate of 12%, the net initial yield would rise from 5.1% to 6.2% when fully let, and to 7.4% when the reversionary income has been captured.

Disposals

In addition to finding attractive investments in Germany in the year, we also applied our disposal criteria to the existing portfolio and sold two properties – one a fully let building but with limited potential, the other too small to have a meaningful impact on the Group.

The E.ON Allee office campus in Landshut, 80 km north east of Munich, was sold in May for £25.0 million, or 5.2% above the external valuation at 31 December 2016. The campus comprised four office properties, providing a total of 172,797 sq ft (16,053 sqm) of floor space and 225 parking spaces let entirely to E.ON on long leases. The asset was acquired in September 2006 and developed by CLS in stages until July 2012. Suderhadstedt was a small nursing home which was sold in August for £0.4 million.

Since the year end we have exchanged unconditional contracts to sell Merckring 33–35 in Hamburg for £6.2 million. The property, which comprised 60,321 sq ft (5,604 sqm) of industrial and office space, was peripheral to the Group's activities.

Asset management

The acquisitions drove the 59% rise in the value of the German portfolio during the year. It now comprises 33 properties (2016: 21 properties), containing 338 tenants (2016: 164 tenants). To accommodate this increase, we have added scale to the German team, which now has the capacity for further growth.

On average new lettings in the year in Germany were achieved at 6.2% above their ervs at 31 December 2016, whilst rent reviews and relettings were settled broadly at erv. Overall, during 2017 ervs rose by 3.3%, and the German portfolio remained net reversionary. Leases were reversionary to the tune of £3.1 million (9.1% under-rented), others were over-rented by £2.6 million (6.0%), and the erv of vacancies was £2.6 million. The vacancy rate of the German portfolio at 31 December 2017 was 7.1% (2016: 1.7%), which reflected the vacancies in the acquisitions. During the year, 237,952 sq ft (22,106 sqm) became vacant, we let or renewed leases on 175,996 sq ft (16,351 sqm), and 155,937 sq ft (14,486 sqm) of vacant space was bought through acquisitions.

Developments

An attraction of the Metropolis portfolio was the opportunity which it presented to add value both through planned capital expenditure of €5 million per annum, and medium-term developments, which are already under consideration.

Valuation

The German portfolio rose by a valuation uplift of 6.6% in local currency, reflecting a rise in ervs of 3.3%, and yield compression of 63 bps.

“Being 11% vacant, Metropolis provides good opportunities to add value.”

Strategy in action



The Atrium at East Gate

East Gate, Munich

Acquired: 2007

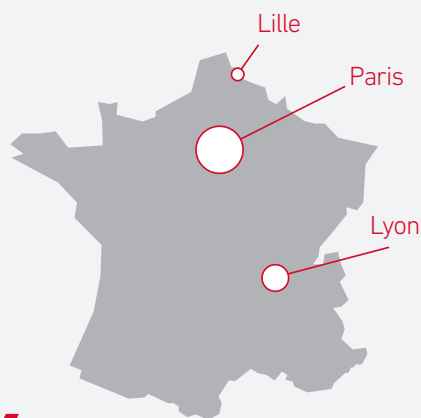
Multi-let office building: 176,500 sq ft

Location: Feldkirchen, 10km east of Munich

This property was let to a single tenant until it became vacant in January 2017 and was valued at €20.3m in December 2016. The asset management team repositioned the building as a multi-let technical hub which would seek to attract occupiers from central Munich looking for more affordable accommodation. The building is now 50% occupied by a number of technology companies and is likely to be fully let by the end of 2018, at which point the value should be in excess of €35m. Our property managers have assisted incoming tenants with fit-out works and some are already enquiring about further expansion space.

France overview

With the election of President Macron in May and the political reforms that have been or will be implemented there is a renewed optimism in France and we have seen investor sentiment strengthening during the year. With limited office developments having taken place in recent years there is also a lack of quality office space which, in combination with economic growth and falling unemployment, means the fundamentals for commercial property are solid and improving both in Paris and Lyon.



24

Number of properties

France

£290.0m

Value of investment properties

16%

Percentage of Group's property interests

80,836 sqm

Lettable space

4.4%

Vacancy rate

157

Number of tenants

54%

Government and major corporates



Acquisitions

In the buoyant Parisian market of 2017, we were unwilling to match the appetite of local investors to chase ever falling yields, and our acquisitions were restricted to enhancing our existing portfolio, acquiring a car park at 23/27 Rue Pierre Valette, and a further floor in a multi-owned building in Lyon. However, we continue to look in both the Paris and Lyon markets for assets which meet the return criteria which we apply to acquisitions across the Group.

Disposals

Most of the assets earmarked for disposal from our French portfolio had been sold by the end of 2016. In 2017, we sold one asset, Le Sully in Mantes-la-Jolie, 48 km to the north-west of Paris for £7.1 million.

Asset management

On average new lettings, rent reviews and lease extensions in the year in France were achieved at marginally below their ervs at 31 December 2016. Overall, during 2017 ervs remained unchanged and the French portfolio was marginally reversionary. Those leases which were reversionary were £0.4 million, or 2.8%, under-rented, and others were over-rented by 2.4%. The vacancy rate of the French portfolio at 31 December 2017 was 4.4% (2016: 2.9%). During 2017, 115,475 sq ft (10,728 sqm) became vacant and we let or renewed leases on 104,442 sq ft (9,703 sqm).

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“In the buoyant Parisian market of 2017, our acquisitions were restricted to enhancing our existing portfolio.”

Developments

Ateliers Victoires is a 21,500 sq ft (2,000 sqm) prime office refurbishment in central Paris close to the Louvre. This boutique-style office building includes a rooftop garden terrace with panoramic views across the city, and will be ready in late spring. Terms have been agreed for a conditional pre-let of the entire building.

Valuation

The French portfolio valuation rose by 8.2% in local currency; although contracted rent on a like-for-like basis fell by 3.0%, the net initial yield (excluding developments) fell by almost 100 bps, which accounted for most of the rise in the value of the properties, and an 18% increase in Ateliers Victoires provided the rest.

Strategy in action



Jean Jaurès, Levallois, Paris

Acquired: 2004

Multi-let office building: 49,400 sq ft

Location: Levallois, 6km north-west of central Paris

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At the beginning of the year, we consolidated our Paris and Lyon offices and relocated the entire team into one of our own buildings. The move gave the team an opportunity to work under one roof for the first time, and in a more open-plan style of environment, reducing the operational costs. The office was refurbished to a modern, contemporary style with breakout space, casual seating, breakfast bar and changing rooms, all to improve staff wellbeing and productivity.

Chief Financial Officer's review

Outperformance supported by a strong underlying business



John Whiteley,
Chief Financial Officer

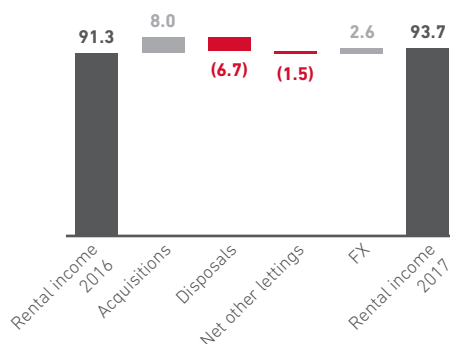
Exchange rates to the £

	EUR	SEK
At 31 December 2015	1.3571	12.4420
2016 average rate	1.2242	11.5801
At 31 December 2016	1.1731	11.2754
2017 average rate	1.1416	11.0014
At 31 December 2017	1.1260	11.0445

Income statement

In 2017, rental income of £93.7 million was £2.4 million higher than in 2016. Acquisitions added £8.0 million and the weakness in sterling £2.6 million; disposals accounted for a fall of £6.7 million, and a large expiry in Germany a further £1.5 million. Other general letting activity produced a similar level of rental income as last year.

Movement in rental income 2017 (£m)



On 8 May 2017, the Company subdivided each of its existing ordinary shares of 25 pence each into ten new ordinary shares of 2.5 pence each. Consequently, all metrics in this report which are given per share are based on the new number of shares in issue, and comparatives have been restated accordingly.

Headlines

Profit after tax attributable to the owners of the Company of £157.7 million (2016: £97.8 million) generated basic earnings per share of 38.7 pence (2016: 23.6 pence) and EPRA earnings per share of 12.8 pence (2016: 12.3 pence). EPRA net assets per share were 16.5% higher at 286.0 pence (2016: 245.6 pence), and basic net assets per share rose by 17.2% to 252.0 pence (2016: 215.1 pence).

Approximately 52% of the Group's business is conducted in the reporting currency of sterling and 36% in euros, with the balance in Swedish kronor. Compared to last year, sterling's average rate weakened against the euro by 7.2% and against the krona by 5.3%, thereby increasing profits. Likewise, at 31 December 2017 the euro was 4.2% stronger and the krona 2.1% stronger against sterling than twelve months previously, increasing the sterling equivalent value of non-sterling net assets.

Other property income of £21.4 million (2016: £21.4 million) included income from First Camp of £13.1 million (2016: £12.5 million), hotel revenue from Spring Mews of £4.4 million (2016: £4.3 million) and dilapidations and other one-off receipts of £3.9 million (2016: £4.6 million). In aggregate net rental income rose by 5.6% to £113.1 million (2016: £107.1 million).

“A full year distribution of 6.35p per share, an increase of 10.1% over last year, was covered 2.07x by EPRA eps.”



Basic eps

38.7p

(2016: 23.6p)

Cost of debt

2.51%

(2016: 2.91%)

Interest cover

3.7x

(2016: 3.4x)

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 2017, we were able to maintain the level of administration expenses at £14.2 million (2016: £14.1 million), and so the administration cost ratio fell to 14.2% (2016: 14.9%), well within our KPI target for the year of 16.5%.

The net surplus on revaluation of investment properties of £94.2 million (2016: £36.1 million) reflected contributions from each country: in local currencies, the UK portfolio rose by 4.7%, Germany by 6.6%, and France by 8.2%.

Of the gain on sale of properties in 2017 of £43.7 million (2016: £9.1 million), which comprised the excess of net proceeds over book value, Vauxhall Square accounted for £41.4 million.

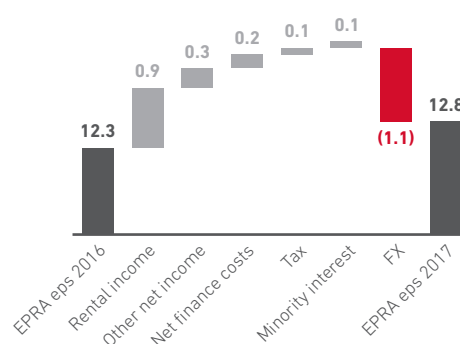
Finance income of £10.1 million (2016: £13.6 million) included interest income of £4.4 million (2016: £4.1 million) from our corporate bond portfolio, together with dividends from Catena and interest on the deferred consideration on the sale of Vanerparken, and foreign exchange variances of £1.8 million (2016: £4.8 million).

Finance costs of £34.0 million (2016: £32.7 million) included a £9.7 million loss on the early redemption of a long-term debenture loan taken out in 1992 at a coupon of 10.765%. Excluding this, and a gain on the fair value movements of derivative financial instruments, interest costs were £27.2 million (2016: £26.3 million), after capitalising interest of £0.5 million (2016: £0.7 million) on developments. Interest costs before such capitalisation were £27.7 million (2016: £27.0 million) reflecting a higher level of borrowings in the year at a lower average cost.

The tax charge of 17.5% was marginally below the weighted average rate of the countries in which we do business (20.7%), primarily due to the increase in indexation on the base cost of properties in the UK. Such indexation has been frozen at 31 December 2017 under recent legislation, so the tax charge for future years will no longer benefit in this way, and is likely to increase in future years, mitigated only by the falls, if any, in the rates of corporation tax in the jurisdictions in which the Group operates.

Overall, following the transformational activity in the year, EPRA earnings were 2.6% higher than last year at £52.2 million (2016: £50.9 million), and generated EPRA earnings per share of 12.8 pence (2016: 12.3 pence). The increase was driven by increases in rental income and other net income, and reductions in net finance costs and tax, less foreign exchange gains, of which there were fewer this year than last.

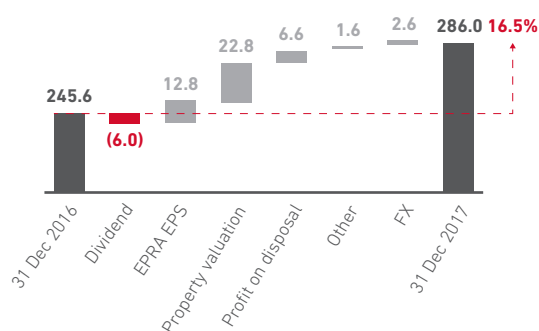
Incremental movements in EPRA eps (pence)



EPRA net asset value

At 31 December 2017, EPRA net assets per share were 286.0 pence (2016: 245.6 pence), a rise of 16.5%, or 40.4 pence per share. The main reasons for the increase were EPRA earnings per share of 12.8 pence, the benefit of the uplift in the valuation of the investment property portfolio of 22.8 pence, and profit on sale of properties of 6.6 pence, less dividends of 6.1 pence per share.

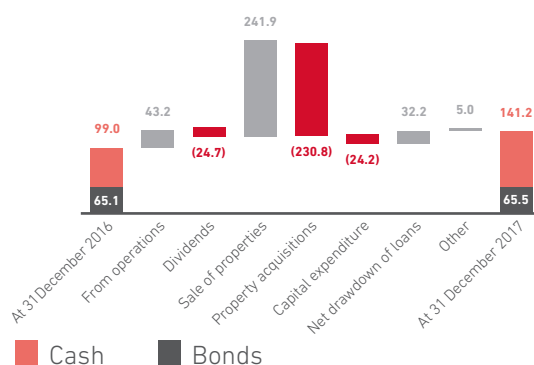
Movement in EPRA NAV 2017 (pence)



Cash flow, net debt and gearing

Net cash flow from operating activities generated £43.2 million, of which £24.7 million was distributed as dividends. Proceeds from property disposals of £241.9 million were redeployed in acquisitions of £230.8 million and capital expenditure of £24.2 million. Net new debt of £32.2 million was raised, and by 31 December 2017, the Group's cash balances had risen by £42.2 million to £141.2 million. These were supplemented by £65.5 million of corporate bonds and undrawn bank facilities of £72.9 million, of which £30.0 million was committed.

Movement in liquid resources (£m)



Gross debt rose by £59.9 million to £914.3 million, of which £15.5 million was due to foreign exchange rate movements. £211.6 million of loans were drawn, and £126.6 million were repaid, as were £40.6 million of overdrafts. At 31 December 2017, the weighted average unexpired term of the Group's debt was 3.6 years.

Balance sheet loan-to-value (net debt to property assets) fell to 36.7% (2016: 43.7%), and the loan-to-value of secured loans by reference to the value of properties secured against them was 51.8% (2016: 49.8%). The value of properties not secured against debt rose to £246.7 million (2016: £135.6 million).

The weighted average cost of debt at 31 December 2017 was 2.51%, 40 bps lower than 12 months earlier. The redemption of the high-coupon debenture loan accounted for 25 bps of that fall, net new bank loans reduced the average cost by 10 bps, and sterling's relative weakness to the euro caused a 5 bps fall.

In 2017, our low cost of debt led to recurring interest cover of 3.7 times (2016: 3.4 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 48% of the Group's exposure to foreign currency is naturally hedged, and the most efficient use can be made of the Group's assets. An exception is where a portfolio is acquired, such as Metropolis, and is financed by a single loan. At 31 December 2017, the Group had 52 loans across the portfolio from 21 banks, plus secured notes and an unsecured bond.

To the extent that Group borrowings are not at fixed rates, the Group's exposure to interest rate risk is mitigated by financial derivatives, mainly interest rate swaps. In the recent medium-term low interest rate environment, the Board chose to take advantage of the conditions, fixing most of the medium-term debt taken out during the year. In 2017, the Group financed or refinanced 15 loans to a value of £222.1 million at a weighted average all-in rate of 1.63%, and of these £174.0 million was fixed at a weighted average all-in rate of 1.54%. Consequently, at 31 December 2017, 74% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 5% were subject to caps and 21% of debt costs were unhedged; the fixed rate debt had a weighted average maturity of 4.2 years.

The Group's financial derivatives – predominantly interest rate swaps – are marked to market at each balance sheet date. At 31 December 2017 they represented a net liability of £6.2 million (2016: £9.3 million).

Share capital

At 1 January 2017, there were 43,877,778 shares in issue, of which 3,138,202 were held as treasury shares. Following the share subdivision, at 31 December 2017, 407,395,760 shares were listed on the London Stock Exchange, and 31,382,020 shares remained held in Treasury.

Distributions to shareholders

In April 2017, a final dividend for 2016 of 40 pence per ordinary share of 25 pence was paid totalling £16.3 million. In September, an interim dividend for 2017 of 2.05 pence per ordinary share of 2.5 pence was paid at a cost of £8.4 million. The final dividend for 2017 is proposed to be 4.30 pence per ordinary share of 2.5 pence, totalling £17.5 million. This represents a full year distribution of 6.35 pence per ordinary share of 2.5 pence, an increase of 10.1% over the prior year, and which was covered 2.07 times by EPRA earnings per share.

John Whiteley

Chief Financial Officer

Corporate, social and environmental responsibility

Managing our business with sustainability in mind

2017 Highlights



-9.3%

(2016: -11.4%)

Reduction in carbon emissions

Further reduction in carbon emissions across our LFL managed portfolio.



70.6%

(2016: 51%)

Recycling

Increase in recycling across all UK-managed assets.



33

(2016: 27)

CSR events

The number of CSR events which took place across the Group.



13

(2016: 11)

Sustainability building certifications

The total number of sustainability building certifications in progress or achieved across the Group.



100%

(2016: 100%)

MEES

All UK properties fully compliant with MEES regulation.



530,760 kWh

(2016: 376,000 kWh)

Renewable and low-carbon generation

Total on-site renewable and low-carbon electricity generation (2% of electricity usage).



96%

(2016: 0%)

Renewable energy

Virtually all electricity procured from energy markets comes from a renewable and low-carbon certified source.



90%

(2016: 50%)

Community investment

The percentage of our staff who gave at least one working day to support local communities and charities.



PV panel installation at Reflex, Bracknell

Our Strategy

CLS operates in some of the most densely populated office urban landscapes in Western Europe. Faced with the challenges of growing urban populations and climate change, the case for improving the sustainability and resilience of our assets is clear.

Our approach is built on our Sustainability Charter, which is a set of pledges committed by the Group; The Charter is signed by the Board and makes the following promises:

- to mitigate our impact on climate change by reducing our carbon footprint through day-to-day management
- to be accountable for our performance relating to climate change by reporting regularly against measurable indicators
- to make the most effective use of our 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 pledges of the Charter
- to use our Charter to influence the behaviour of our partners, tenants, suppliers and other

stakeholders, to promote the principles on which it is based

- to support communities with social and charitable events to ensure we contribute in the communities in which we invest

To ensure we are acting on our pledges, we have aligned them to the key pillars within our sustainability strategy. This allows us to directly link every activity within the business to a single pledge and report back to the Board on progress.

Employees

Culture

Our culture is entrepreneurial, professional, open and friendly. We have employees from 19 countries which helps to foster a diverse cosmopolitan environment with integrity and responsibility at the heart of our business. We have fewer than 100 employees looking after a property portfolio of £1.8 billion, and we recognise that they make CLS what it is and contribute significantly to its success. Therefore, we ensure that we consult regularly with our employees through various channels to understand their needs and ensure our culture evolves with the business and modern working practices.

Corporate objective performance against targets

Objectives	2017 Achievement
Reduce carbon emissions by 5%, year-on-year in the like-for-like managed portfolio	Achieved
Recycle at least 70% of all UK waste collected from the managed like-for-like portfolio	Achieved
Install smart metering across all major assets in France and Germany	France only
Ensure all investment properties maintain an EPC rating of D or greater	Achieved
Ensure the majority of employees participate in a community event in 2017	Achieved
Promote health and wellbeing across our staff and tenants	Achieved
Continue to support CSR events in the communities in which we invest	Achieved
Install nine photovoltaic systems at properties in France and Germany	Delayed due to sizing of systems
Generate 2.5% of the Group's managed like-for-like electricity usage from renewable and low-carbon sources	Achieved

Recruitment

Finding the right people is important to our long-term success. We believe having a diverse workforce is 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 we ensure that they are 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, ethnicity, 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 people with disabilities, which is reflected in our recruitment and interview policy. Full and fair consideration is given to every application for employment from disabled people 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 improvement in the performance of the Group.

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 employees to broaden their skills base. As part of our knowledge sharing and personal development policy, we have set up internal workshops at which teams present on their specific role within the organisation, thereby developing employees' wider business knowledge and understanding of how the Group's activities inter-relate. We also encourage all members of staff to consider areas of wider professional development that may be of interest to other

teams, such as changes to planning laws or data protection legislation and we organise seminars with the assistance of our network of external advisers.

Engagement and wellbeing

We promote all aspects of employee engagement and promote an "open door" policy; we encourage all employees to share ideas and to get involved in challenging and developing our policies and practices. With a predominantly flat management structure we are able to ensure that all employees are informed of matters concerning their interests and the financial and economic factors affecting the business. In addition to the weekly team meetings that are held across the Group, our executive directors present our annual and half-yearly results to all employees which is followed by a question and answer session. This is designed to give everyone an understanding of the business, and how their work contributes to the Group's performance.

We want to make sure everyone works towards the same goal. Every 12 months we undertake a performance review of each employee, setting their objectives for the forthcoming year and this is followed up by a six-monthly review. These individual objectives reflect the Group objectives set by the Chief Executive Officer, which in turn are based on the Group's Key Performance Indicators and sustainability targets contained in this report on pages 18, 19 and 33. We have a dedicated Intranet which allows us to promote new policies, procedures, Group activities and employee events.

Engagement is also about understanding the needs of our employees. This enables us to create a better working environment which, in turn, drives performance, loyalty and success. In return, we reward our staff in a number of ways, including salary, discretionary bonuses, a cash loyalty award for those who have been with the Group for more than 2 years and a share incentive plan. We also recognise it is important to celebrate success and so ensure managers arrange appropriate events following completion of particular projects.

We seek the views of our employees through staff satisfaction surveys, conducted through a third party advisor so as to ensure anonymity. In August 2016 all employees were invited to take part in a survey which covered a range of topics including: effectiveness, engagement,



Training and Development

45%

of staff completed professional training

125

days of training completed

£84k

spent on training

£2,210

Average spend per person trained

3.29

Average days spent training per person trained

537

hours of CPD awarded

remuneration, development opportunities, respect and recognition and confidence in leaders. In response, a Staff Survey workshop, comprising representatives from across the Group and facilitated by an independent external advisor, was set up to distil the outcomes of the staff survey and to recommend changes to the way we work. Our objective during 2017 has been to implement their recommendations, which we are pleased to set out below.

We will follow up on the implementation of our actions with a staff survey in early 2019, in order to allow these changes to bed themselves into our business whilst we work on the objectives we are yet to complete.

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. In 2017 we added a share incentive plan, which is open to all UK employees and matches employee contributions at a ratio of 1:1. By the end of the year we have seen a 48% take up by UK employees, which is far above the average for this type of scheme and testament to its success. Our objective in 2018 is to investigate how we can implement a similar structure across the rest of the Group.

Objective	Action	Outcome
Flexible Working	Implemented	Flexible Working Policy around "core hours". Successful six-month trial, now implemented in full.
Smart Working/Investment in IT	Implemented	Part of IT strategy. Roll-out of new laptops and user-friendly remote working interface. Upgrade of software platform.
Clearer Appraisal Process	Implemented	Revised, clear objective setting. Introduction of half-year review. Workshops to assist in understanding of the process.
Office integration	Implemented	Increased collaboration between all teams in each region, via synchronising formal and informal events and use of video conferencing.
Employee Equity Scheme	Part Implemented	In July 2017, following shareholder approval, implemented UK Share Incentive Plan with one-for-one matching. Next step to review implementation across the rest of the Group.
Company Culture	Part Implemented	Enhanced communications e.g. staff consultation on office move resulting in increased collaborative working space, input into desk design and environment. Full and half year Group-wide presentations from management.

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 anti-bribery policy which further demonstrated its commitment to business ethics. To ensure continued compliance with the Bribery Act 2010, training is given to all new employees, and an annual online compliance check is completed by all employees.

Modern Slavery Act 2015

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

The Group published its first statement in respect of the year ended 31 December 2016, which can be found on our website at www.clsholdings.com.

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

Prompt Payment Code

CLS is a signatory to the Prompt Payment Code ("PPC"), a voluntary scheme backed by the UK Government to set standards of best practice for payment of suppliers. The PPC requires all signatories to pay 95% of their undisputed invoices to suppliers within a 60 day period.

For the year ended 31 December 2017, CLS settled 97% of all undisputed invoices in the UK within 60 days, and 85% within 30 days, thus exceeding the required terms for the PPC. From 1 January 2018, The Reporting on Payment Practices and Performance Regulations require CLS to report on the Group's UK companies' payment practices twice yearly with the first report due by 30 July 2018.

Health & Safety

It is a primary focus of the Board that the Group manages its activities so that the health and safety of its employees, customers, advisors and contractors and of 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 in each country in which we operate. The Group also operates a Health and Safety Committee, which covers issues related to the portfolio and its employees. Chaired by the Company Secretary, the committee comprises Facilities Managers, Property Managers, employees and advisors, and is responsible to the Chief Executive Officer. The Chief Executive Officer also attends Health and Safety Committee meetings. As shown below, 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.

UK



Industry regulation

The Group sets health and safety objectives covering our workforce and portfolio and is monitored by the Health and Safety Committee.

Management process

Each managed or occupied property within the UK portfolio undergoes an annual risk assessment against which our targets can be measured. Our targets address three key areas:

- Risk Management & Control
- Document Compliance
- Accidents

These areas are reviewed each quarter through the Health and Safety Committee and reported to the Board.

As at the date of this report, Risk Management & Control was 99%; Document Compliance was 93%; and the 2017 Accidents Frequency Rate was 119 accidents per 100,000 people (National AFR 910/100,000).

Germany



Industry regulation

All CLS buildings conform with building permits and are regularly reviewed by local authorities to ensure compliance with building law. Facilities governed by special regulations are reviewed more frequently by an appropriate certified specialist.

Management process

Facilities (such as fire safety, electricity supply, ventilation, lifts, heating) are reviewed as required by law or business standard and at least once a year by authorised personnel. Reports and protocols are reviewed by the operational team.

We ensure that all scheduled reviews are conducted in accordance with local laws. Facilities managers provide comprehensive reports on a monthly basis to the operational team.

As at the date of this report, 95% of all identified risks are under control. All other risks are continually monitored on an ongoing basis and a health and safety management system is being implemented.

France



Industry regulation

All CLS buildings have to comply with the Code du travail (Labour Code), which defines our responsibilities.

Each tenant is in charge of its own security on its own premises in accordance with the security obligations of the building.

Management process

The building facilities (such as the electricity supply, building and mechanical safety checks) are reviewed once or twice a year by a statutory controller. These reports of the statutory controller are reviewed by our operational team. This process is audited externally twice a year, in July and December. The accountability remains with CLS France.

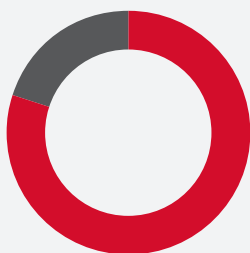
We have achieved 100% statutory compliance.

Every year, CLS France requires each tenant to provide their reports of statutory controls and insurance certificate for their premises.

Directors gender ratio

(at 31 December 2017)

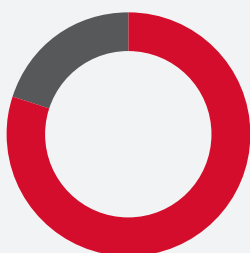
- Male – 8
- Female – 2



Senior management gender ratio

(at 31 December 2017 (Whole group))

- Male – 12
- Female – 3



Employee gender ratio

(at 31 December 2017 (Whole group))

- Male – 52
- Female – 53



➔ Find out more – download our full sustainability report from our website www.clsholdings.com

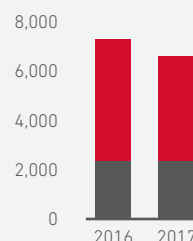
Emission Performance Comparison: Managed Portfolio – Absolute

	2016	2017	Change	GHG Type
Gas (tonnes/CO ₂ e)	2,437	2,503	66	Scope 1
Electricity (tonnes/CO ₂ e)	4,925	5,170	245	Scope 2
CLS Group Total (tonnes/CO ₂ e)	7,362	7,673	311	Scope 1 & 2
CLS Group Total (tonnes/CO ₂ e/sqm)	0.0239	0.0162	(0.0077)	Scope 1&2/ sqm

Group wide like-for-like carbon emissions (2015 to 2017)

Due to portfolio growth there has been a rise in our absolute Scope 1&2 emissions however the emission intensity has reduced and so our like-for-like emissions have reduced.

Carbon emissions (tonnes CO₂e)



- Scope 2
- Scope 1

Emission Performance Comparison: Managed Portfolio – Like-for-like

	2016	2017	Change	GHG Type
Gas (tonnes/CO ₂ e)	2,294	2,308	13	Scope 1
Electricity (tonnes/CO ₂ e)	4,920	4,230	(690)	Scope 2
CLS Group Total (tonnes/CO ₂ e)	7,214	6,538	(677)	Scope 1 & 2
CLS Group Total (tonnes/CO ₂ e/sqm)	0.0226	0.0205	(0.0021)	Scope 1&2/sqm

Our 2017 strategic report, from IFC to page 37, has been reviewed and approved by the Board of Directors on 7 March 2018.

David Fuller BA FCIS
Company Secretary

Chairman's introduction

Driving performance through culture



Henry Klotz,
Executive Chairman

We believe in the importance of good corporate governance as a key driver to building a strong business that delivers sustainable value to shareholders. We recognise that, through an effective structure of controls which define authority and accountability throughout the Group, risks are appropriately managed whilst still promoting effective and entrepreneurial leadership and ensuring a successful and innovative business. This, we believe, has been the key to our long-term success.

Q. As Chairman, what is your view on the role of governance?

Our approach to corporate governance has always been to adopt the best practice principles in a practical way which is consistent with our values and best fits the Group. Where we decide that the interests of the Company and its shareholders are best served doing things a different way, we explain the reasons why. This is the backbone of the UK Corporate Governance Code (the "Code").

Q. What are the areas where CLS diverges from the Code?

The Code recommends that the chairman of a listed company should not hold executive powers, and be 'independent upon appointment'. Due to my previous executive roles and my current role as Executive Chairman, we do not comply with the Code. However, the Board continues to believe that

it is appropriate for me to be executive chairman due to my in-depth knowledge of the business and substantial experience of the European property industry. Nevertheless, we are attentive to the implications of having an executive chairman and have safeguards in place to protect independence and ensure that proper processes and controls are followed. These include the independent judgement of our Non-Executive Directors in all Board decisions, the support of Malcolm Cooper, our Senior Independent Director, who helps to ensure that all decisions taken are made with full support of the Board, a schedule of matters reserved for the Board where, for example, all property transactions above £5 million must be approved by the Board, robust internal controls and a clear division of responsibilities between myself and our CEO. The Board believes that, in partnership with the executive team, we focus on ensuring the Group succeeds in its business strategy whilst ensuring good governance.

Q. What role does the Board play in setting the culture of the business?

In anticipation of the changes to come following the FRC's announcement of its review of the Code and the release of the Government's response to its Green Paper consultation on corporate governance reform in August 2017, the Board has continued to focus on the Group's culture, values and how we engage with our employees. During 2017, we have implemented a significant number of recommendations made by our employees in our employee survey, such as our flexible working policy to embrace a work/life balance and share incentive plan to enable employees to share in the success of the Company. We believe these measures will help in driving the right attitudes and behaviours whilst helping staff to improve performance and function more effectively.

Q. The 2017 Board Evaluation was externally facilitated – what issues did it identify?

This was the first time that we had undertaken an externally facilitated review, which was carried out by Independent Audit, using its online assessment service Thinking Board. The report showed members felt the Board functioned well, with well-organised meetings covering the key business issues. Nevertheless, there is further work to be done on communicating executive succession planning and identifying talent from within. We will also undertake more site visits to properties to ensure non-executives have a better understanding of the key risks management face on a daily basis, which will

also provide an opportunity to meet management below board level. As with many boards, we have identified the need to impose stricter discipline over presentations such that we take papers as having been read, allowing more time to be spent on discussion and debate.

Q. The Board is accountable for the Group's management of risk. How does it monitor this?

Our management of risk is key to the success of the business. We regularly review our principal risks and uncertainties to ensure they remain current and appropriate. We regularly monitor the Group's internal controls to ensure we have effective, robust procedures in place to protect the Company's assets. Our Board is regularly updated on governance and health and safety issues such that it can take appropriate decisions.

Q. What engagement with smaller shareholders has the Board had during the year?

We were very pleased to have a number of individual private shareholders attend our Annual General Meeting ('AGM'). This gave us an invaluable insight into their perception of the company but also allowed them to ask direct questions of the Board and senior management. It was a good example of why I believe the use of AGMs continues to be an important part of investor relations and enfranchisement.

Q. What are the Board's governance priorities for the year ahead?

As a group, we want to focus on our strategic objectives so as to ensure we have another good year. To enable us to do so will require the Board to look at the lessons from the 2017 Board Evaluation.

From a governance perspective, we keep a watching brief on the outcome of the consultation on the revised UK Corporate Governance Code. A further key focus will be our ongoing review in order to meet our obligations in respect of the General Data Protection Regulations which are due to come into effect from May 2018.

Henry Klotz

Executive Chairman
7 March 2018

In this report

Leadership

The Board is responsible for setting the tone to embed the Group's strategy into the business. The Board carefully monitors the progress of the strategy and receives regular briefings on the markets in which we operate.

➔ For more information see pages 40 to 45.

Effectiveness

The Nomination Committee makes sure the Board has the necessary skills and experience to understand the market and provide challenge to the business to deliver the strategy.

➔ For more information see pages 46 to 50.

Accountability

The work of the Audit Committee plays an important role in providing the necessary safeguards to manage risks and achieve high standards in transparency and accountability to shareholders.

➔ For more information see pages 51 and 52.

Relations with Shareholders

Explaining our strategy, business model and performance is an important part of the Board's work in keeping shareholders informed.

➔ For more information see page 53.

Remuneration

Through the work of the Remuneration Committee, the Company's policy is to align Executive Directors' remuneration with the performance of the Company and incentivise long-term sustainable value creation.

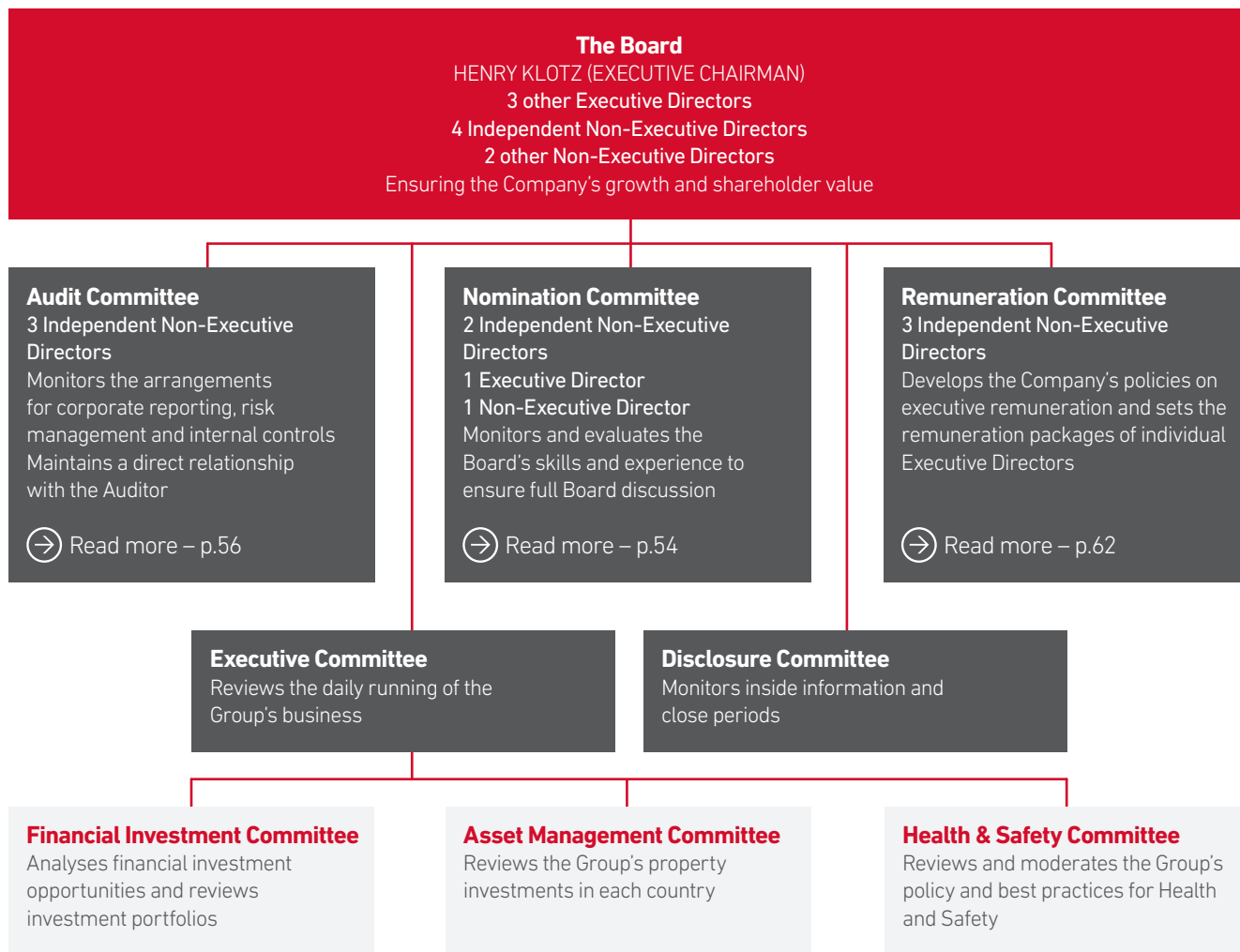
➔ For more information see pages 62 to 76.

Board Statements

Further information

Requirement	Board Statement	
Compliance with the Code	<p>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 April 2016 (the “Code”), the UK Financial Conduct Authority (“FCA”) Listing Rules and the FCA’s Disclosure Guidance and Transparency Rules.</p> <p>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), and its application of the Main Principles are set out on pages 40 to 61. Save as identified and explained in this report, the Board considers that throughout 2017 it complied with the provisions of the Code.</p>	Page 38 to 61
Going Concern basis	<p>The Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.</p>	Page 79
Viability Statement	<p>The Directors 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.</p>	Page 52
Robust Assessment of the principal risks facing the Group	<p>The Board has carried out a robust assessment of the principal risks facing the company, including those that would threaten its business model, future performance, solvency or liquidity.</p>	Pages 20 and 21
Annual review of systems of risk management and internal control	<p>The Board confirms that it has reviewed the effectiveness of the Company’s risk management systems and internal controls and found them to be appropriate for the Group.</p>	Pages 51 and 52
Fair, balanced and understandable	<p>The Directors consider that the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company’s position and performance, business model and strategy.</p>	Page 81
Modern Slavery Statement	<p>The Board has implemented a Modern Slavery Policy which we have communicated to all staff. The Board is confident that as a result of the Group’s management and reporting structure, there are no such practices taking place.</p>	Page 35 and our website
Health and Safety	<p>The Board recognises that the control of all health and safety matters arising from our activities is an essential feature of our operations and ensures it meets its civil and statutory obligations.</p>	Page 36
The Board	<p>The Board’s composition and responsibilities are set out in a formal schedule of matters specifically reserved to it for decisions.</p> <p>The Board is assisted by the Audit, Remuneration and Nomination Committees, the terms of reference for which can be obtained from the Company Secretary or our website.</p>	

Governance Framework



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

Division of responsibilities

The responsibilities of the Executive Chairman, who is responsible for the overall strategy of the Group, the Non-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 clearly divided. A written statement of the division of these responsibilities is 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.

Non-executive directors

A formal meeting of the Non-Executives Directors took place during the year, without the Executive Directors or the Executive Chairman present, at which a thorough review of the performance of the Executive Chairman took place. It was considered that the way in which the Board operated had improved, led by changes to the agendas and structure of meetings made by the Executive Chairman.

As highlighted by this year's external 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.

Leadership

Insurance

The Company has arranged insurance cover for its directors and officers, as set out in the Directors' Report on page 79.

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.

Roles and responsibilities of the Directors

The Board's composition and responsibilities are set out in a formal schedule of matters specifically reserved to it for decisions. 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.

Role	Name	Responsibility
Executive Chairman	Henry Klotz	Proposing the overall strategy of the Group and ensuring the effective running of the Board
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 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
Executive Director	Sten Mortstedt	Supporting the Executive Chairman with proposing the overall Group strategy
Senior Independent Director	Malcolm Cooper ¹	Providing a channel of communication for shareholders who do not wish to approach the Executive Chairman, Executive Vice Chairman or Chief Executive Officer Leading the Non-Executive Directors, and providing feedback to the Executive Chairman on his performance
Non-Executive Directors	Elizabeth Edwards ¹ Christopher Jarvis ¹ Lennart Sten ¹ Thomas Lundqvist ² Joseph Crawley ³ Philip Mortstedt ⁴ Bengt Mortstedt ⁵	Providing independent oversight, objectively challenging the Executive Directors in Board discussions and decision-making

1 Determined by the Board to be Independent in accordance with Code provision B.1.1.
 2 Retired on 31 December 2017.
 3 Resigned on 16 May 2017.
 4 Resigned on 7 March 2017.
 5 Appointed 7 March 2017.

Board activity

Topic

Key activities

Key priorities

Strategic



1. Reviewed the strategic aims of the Group and proposed action plan for growth over the medium to long-term.
2. Discussed macroeconomic events and how they may impact the Group e.g. Brexit, EU political uncertainty.
3. Received presentations on distribution strategy along with input from brokers and advisers.
4. Discussed the development of Vauxhall Square and the financial appraisals for each option.

1. Focus on high yielding properties or portfolios and implement findings of the review of the existing portfolio.
2. Ensure risks are adequately managed and monitored such that the Group can react to a change in circumstance.
3. Change from tender offers to dividend. Continue to review shareholder feedback.
4. Sold in March 2017. Key priority to reinvest as per strategy and growth plan.

People and culture



1. Reports from HR regarding diversity, turnover and head count. Identifying themes and discussion as to ways to improve culture.
2. Monitoring implementation of the results of staff survey.
3. Discussed the resourcing implications of an expanding portfolio.

1. Implemented all key initiatives that staff survey had identified. Key aspects were flexible working and share incentive plan.
2. Review cultural impact of changes and look to re-survey in early 2019.
3. Monitor staffing levels to ensure provision of first class service to customers.

Financial



1. Approval of the annual operating budget and its monitoring against key performance metrics at each meeting.
2. Ensuring the key risks and uncertainties were appropriate and regularly reviewed.
3. Discussion over the internal controls and risk management systems.
4. Approval of the financial statements.
5. Continual review of all finance, tax and treasury matters, to ensure they are in line with Group strategy.

1. Reviewing the Group's cost of debt to ensure it remains low.
2. In 2017, repaid cost rate debt to secure low rate debt and flexibility.
3. Implementation and upgrade of a number of key systems to provide management information to monitor budgets more effectively.
4. Focus on cost control and restraint to ensure continued low administration costs.

Governance



1. Review of the independence of Mr Cooper and Mr Jarvis, having served more than 9 years.
2. External Board evaluation undertaken.
3. Update on governance topics and impact on the Group e.g. Government review of Corporate Governance, changes to the UK Corporate Governance Code, GDPR.

1. Focus on Board composition and the alignment of shareholders' interests.
2. Implement findings of the report.
3. Review of obligations under GDPR underway, with compliance for May 2018.

Property and operations



1. Reviewed and discussed the strategic review for all properties within the portfolio, taking decisions as to the business plan for each to deliver the long-term action plan.
2. Discussed individual acquisitions and disposals against the Group's investment criteria.

1. Focus on portfolio meeting business plan.
2. Review further property purchases. Mitigate risks within the portfolio.

Leadership

Roles and responsibilities of the Directors continued

Attendance table

	Board attendance	No. of meetings	Audit Committee attendance	No. of meetings	Remuneration Committee attendance	No. of meetings	Nomination Committee attendance	No. of meetings
Henry Klotz	5	5						
Anna Seeley	5	5					3	3
Fredrik Widlund	5	5						
John Whiteley	5	5						
Sten Morstedt	4	5					3	3
Malcolm Cooper	5	5	3	3	4	4		
Lennart Sten	5	5			3	4	3	3
Elizabeth Edwards	5	5	3	3			3	3
Christopher Jarvis	5	5	3	3	4	4		
Bengt Mortstedt	Appointed 07/03/17	4	4					
Joseph Crawley	Resigned 16/05/17	3	3					
Philip Mortstedt	Resigned 07/03/17	2	2					
Thomas Lundvist	Retired 31/12/17	5	5					

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

Board activity

The Board met five times during the year. Key strategic and operational items are discussed at each meeting, and it receives presentations from various external parties during the year.

The Board has a strategy meeting each year to review and monitor progress against our strategy and the wider risk environment affecting the Group.

February

Approvals

Approval of 2017 budget

Key agenda items

Report on geopolitical and macro-economic impact

CFO report on shareholder distributions method and share split

Report from Remuneration Committee

Presentations

CEO presentation on growth strategy

March

Approvals

Approval of the 2016 Annual Report and Accounts and associated responsibility statements

Approval of the going concern and viability statements

Approval of the Modern Slavery Statement

Key agenda items

Proposal for the sale of Vauxhall Square

Report from Audit Committee on the 2016 Audit, principal risks and uncertainties and internal controls

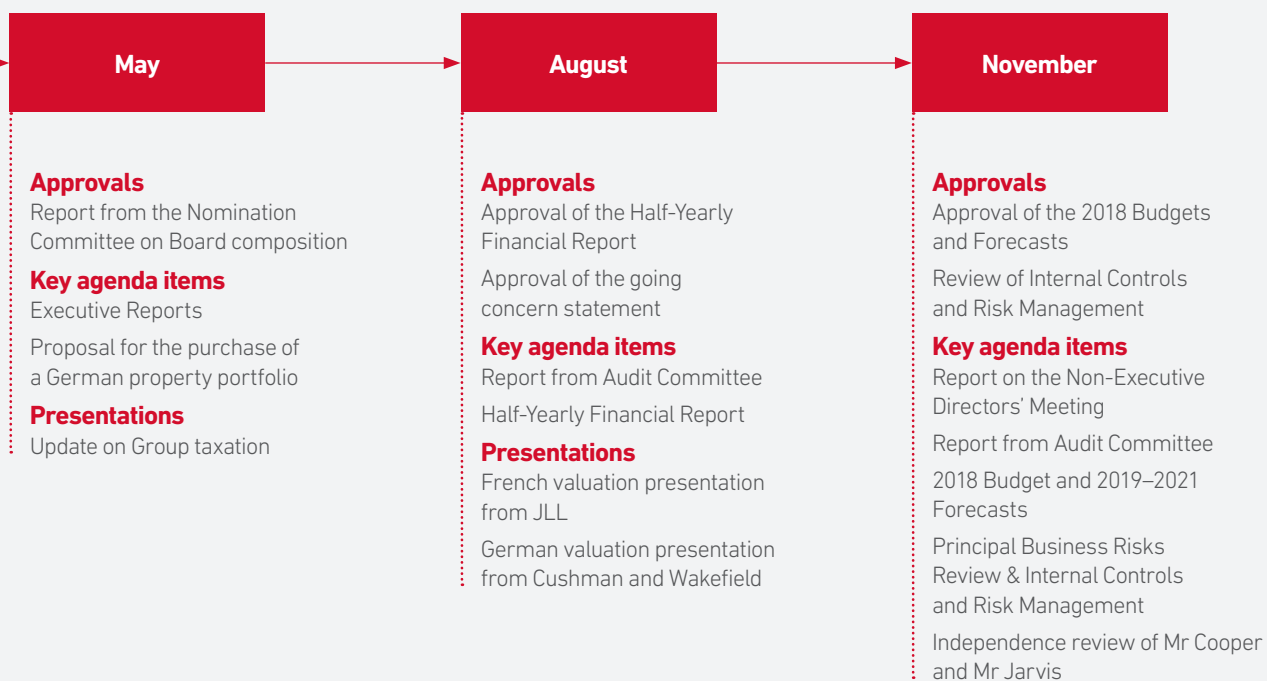
Report from Remuneration Committee on introduction of LTIP and new Remuneration Policy

Presentations

UK valuation presentations from Knight Frank and Cushman & Wakefield



Top row left to right: Malcolm Cooper, Christopher Jarvis, Bengt Mortstedt, Anna Seeley, Lennart Sten, Elizabeth Edwards
 Bottom row left to right: John Whiteley, Henry Klotz, Sten Mortstedt, Fredrik Widlund



Corporate governance

Board of Directors

The right skills and experience to deliver our strategy

Name	Henry Klotz	Fredrik Widlund	John Whiteley
Position/ Committee membership	Executive Chairman	Chief Executive Officer	Chief Financial Officer
Appointment as a Director	2 May 2008 9 years 10 months	3 November 2014 3 years 5 months	27 November 2009 8 years 5 months
Former roles	CEO (to January 2011) Executive Vice Chairman (to March 2016)	Global Commercial Leader, GE Working Capital Solutions. Regional CEO, GE's European Leasing businesses. Managing Director, GE Capital Real Estate. CFO, GE Capital Equipment Finance. Various positions with Royal Dutch Shell	Finance Officer, Doughty Hanson & Co Real Estate. FD, Great Portland Estates. Auditor, Ernst & Young
Qualifications	Engineer Economist	Degree in Business Administration, Stockholm University	Fellow, Institute of Chartered Accountants. Degree in Accounting and Business Finance, Manchester University
Experience	Joined in 1999 to manage the Swedish operation. Established the German division and focused on securing new business for the Group Non-Executive Director of Catena AB, a Nasdaq Stockholm-quoted real estate company in which CLS holds 11.2% of the issued shares	Business leadership, property and finance experience in global organisations	Finance and commercial experience in the real estate sector. Member, Finance Committee, British Property Federation

Name	Malcolm Cooper	Elizabeth Edwards	Christopher Jarvis
Position/ Committee membership	Senior Independent Non-Executive Director Chairman, Audit Committee Member, Remuneration Committee	Independent Non-Executive Director Member, Audit Committee and Nomination Committee	Independent Non-Executive Director Chairman, Remuneration Committee Member, Audit Committee
Appointment as a Director	22 May 2007 10 years 9 months	13 May 2014 3 years 10 months	25 November 2008 9 years 3 months
Former roles	Project Director then Group Tax and Treasury Director, National Grid plc. Director, Corporate Finance, Lattice Group plc. Financial roles with BG Group plc. Arthur Andersen Consulting	Head, Property Lending, Landesbank Berlin. Senior positions with National Australia Bank, Berlin Hyp and Westdeutsche Immobilienbank. Management Consultant, PwC	Partner, Jarvis & Partners real estate consultancy. Partner, HRO Group. MD, Richard Ellis Germany
Qualifications	Degree in Pure Mathematics, Warwick University Fellow, Chartered Institute of Certified Accountants Fellow, Association of Corporate Treasurers	Chartered Surveyor Degree in Estate Management, South Bank University	Chartered Surveyor Masters in Land Economy, Cambridge University
Experience	Corporate finance, accounting and tax with global corporates. Independent NED and Audit Committee chair, Morgan Sindall plc. NED, Saint Williams Homes LLP	Banking (primarily property-related). Trustee, Salvation Army International Trust. Fellow, Royal Institution of Chartered Surveyors. Member, Association of Property Lenders. Past Master, the Worshipful Company of Chartered Surveyors	Advising on all property-related matters, from debt financing to asset acquisitions, primarily in the German market

Sten Mortstedt

Executive Director & Founding Shareholder
Chairman, Nomination Committee

14 March 1994
24 years

Executive Chairman (to March 2016)

Entrepreneur

Founded CLS in 1987; listing on London Stock Exchange main market, 1994. MD, Citadellet AB (listed on Stockholm Stock Exchange, 1981). Banker, Svenska Handelsbanken, Stockholm. Chairman of the investment vehicle for the Sten and Karin Mortstedt Family and Charity Trust

Anna Seeley

Non-Executive Vice Chairman
Member, Nomination Committee

11 May 2015
2 years 10 months

Director, Skansen Group Limited
Property-related roles in General Electric and BT Group. Group Property Director, CLS Holdings plc

Degree in Property Valuation and Finance
Chartered Surveyor

20+ years of property industry and business experience

Bengt Mortstedt

Non-Executive Director
Founding shareholder

7 March 2017
1 year

Director, CLS Holdings plc (1992–2010).
Former Junior District Court Judge in Sweden

Degree in Law, Stockholm University

European property market and Group business. Developed and runs hotels in St Vincent & Grenadines, West Indies

Lennart Sten

Independent Non-Executive Director
Member, Remuneration Committee and Nomination Committee

1 August 2014
3 years 7 months

CEO, GE Capital Real Estate Europe. President, GE Real Estate Nordic. CEO Fabega AB. General Counsel, GE Capital Equipment Finances AB. Partner, Baker & McKenzie, Stockholm

Degree in Law, Stockholm University

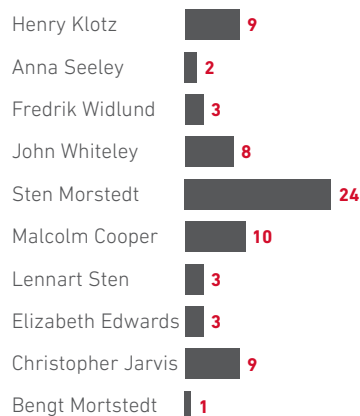
International property industry. Founder and CEO of Svenska Handelsfastigheter. Board member: Bonnier Fastigheter AB and Victoria Park AB; INTEROGO SA. Chairman, Swedish Property Federation

Composition of the Board



- Independent Non-Executive – 4
- Non-independent Non-Executive – 2
- Executive – 4

Length of tenure of the Board



Effectiveness

Independence

Provision B.1.2 of 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 two 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.

Of the independent Non-Executive directors, Mr Cooper and Mr Jarvis have served on the Board for more than nine years. In light of provision B.1.2 the Board undertook a rigorous review as to whether it considered them to remain independent. The discussion focused on Mr Cooper's current non-executive directorships, one of which as Chairman of the Audit Committee of a FTSE small-cap company, and Mr Jarvis's full time role with Jarvis and Partners, together with the amount of time dedicated to their roles as non-executive directors and their contributions to the Board in discussions generally. The Board was satisfied that they maintained the necessary levels of independence in addition to the Code's independence criteria and they continued to remain independent.

Following the retirement of Mr Lundqvist from the Board on 31 December 2017, there were no other non-executive directors that have served more than six years.

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 equity 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 requested.

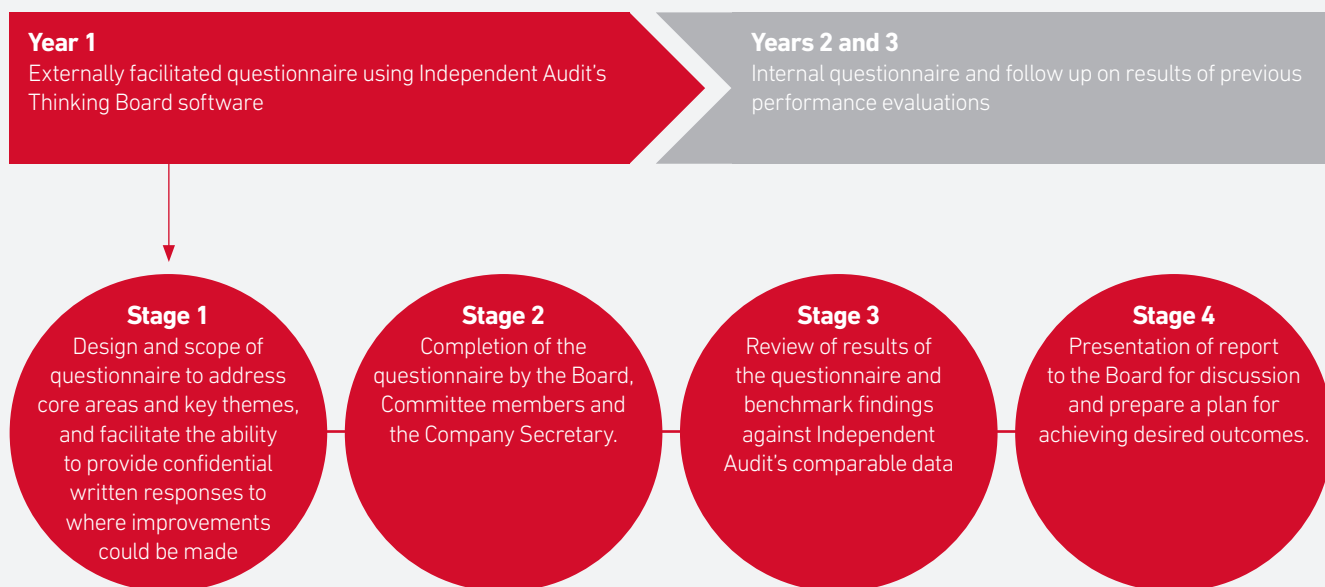
The Company offers all Directors the opportunity to update their skills and knowledge, and familiarity with the Company, in order to fulfil their role on the Board. In addition, meetings with senior managers within the Company have been arranged to further familiarise Non-Executive Directors with the Company. As part of every new Board member's induction, we encourage them to meet with the Head of Group Property in each of the UK, France and Germany so as to understand the portfolio. Board members also attended site visits to properties.

Performance evaluation

The Board undertakes a formal review of its performance and that of its Committees each financial year, and is required to conduct an external evaluation once every three years. In accordance with provision B.6.2 of the Code, the Board undertook its first externally facilitated board performance evaluation in November, facilitated by Independent Audit Limited, using its online assessment service Thinking Board. Independent Audit has no connection with the

Company beyond this process. The evaluation was based on a questionnaire which addressed the following key areas: strategy, leadership and accountability, effectiveness of the board, board culture, information flows to the board and risk management. Additional questionnaires covered the effectiveness of the Audit, Remuneration and Nomination Committees but not the performance of individual directors. This is carried out through individual meetings with the Executive Chairman during the year. The findings and outcomes of the evaluation are set out below.

Board performance evaluation cycle



Findings

More clarity on succession planning with discussions taking place during Board meetings.

Board works well, with a good understanding of roles and responsibilities and range of skills and knowledge, but could do better at keeping up to date with topical issues and having more insight into what is happening in the day-to-day business.

Improvements made in overall strategic decision-making securing consistency in approach. Need for more discussion on type and level of risk appropriate for the Group. The Board could improve on assessing and discussing culture.

Need to ensure sufficient time for discussion and challenge. As Board papers can be lengthy, there is no need for them to be "talked through" at the meeting.

Board culture seen as very positive, with good relationships. There could be more regular contact with executive directors away from the business environment.

Outcomes

Review the succession planning process to ensure that it is more transparent and consultative.

Implement development programme for Board members to spend more time in the business, both on Board-wide and individual site visits, and more in-depth information on topical issues within the property industry.

Increase time spent discussing key topics such as risk strategy and culture.

Improve meeting discipline by assuming board papers are read prior to meetings and restricting presentations.

Setting aside time for the non-executive directors and executive directors to discuss how best the Board can add value to the business.

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, all directors will be seeking re-election at the forthcoming AGM. Their details are contained on the Board of Directors' section on pages 46 and 47.

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.

Diversity

The Group's policy is set out in the Nomination Committee Report, which can be found on pages 54 and 55.



Board gender diversity



■ Men – 8
■ Women – 2

Board changes

On 7 March 2017, Bengt Mortstedt, a co-founder shareholder and holder of 6.89% of the shares in the Company, was appointed to the Board as a non-executive director and Philip Mortstedt left the Board. Joseph Crawley, non-executive director, left the board on 16 May 2017. Thomas Lundqvist retired from his position as non-executive director of the Company on 31 December 2017.

Appointments to the Board

As recommended by the Code, the Board has a Nomination Committee to lead the process for Board appointments and make recommendations to the Board.

The Nomination Committee report can be found on pages 54 and 55.

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 Auditor. Its annual report can be found on pages 56 to 61.

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 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 2017 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 2 to 37 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 guidance on risk and internal controls from the FRC, the risks which the Group faces are reviewed and monitored in Board and executive meetings 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 changes. 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 of the Code, 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 20 and 21.

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 Board considers this period to be the most appropriate as it provides a detailed and realistic forecast. The forecast is built up from a tenant level and considers the Group's weighted average lease length (2017: 5.4 years) and the maturity profile of the Group's debt (2017: 3.6 years).

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

Its annual report can be found on pages 62 to 76.

Relationship 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

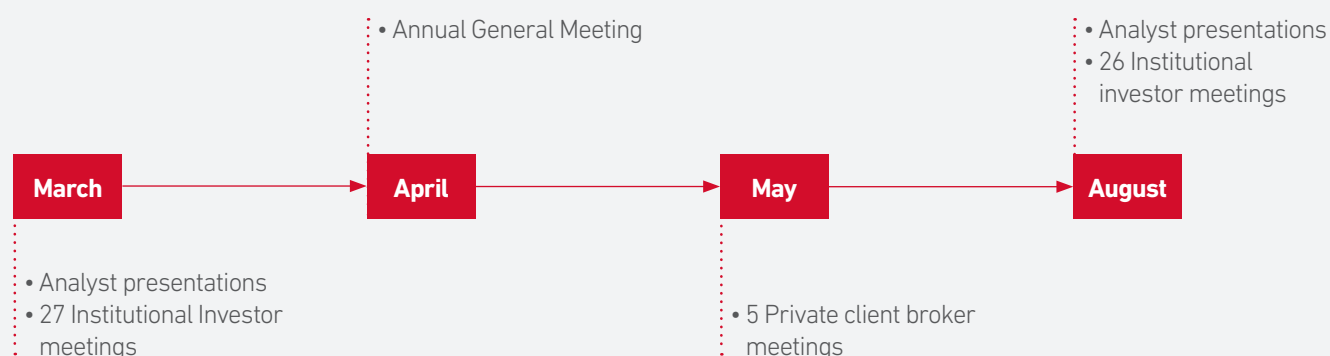
The proxy forms for the Annual General Meeting which was held in 2017 included a "vote withheld" box. Details of the proxies lodged for this meeting was announced to the London Stock Exchange and is on the Company's website at www.clsholdings.com. Shareholders may also choose to register their vote by electronic proxy on the Company's website.

At the 2018 Annual General Meeting, the Company will comply with the Listing Rules in respect of the voting requirements for the re-election of independent Directors where a Company has a controlling shareholder.

Joint venture and associates

This Corporate Governance report applies to the Company and its subsidiaries. It does not include associates. The Group has no joint ventures.

Key shareholder events



Nomination Committee report



The Committee notes that it is not compliant with Code provision B.2.1 but considers that because the Group has a Controlling Shareholder, its composition reflects the need for independent oversight whilst recognising the shareholder base.

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

Committee members' attendance during the year ended 31 December 2017

Sten Mortstedt (Chairman)	3/3
Anna Seeley	3/3
Elizabeth Edwards	3/3
Lennart Sten	3/3

Dear Shareholder

The Nomination Committee was established in May 2016 and is responsible for ensuring that the Board comprises individuals with the most appropriate balance of experience, skills and knowledge to help develop and support the Company strategy. The Committee makes recommendations to the Board on the nomination, selection and succession of directors and senior executives.

The Committee discusses how this overarching principle:

- links the Company's strategy to future changes on the Board
- evaluates Board effectiveness, the performance of individual directors and how the results affect the rest of the Board's work
- ensures a comprehensive induction, training and continuing development of directors
- oversees the executive pipeline and talent development

Membership of the Committee

The Committee's membership remains unchanged, and comprises two independent Non-Executive Directors and two Non-Executive Directors. The Company Secretary acts as secretary to the Committee.

Composition and size of the Board

Composition of the Board



- Independent Non-Executive – 4
- Non-independent Non-Executive – 2
- Executive – 4

The Committee noted the feedback from shareholders on the size and composition of the Board. During the year it reviewed these aspects together with the existing experience of the Board. Following changes to the balance of risk within the development pipeline and the refocussing of the portfolio, a number of changes were made to the Board which reduced both its size and the representation of the Controlling Shareholder.

The independence of both Mr Cooper and Mr Jarvis, having served for over 9 years, is regularly reviewed by the Committee. Upon recommendation to the Board, it concluded that they remain independent in character and judgement such that there are no relationships or

circumstances which would affect, or could appear to affect, their judgement. The Board considered that their contribution in Board meetings, time commitment and other significant roles outside of CLS warrant this conclusion.

Succession planning

While talent development remains primarily the responsibility of management, we have a duty to secure the long-term success of the Group. The Committee received updates from the Executive Chairman and Chief Executive Officer in relation to succession planning, both at Board and senior executive level to ensure there is a good quality pipeline in place and to challenge what the executive management team is doing to enhance the pipeline.

Diversity

The Board's policy is that the selection of new Board members should be based on the best person for the role and to ensure its composition has an appropriate balance of skills and diversity to meet the requirements of the business. Whilst the Nomination Committee continues not to set specific representation targets for women at Board level (currently 20%), on recruitment, our policy is that we expect our search consultants to ensure, where possible, there is a diverse selection of candidates. We consider this to mean more than just gender, but also ethnically diverse candidates; a policy that we encourage throughout the Group when recruiting. We recognise that there are significant benefits of diversity, including age, gender, core skills, experience and educational and professional background, which we continue

to consider whenever changes to the Board's composition are considered.

The Committee has noted the recommendation in the Hampton-Alexander Review for a new voluntary target of one-third of all Board members in FTSE 350 companies by 2020 to be women and the wider diversity targets proposed in the Parker Review. Our recruitment decisions throughout the organisation are driven by the need to ensure the longer-term success of the Company, by appointing the person that most closely fulfils the requirements for the position, regardless of their background or gender.

External Board evaluation process

The Committee notes the positive outcomes of the recent external Board evaluation process, and will address the need for further discussion and communication in relation succession planning during 2018.

Performance of the Committee

The Nomination Committee undertakes a review of its performance each year. During 2017 the Committee's review was externally facilitated and found that the Committee performed effectively, see page 49 for further details.

On behalf of the Board

Sten Mortstedt

Chairman
Nomination Committee
7 March 2018

Nomination Committee at a glance

Committee objectives

- Review size, structure and composition of the Board.
- Consider succession planning for directors and other senior managers.
- Review leadership needs of the organisation.
- Responsibility for Identifying and nominating suitable candidates for the approval of the Board.

What we have done

- Reduced the size of the Board and enhanced experience commensurate with the Group's strategy and refocus of the portfolio.
- Received updates from the executive team on succession planning.
- Noted the need to ensure greater diversity in Board appointments.
- Reviewed and recommended to the Board the continuing independence of Mr Cooper and Mr Jarvis.

Committee focus

- Increased communication with the Board on succession planning.
- Monitoring of the correct skills and balance of experience of the Board.
- Ensuring diversity agenda is addressed when making Board appointments.

Audit Committee report

Dear Shareholder

The Audit Committee reviews and reports to the Board on financial reporting matters, 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 auditor.

Committee members' attendance during the year ended 31 December 2017

Malcolm Cooper (Chairman)	3/3
Chris Jarvis	3/3
Elizabeth Edwards	3/3

Composition of the Committee

The Committee's membership remains unchanged, and comprises three independent non-executive directors. For the purposes of the Code, Mr Cooper, Ms Edwards and Mr Jarvis are regarded as having recent and relevant accounting and financial experience, and all have sector competence.

The Chief Executive Officer, Chief Financial Officer, certain senior management and the Auditor are normally invited to attend the meetings. At each meeting there is a standing agenda item facilitating the opportunity for the 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

Performance of the Committee

The Audit Committee undertakes a review of its performance each year. During 2017 the Committee's review was externally facilitated and found that the Committee performed effectively, see page 48 for further details.

How the Committee spends its time



- Reports from the Auditor – 33%
- Governance – 24%
- Financial reporting – 30%
- Meeting with valuers – 13%

Audit Committee regular attendees for part (by invitation)

Georgina Robb	Deloitte LLP, independent external auditor
Fredrik Widlund	Chief Executive Officer
John Whiteley	Chief Financial Officer
David Fuller	Company Secretary and Secretary to the Committee
Cushman & Wakefield	Independent external valuers (UK and Germany)
Knight Frank	Independent external valuers (Vauxhall Square)
Jones Lang LaSalle	Independent external valuers (France)

Audit Committee at a glance

Committee objective

- Monitor the integrity of the financial statements, and assist the Board with other formal announcements.
- Review the narrative reporting to ensure, taken as a whole, it is fair, balanced and understandable.
- Review and monitor internal controls and risk management systems.
- Approve the statements concerning principal risks, viability, internal controls and risk management.
- Review the adequacy of whistleblowing and anti-fraud arrangements.
- Maintain a relationship with the Auditor including the setting of fees.

What we have done

- Reviewed the year end and half-year results ensuring that they were fair, balanced and understandable.
- Met with each of the Group's valuers and asked searching questions on the markets in which we operate.
- Received reports and presentations from the Auditor at the full and half-year in respect of:
 - property valuations
 - significant accounting, reporting and judgemental matters, including going concern
 - principal risks and uncertainties
- Undertook a review of the internal controls and risk management and requested regular updates from management during the year.
- Undertook a review of whistleblowing arrangements to ensure they remained appropriate for the Group.
- Together with input from the Auditor, confirmed that there was no requirement for an internal audit function given the size and complexity of the Group.
- Received the Auditor's planning report, reviewed the year end audit scope and materiality, and agreed 2017 audit fee.
- Reviewed and challenged the viability statement to ensure that it remained relevant to the Group and in line with its current budgetary forecasting model.

Committee focus

- Reviewed the impact of new accounting standards IFRS 9, 15 and 16 on the Group.
- Together with the Auditor, ensured the valuations and assumptions surrounding the valuations were appropriate.
- Monitoring of Principal Risks and Uncertainties to ensure they remain relevant and appropriate.
- Reviewed and monitored internal controls and risk management systems.
- Maintained good communication links with the Auditor with a focus on the key issues outlined in each audit report during the year.
- Monitored impact of relevant changes to corporate governance.

Significant financial judgements

Issues	How they were addressed
Property valuations	<p>The Committee met with the Group’s valuers, Cushman and Wakefield (UK and Germany), and Jones Lang LaSalle (France) to which it invited the whole Board, and discussed the methodology used for the six monthly valuations of the Group’s properties.</p> <p>Independently, the Auditor also met with the Group’s valuers using real estate specialists and provided the Committee with a summary of their review contained within their report at the half-year and year end.</p> <p>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.</p>
Significant transactions	<p>The Committee also focused on the management’s accounting treatment for significant transactions during the year, such as the sale of Vauxhall Square and the acquisition of the Metropolis portfolio. The treatments were discussed with the Auditor and the Committee agreed with their accounting treatments.</p>
Accounting for other financial investments	<p>In conjunction with the Auditor, the Committee reviewed how management accounted for its other financial investments, principally in corporate bonds and in the shares in Catena AB. The Committee agreed with the approach taken by management and the value of these investments.</p>
Brexit	<p>The Committee continued to look at the impact of Brexit on the principal risks and uncertainties and provided the full Board with the Committee’s views in their wider discussion as set out in the Strategic Review.</p>
Revenue recognition	<p>Following a report from the Auditor at its planning meeting, the Committee considered the Auditor’s approach to revenue recognition which was no longer considered to be a significant risk given that revenue from signed, long-term leases was not considered susceptible to significant fraud.</p>
Management override of controls	<p>The Committee assessed the framework for financial controls to be regularly reviewed by management and brought to the Committee for review. The Auditor confirmed to the Committee that there were defined lines of reporting and control processes in place within the Group such that the Auditor was satisfied that the risk was adequately mitigated.</p>

Viability and Going Concern

Viability Statement

The Committee remained of the view that the statement should correspond with the way in which the Group models its forecasts, being the current year plus a further three years. The way in which the model was stress tested for changes in the Group's operating environment were considered appropriate and clearly supported the statement. Further details are contained in the Corporate Governance Report on page 52.

Going Concern

Whilst a matter for the whole Board (see page 79), the Committee reviews the Group's financial forecasts, debt maturity forecasts and associated sensitivity analysis. With supporting reviews from the Auditor, and a recommendation from management, the Committee remained of the view that the going concern risk was low.

Key areas discussed and reviewed by the Committee

External audit process

The Committee reviewed the external audit strategy and the findings of the Auditor from the review of the Half-Yearly Financial Report and from the 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 Auditor prior to the final sign-off meeting for this Annual Report and Accounts in order to receive the 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 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 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 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 Auditor at the forthcoming AGM. The Committee discussed with management and subsequently agreed the statutory audit fee and the scope of the statutory audit.

Impact of new accounting standards

The Committee received presentations from the Chief Financial Officer on the impact of a number of accounting standards, in particular IFRSs 9, 15 and 16 such that it was able to understand how they would affect the Group's accounting policies in order to ensure the financial statements remained compliant. The Auditor concurred with management's view.

Principal risks

The Committee introduced a standing discussion item in relation to monitoring and reviewing the Group's principal business risks, and challenging management on the appropriateness of those risks and how they were to be mitigated, details of which can be found on pages 20 and 21.

A key risk that the Committee discussed was the financial impact of Brexit, which it considered could have an effect on the property sector and the ability to obtain financing, and how the Group would mitigate its effects. Whilst these risks were considered to have a relatively high impact, the likelihood that they would occur remained low.

The Group also reassessed the impact of the development risk within the portfolio, which, since the sale of Vauxhall Square, had reduced significantly.

Internal control and risk management

The Committee has a further standing discussion item in relation to monitoring and reviewing all of the Group's material 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 pages 51 and 52.

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, 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. This view was supported by the Auditor.

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 Auditor, so as to safeguard the Auditor's objectivity and independence.

The Committee has implemented a policy so as to ensure it complies with the EU Audit Regulations.

The policy categorises non-audit services as either:

- excluded (as defined by the EU Audit Regulations); 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 Auditor during the year were £53,207 (2016: £23,738).

All such fees were approved by the 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, modern slavery or other malpractice. No reports of any such matters were received during the year.

On behalf of the Board

Malcolm Cooper

Chairman
Audit Committee
7 March 2018

Remuneration report

Annual statement

Dear Shareholder

As the Chairman of the Remuneration Committee, I am pleased to present the report of the Board covering our Directors' Remuneration Policy (the 'Policy'), approved by shareholders in April 2017, and the implementation of it for the year ended 31 December 2017.

In this year's report, we set out the following:

- The Annual Statement by the Remuneration Committee Chairman
- The Annual Report on Remuneration setting out in more detail payments and awards made to the Directors under the Remuneration Policy and the link between Company performance and remuneration for the 2017 financial year.

2017 Company performance and remuneration outcomes

As set out in the Chairman's Statement, the Company has performed exceptionally well during 2017. CLS was the best performing share in 2017 within the FTSE 350 Real Estate super sector of 26 constituents, with a TSR of 67.1%. The remuneration in 2017 increased to reflect this achievement of hurdles and targets, by way of the Performance Incentive Plan Element A and B.

This has therefore been reflected in the remuneration outcomes of our executive directors who participate in the Performance Incentive Plan ('PIP').

The Company's pay structure is clear and consistent with the market, and aims to align the interests of the Executive Directors, Senior Managers and Employees with those of shareholders. In line with this commitment to link executive remuneration to annual corporate performance and long-term shareholder returns, the performance levels outlined above have resulted in higher pay outcomes in 2017.

The main remuneration outcomes are given below:

- Executive salaries will be increased by the Group employee average rate of 2.9% for 2018
- Non-executive fee levels will remain at 2017 levels
- As outlined above and in more detail in the Strategic Report, the Committee determined that all of the Key Performance Indicators ('KPIs') for 2017 had been met and that PIP plan account contributions of 94.1% and 93.3% of maximum to Mr Widlund and Mr Whiteley, respectively, accurately reflected the performance of the Group through 2017

- The Committee reviewed the KPIs and considered them to be representative of Group performance. There has been no change of KPIs during the year, or any amendments to their respective targets. For 2018, an adjustment has been made to the EPRA NAV growth calculation to reflect the change in distribution policy from a tender offer buy-back of shares to a traditional dividend. The adjusted calculation, which will be referred to as Total Accounting Return, has been confirmed by PwC as being reasonable in the circumstances and consistent with the previous buy-back policy and our peer group as an appropriate KPI. The respective targets for this KPI (and all other KPIs) remain unchanged for 2018.

In our assessment, the overall remuneration payments for 2017 represent a fair and balanced outcome, and replicate remuneration outcomes throughout the wider employee workforce.

As in previous years, the Annual Report on Remuneration together with this Annual Statement is subject to an advisory shareholder vote at the 2018 AGM.

Areas of discussion

Sten Mortstedt

Following the shareholder feedback in relation to the remuneration arrangements for Sten Mortstedt, Founding Shareholder and Executive Director, the Committee will consider how they could be brought into a more institutional structure and will consult with shareholders as to its proposal when the next policy is put to shareholders in April 2020.

Henry Klotz

The Committee has carried out a review of the time commitment undertaken by Mr Klotz in his role as Executive Chairman. This review has shown that he has undertaken significantly more work than had previously been envisaged and it is likely to increase in the coming years as the Group grows. The Committee concluded that his effective full-time commitment should be recognised and adjusted from half-time to full-time, and his basic salary should therefore reflect this change to his role.

Remuneration Committee at a glance

Committee objectives

- Determine and agree on the framework and levels for Executive Director Remuneration whilst having regard to pay and employment conditions across the Group.

- Set the remuneration policy for the Group.

- Appoint appropriate remuneration consultants to advise on all remuneration issues.

- Review the design of all share incentive plans and relevant performance related pay schemes and approve related annual payments.

- Oversee any major changes in employee benefit structures.

- Ensure contractual terms on termination are fair and failure is not rewarded.

What we have done

- Undertook a review of pay levels to ensure they are appropriate and fair across the Group
- Reviewed shareholder feedback in relation to Founding Shareholder remuneration structure, with a view to simplifying arrangements.

- Our remuneration policy was approved by shareholders in April 2017, which incorporated feedback from the consultation.

- Continued to seek advice from our retained consultants PwC.

- Implemented the Group Share Incentive Plan for all employees, and a revised performance share plan for Executive Directors and Senior Managers.
- Undertook annual review of the appropriateness of the PIP KPIs and corresponding targets.

- Oversaw the implementation of the Share Incentive Plan for UK employees. No other major structural changes were made.

Committee focus

- Ensure consistency of approach and fair pay conditions across the Group.
- Address simplification of Founding Shareholder remuneration for the next policy review.

- Keep the Policy under review for the next scheduled revised policy vote at the 2020 AGM.

- Ensure high quality remuneration advice and information to inform decisions.

- Ensure Company performance is appropriately reflected in any performance related pay element of remuneration.
- Review the PIP KPIs and corresponding targets, on an annual basis.

- Receive updates from Head of HR in relation to developments in employee benefit structures.

- Review any changes to the Board and any impact on termination payments.

Effective from 1 January 2018, Mr Klotz's basic salary will be increased to £400,000 (having previously been set at £205,400 for 50% part-time) and he will not be entitled to participate in any bonus arrangement. Mr Klotz's previous remuneration as a full-time executive director in 2013, 2014 and 2015 was £523,000, £711,000 and £1,208,000, respectively.

Policy vote on incentives

The Committee undertook a shareholder consultation exercise during 2017 in relation to changes to the Directors' Remuneration Policy. Through feedback and meetings with institutional shareholders, the Committee understands that the reasons for the 14.3% vote against the Policy at the 2017 AGM were primarily due to the Committee's decision to operate a performance on grant model for its remuneration rather than the UK typical bonus with deferral and standard three year Long-Term Incentive Plan. The Committee's rationale was fully disclosed and discussed with shareholders during the consultation.

After taking advice from PwC on best practice, the Committee felt that a performance on grant model was the most appropriate incentive model given the position and strategy of the Company over the period covered by the Policy. The Company is entering into the next phase of its development and aims to grow the property portfolio significantly in the medium to long-term in order to generate sustainable returns to shareholders. In order to support the strategy the Committee believes that its Remuneration Policy should retain, motivate and reward executives directors to deliver this strategic objective and facilitate the recruitment of key talent. The table on page 65 highlights how the PIP supports our policy on remuneration.

The majority of shareholders agreed with the Committee that this approach recommended by PwC, the independent remuneration consultants, was appropriate for the Company over the next period. However, a number of shareholders were not comfortable in principle with a performance-on-grant model and therefore did not support the Policy. The Committee hopes that when the Policy is seen in action some of these concerns will disappear, and the Policy will be reviewed during the third year of the current Policy cycle in 2019 and put to shareholders in April 2020.

The Committee appreciates the high level of engagement provided by a number of shareholders and has committed that all views will be considered for the next Policy review. The Committee will continue to operate its approved Remuneration Policy for 2018, therefore shareholders will not be asked to vote on a revised policy at the 2018 AGM.

Membership

The Committee's membership remains unchanged, comprising three independent non-executive directors.

The Committee met five times during 2017 and it also held a number of informal discussions with the executive directors, the Sten and Karin Mortstedt Family and Charity Trust and institutional funds during the year.

Committee members' attendance during the year ended 31 December 2017

Chris Jarvis (Chairman)	5/5
Malcolm Cooper	5/5
Lennart Sten	5/5

Remuneration Committee regular attendees for part (by invitation)

Marcus Peaker	PwC
Fredrik Widlund	Chief Executive Officer
David Fuller	Company Secretary and Secretary to the Committee

Performance of the Committee

The Remuneration Committee undertakes a review of its performance each year. During 2017 the Committee's review was externally facilitated and found that the Committee performed effectively, see page 49 for further details.

Christopher Jarvis

Chairman
Remuneration Committee
7 March 2018

How the PIP supports our remuneration policy

Objective

In order to ensure the achievement of the Company's key strategic objectives, the executive directors need to be motivated and rewarded for the successful delivery of key annual objectives which, given the current instability in the property sector, is imperative to the future growth of the Company.

The requirement to provide a lock-in for the executive directors, given the recent changes to the Board structure which means their continued retention is key for the success and growth of the Company.

The alignment of the executives directors with shareholders through the build-up and retention of meaningful shareholdings in the Company.

The need to ensure that the total compensation levels are competitive in the industry in which the Company competes for talent. The Committee is therefore mindful that the total remuneration opportunity for executive directors' remains competitive compared to peers in the FTSE 250 real estate sector. The Committee review of the previous Policy highlighted that there was a remuneration gap to the market. Therefore, the introduction of new equity elements under the PIP helped to ensure a more competitive market positioning, provided that the executive team delivers the annual performance objectives and that these lead to long-term sustainable performance.

To enhance further the Company's corporate governance on remuneration.

Supporting principles

Annual assessment of performance allowing:

- Incorporation of a wider range of operational and strategic objectives;
- Assistance in the management of any cyclical in the business.

Retentive, as the sole condition once the deferred shares have been earned over the period of deferral is continued employment.

The PIP supports the build-up and retention of meaningful shareholdings by the executive directors.

The simplicity of the PIP maximises its value for a given incentive opportunity.

This was also enhanced by Element B of the PIP which provided an additional maximum award of 100% of salary.

The Committee chose to increase the incentive opportunity given its intention that under the Policy there would be no changes to the base salary, pension and benefits for the executive directors beyond the standard awards for all employees.

The PIP is supportive of corporate governance and best practice because:

- It is simple;
- It is one of the alternative models suggested by the Investment Association's Executive Remuneration Working Group in their report;
- Deferral of a proportion of annual bonus in shares supports the alignment of the interests of the executive directors and shareholders;
- It supports of the build-up of a long-term locked-in shareholding by the executive directors;
- It facilitates the use of malus and clawback by having a significant amount of the incentives earned deferred in shares and under the control of the Company after the determination of the bonus for a particular year.

Annual report on remuneration statement of implementation of remuneration policy in 2017

For the year ended 31 December 2017, 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 2017 financial year for each executive director:

2017	Salary £000	Taxable Benefits ⁴ £000	Bonus ⁴				Pension £000	Other Fees £000	Total £000
			Cash £000	Deferred Shares £000	LTIP ⁵ £000				
Henry Klotz	205	18	–	–	–	2	–	225	
Fredrik Widlund ¹	368	6	236	252	200	–	–	1,062	
John Whiteley ²	289	12	126	164	106	9	–	706	
Sten Mortstedt ³	308	–	–	–	–	–	650	958	

2016	Salary £000	Taxable Benefits £000	Bonus				Pension £000	Other Fees £000	Total £000
			Cash £000	Deferred Shares £000	LTIP £000				
Henry Klotz	192	23	160	–	–	2	–	377	
Fredrik Widlund	354	5	186	198	81	4	–	828	
John Whiteley	264	9	97	126	44	26	–	566	
Sten Mortstedt ⁷	313	–	–	–	–	–	–	313	

- Mr Widlund received total pension contributions of £33,429 (2016: £32,550). In accordance with the Policy, the entire amount was paid as salary supplement (this element of salary is not bonusable or pensionable).
- Mr Whiteley received total pension contributions of £27,113 (2016: £26,400). In accordance with the Policy, £9,038 was paid as pension contributions and £18,075 was paid as salary supplement (this element of salary is not bonusable or pensionable).
- Mr Mortstedt provided specific advice that was in addition to the duties under his contract of employment, which are his participation at CLS Holdings plc Board meetings. The Committee has agreed the fees and is of the opinion that the market rate for the specific nature of the advice he provided was appropriate based on his experience and historical knowledge of the Group. The specific advice related to the sale of Vauxhall Square; the Bond portfolio, investments and cash management; refinancing and borrowing; and specific property acquisitions and disposals.
- The Bonus total comprises 50% of the Element A 2017 contribution into the Director's Plan Account and the award made of deferred shares in respect of Element B of the PIP (see below for details of calculations). The reason that only 50% of Element A is disclosed as Bonus is because the balance is deferred and at risk of forfeiture in respect of future years' performance and therefore under the Regulations is required to be disclosed on vesting. The award of deferred shares under Element B does not vest until three years after the date of grant and cannot be sold for a further 2 years. However, in accordance with the Regulations the value of these shares is shown in the Bonus column on the date of grant as there are no further performance conditions which have to be satisfied for the shares to vest. The value of the Element B award disclosed in the table has been calculated using the average market value of a share for the 30 day period to 31 December 2017 of 233.6 pence in accordance with the rules of the PIP.
- The LTIP column value is the difference between the values calculated in (4) above in respect of the PIP Element A and the 2017 payment (see page 69 for details of calculation) and is the payment of part of the deferred performance-based element under the PIP. The date of payment will be on or around 26 March 2018. The value of the notional shares under Element A has been based on the average market value of a share for the 30 day period to 31 December 2017 of 233.6 pence in accordance with the rules of the PIP.
- Taxable Benefits relate to the provision of private medical insurance.
- In 2016, fees of £450,000 were disclosed as due to the consultancy company associated with Mr Mortstedt in respect of specific advice which was in addition to the duties under his contract of employment. Following confirmation from the consultancy company that it had waived the 2016 fees in full, the £450,000 has been deleted from this comparative table.

Additional requirements in respect of the single total figure table (audited information) – 2017 payments in respect of the PIP

The Remuneration Committee determined the 2017 PIP contribution and forfeiture outcomes during 2017. A summary of the 2017 KPIs and their achievement is as follows:

KPI	Maximum Forfeiture	Bonus/ Forfeiture Threshold	On-Target Performance	Good Performance	Maximum Performance	2017 Achievement
Total Shareholder Return (absolute)	1%	3%	12%	14%	16%	54.73%
Total Shareholder Return (relative)	Lower Quartile	(linear)	Median	(linear)	Upper Quartile	Upper Quartile
Vacancy Rate	10%	8%	5%	4%	3%	5.80%
Administration Cost Ratio (as % of Net Rental)	18.50%	17.50%	16.50%	15.50%	14.50%	14.20%
Personal Performance	2	2.5	4	4.5	5	(see below)
EPRA NAV Growth	0%	3%	6%	7.5%	9%	18.83%

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. For 2017, the CEO and CFO received ratings of 4.38 and 3.75, respectively. The CEO and CFO are assessed on an annual basis and in the same way as all employees. They undertake an appraisals process which incorporates a scoring system whereby they are assessed by their line manager against each of the following areas: annual objectives, quality and knowledge of their work, innovation, teamwork, staff development and communication.

	Key Objectives	Outcome
Fredrik Widlund	Implementation of Group Strategy.	Led strategy process to refocus the portfolio to deliver long-term sustainable growth. Strategic objectives implemented through sales and acquisitions, and changing corporate structure.
	Implement business plan to review portfolio and reinvest in high-yielding properties.	Sale of Vauxhall Square de-risking portfolio. £238m of acquisitions with a ROE of approximately 13%.
	Keep vacancy within 5% range.	Group vacancy was 5.8%.
	Develop and strengthen organisational culture.	Implemented various initiatives to modernise and progress working practices, such as flexible and smart working.
John Whiteley	Meet agreed budget targets for income and expenditure.	Successfully managed through detailed budget process and monitoring.
	Deliver high-quality reporting.	Implemented new forecasting system to deliver advanced reporting.
	Develop and motivate Finance team.	Undertook various group activities to build a strong team, reviewed structure and resourcing to ensure platform for growth.
	Focus on efficient operations.	Major IT review resulting in a restructuring to broaden levels of responsibility and develop a more comprehensive business support function.

Additional requirements in respect of the single total figure table (audited information) 2017 payments in respect of the PIP

Element A of the PIP

The following table sets out the maximum award under Element A of the PIP for 2017 which can be earned in respect of each KPI, expressed as a percentage of salary:

KPI	Performance Breakdown (%)	
	CEO	CFO
Absolute Total Shareholder Return	37.5	25.0
Relative Total Shareholder Return	22.5	15.0
Vacancy Rate	22.5	10.0
Administration Cost ratio (as % of Net Rental)	22.5	20.0
Personal Performance	15.0	10.0
EPRA NAV Growth	30.0	20.0
Maximum Bonus as a % of salary	150.0	100.0
Salary	£334,289	£271,130
Maximum Bonus	£501,434	£271,130

The following table set out the calculation of the actual payment of the third payment under Cycle 2 of the PIP, which is disclosed in the Single Total Figure of Remuneration in respect of 2017.

KPI	Performance Breakdown (£)	
	CEO	CFO
Absolute Total Shareholder Return	125,359	67,782
Relative Total Shareholder Return	75,215	40,669
Vacancy Rate	51,815	15,726
Administration Cost ratio (as % of Net Rental)	75,215	54,226
Personal Performance	43,926	20,335
EPRA NAV Growth	100,287	54,226
2017 Total Bonus	471,817	252,964
Bonus as a % of Salary	141.1%	93.3%
Bonus Achieved as a % of Maximum Bonus	94.1%	93.3%

The following table sets out the PIP Plan Accounts for the participants and shows:

- The method of calculation of the 2017 payment:
- The element of the 2017 Payment which is disclosed in the Single Figure as Bonus. The reason that only 50% of Element A 2017 Company Contribution is disclosed as Bonus is because the balance is deferred and is at risk of forfeiture in respect of future years' performance and therefore under the Regulations is required to be disclosed on vesting:
- The value of the closing balance and the number of deferred notional shares which will form the opening balance in respect of 2018.

	CEO	CFO
PIP Plan Accounts		
Number of Deferred Notional Shares brought forward ¹	170,960	90,690
Value of Deferred Notional Shares brought forward ²	£399,363	£211,852
2017 Bonus ³	£471,817	£252,964
	£871,180	£464,816
Less: 2017 Payment	£435,590	£232,408
Value of Deferred Notional Shares carried forward	£435,590	£232,408
Number of Deferred Notional Shares carried forward ²	186,468	99,489

Analysis of 2017 Payment

Disclosed as Bonus in Single Figure Table ⁴	£235,909	£126,482
Disclosed as LTIP in Single Figure Table ⁵	£199,681	£105,926
2017 Payment	£435,590	£232,408

1 Adjusted following share subdivision effective on 8 May 2017.

2 The price used to calculate the value of shares was the mid-market value of a share for the 30 day period to 31 December 2017, which was 233.6 pence per share.

3 The 2017 bonus performance conditions and their level of satisfaction are set out above.

4 Comprising 50% of 2017 Bonus.

5 Comprising 50% of value of opening balance of Deferred Notional Shares.

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 to issue actual shares.

Element B of the PIP

In line with the approved Remuneration Policy, an award of deferred shares under PIP Element B based on the achievement of the 2017 KPIs will be granted as soon as practically possible after the announcement of the Company's 2017 results. Element A and Element B of the PIP are based on the same performance conditions and their level of satisfaction (see page 67 for details of the 2017 KPIs and their level of satisfaction). The Committee set the initial maximum Element B award for 2017 below the Policy maximum of 100% of salary.

	CEO	CFO
Salary	334,289	271,130
Maximum Element B award (% of salary) for 2017	80%	65%
KPIs achievement as % of maximum	94.1%	93.3%
Face value of Element B awards to be granted	£251,636	£164,427
Number of shares to be awarded	107,720	70,388

Shares earned under Element B are subject to a three-year vesting period during which the participant must remain employed by the Company and also cannot be sold for five years from the date of award, irrespective of employment status. There are no further performance conditions. The number of shares to be awarded under Element B has been based on the average market value of a share for the 30-day period to 31 December 2017 of 233.6 pence in accordance with the rules of the PIP.

Additional requirements in respect of the single total figure table (audited information) *continued*

Pension entitlements

The executive directors are entitled to participate in a defined contribution pension scheme.

As a result of the Lifetime Allowance Limit, no Directors were participants of the scheme as at 31 December 2017 (2016: one).

The maximum Company contribution for all employees is 10% (2016: 10%). In accordance with the Policy, both Mr Whiteley and Mr Widlund received 10% 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 other than reimbursement for reasonable travel expenses for attending Board meetings.

The following table sets out the fees received for 2017:

	Base Membership Fee £000		Other Committee Fees £000		Additional Fees £000		Taxable Benefits ¹⁰ £000		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Malcolm Cooper ¹	30	28	18	18	–	–	–	–	48	46
Joseph Crawley ²	19	28	–	–	–	–	–	–	19	28
Elizabeth Edwards ³	30	28	10	8	–	–	–	–	40	36
Christopher Jarvis ⁴	30	28	13	13	–	–	8	5	51	46
Thomas Lundqvist ⁵	38	28	–	–	9	6	–	–	47	34
Bengt Mortstedt ⁶	25	–	–	–	–	–	10	–	35	–
Philip Mortstedt ⁷	14	28	–	–	–	–	–	–	14	28
Anna Seeley ⁸	30	28	5	3	–	–	2	–	37	31
Lennart Sten ⁹	30	28	10	8	–	–	–	–	40	36

1 Mr Cooper received the following fees: Board membership £30,000; Senior Independent Director £5,000; Audit Committee Chairmanship £8,000; and Remuneration Committee membership £5,000.

2 Resigned 16 May 2017. Mr Crawley received a pro-rated Board membership fee of £11,385 and was also paid three months' notice of £7,500 pursuant to his letter of appointment.

3 Ms Edwards received the following fees: Board membership £30,000; Audit Committee membership £5,000; and, Nomination Committee Membership £5,000.

4 Mr Jarvis received the following fees: Board membership £30,000; Remuneration Committee Chairmanship £8,000; and Audit Committee membership £5,000.

5 Resigned 31 December 2017. Mr Lundqvist received the following fees: Board membership £30,000; and £9,000 in respect of certain finance-related matters and, at the Remuneration Committee's request, liaising with the Sten and Karin Mortstedt Family and Charity Trust on executive remuneration issues. Mr Lundqvist was also paid three months' notice of £7,500 pursuant to his letter of appointment.

6 Appointed 7 March 2017. Mr B Mortstedt received a pro-rated Board membership fee of £24,692.

7 Resigned 7 March 2017. Mr P Mortstedt received a pro-rated Board membership fee of £5,577 and was also paid three months' notice of £7,500 pursuant to his letter of appointment.

8 Ms Seeley received the following fees: Board membership £30,000; and Nomination Committee Membership fee £5,000.

9 Mr Sten received the following fees: Board membership £30,000; Remuneration Committee membership £5,000; and Nomination Committee Membership 5,000.

10 In accordance with the Company's expenses policy, non-executive directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where those costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the non-executive directors through PAYE. The following directors received taxable benefits of less than £500 and are therefore not reported in the above table: Ms Edwards: £452, Mr Crawley: £195 and Mr Lundqvist: £468.

External appointments

Mr Klotz received additional fees which he retained of £22,636 (2016: £17,271) in respect of his role as non-executive director of Catena AB and £6,791 (2016: £8,635) as non-executive director of Note AB. As from 20 January 2017, Mr Klotz ceased to be a director of Note AB. There were no other executive directors who served as non-executive directors of other companies during the year ended 31 December 2017.

Payments to past directors or for loss of office

Mr P Mortstedt, Mr Crawley and Mr Lundqvist were each paid three months' notice as per their Letter of Appointments. There were no other payments to past directors of the Company during the year, whether for loss of office or otherwise.

Directors' interests in shares

At 31 December 2017, the interests of the Directors in the ordinary shares of 2.5p each of the Company were:

Director	Unconditional Shares	Conditional PIP Element A Shares	Conditional PIP Element B Shares	SIP Shares (Partnership)	SIP Shares (Matching)	Total
Sten Mortstedt ¹	207,741,740	–	–	–	–	207,741,740
Henry Klotz	557,630	–	–	–	–	557,630
Fredrik Widlund ²	227,490	186,468	126,860	342	342	541,502
John Whiteley ³	140,000	99,489	80,850	342	342	321,023
Malcolm Cooper	40,500	–	–	–	–	40,500
Elizabeth Edwards	–	–	–	–	–	–
Christopher Jarvis	48,440	–	–	–	–	48,440
Bengt Mortstedt	28,072,553	–	–	–	–	28,072,553
Anna Seeley	–	–	–	–	–	–
Lennart Sten	28,500	–	–	–	–	28,500
Philip Mortstedt ⁴	3,566	–	–	–	–	3,566
Joseph Crawley ⁵	229,608	–	–	–	–	229,608
Thomas Lundqvist ⁶	18,990	–	–	–	–	18,990

1 Mr S Mortstedt's interest in shares is held in certain companies which are held in Trust (see controlling shareholder note on page 78).

2 As at the date of this report: the SIP balance for Mr Widlund consists of: 463 Partnership Shares and 463 Matching Shares. As set out on page 69, 107,720 Conditional PIP Element B shares will be awarded on 7 March 2018.

3 As at the date of this report: the SIP balance for Mr Whiteley consists of: 463 Partnership Shares and 463 Matching Shares. As set out on page 69, 70,388 Conditional PIP Element B shares will be awarded on 7 March 2018.

4 Resigned 7 March 2017.

5 Resigned 16 May 2017. 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.

6 Retired 31 December 2017.

Additional requirements in respect of the single total figure table (audited information) *continued*

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 250% of salary, and the Executive Chairman and Chief Financial Officer at least 150%.

At the date of this report, the executive directors' beneficial and conditional shareholding (excluding Element A of the PIP) represented the following percentages of salary.

Henry Klotz: 672% (2016: 728%) – shareholding requirement met.
 Fredrik Widlund: 343% (2016: 107%) – shareholding requirement met.
 John Whiteley: 266% (2016: 81%) – shareholding requirement met.

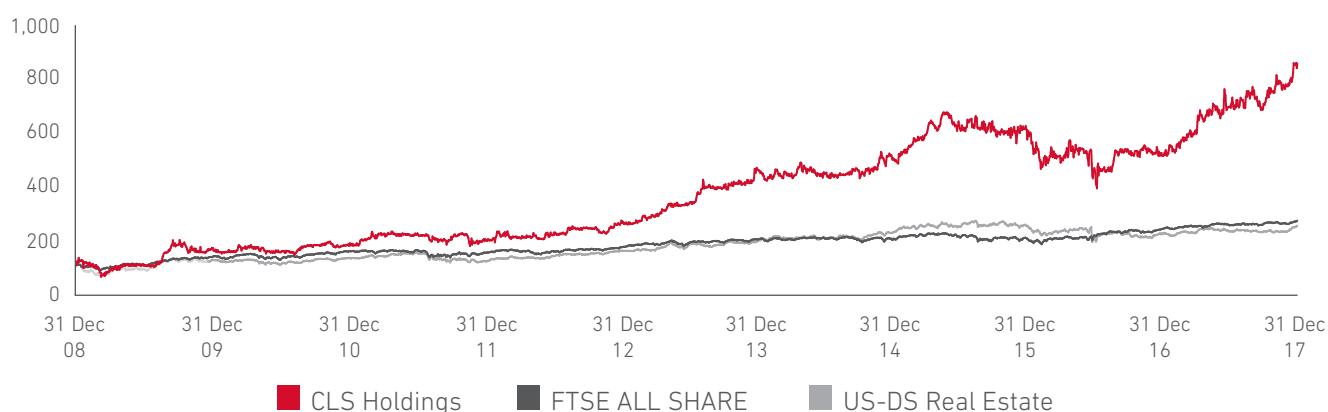
The executive director, Sten Mortstedt, has an interest in shares which is substantially in excess of the minimum requirement.

Share price

The highest mid-market share price in the year was 247.6 pence, the lowest 191.9 pence, and the average was 212.3 pence. The closing share price on 31 December 2017 was 247.5 pence.

Total returns to shareholders 2008–2017 (unaudited)

To comply with the Regulations, the Company's TSR performance is compared to the TSR performance of the FTSE All Share Index and the UK Datastream Real Estate Index over the same period. The Committee believes that these are the most appropriate as these are the indices and sector in which the Company has been included since listing.



Total remuneration for the Chief Executive Officer

	2009	2010	2011	2012	2013	2014	2015	2016	2017
CEO's total single figure (£000)	452	481	417	352	721	349	656	828	1,062
PIP contribution as % of maximum	100%	100%	81.7%	83.5%	86.5%	89.0%	81.0%	76.0%	94.1%

The Company has not operated an incentive plan other than the PIP over this period.

Percentage change in remuneration of the Chief Executive Officer and employees

The table below shows how the percentage change in the Chief Executive Officer's salary, benefits and bonus between 2016 and 2017 compares with the percentage change in each of those components of pay for employees.

	Salary			Taxable Benefits			Bonus		
	2017 £000	2016 £000	Percentage increase	2017 £000	2016 £000	Percentage Increase	2017 £000	2016 £000	Percentage Increase
CEO	368	354	4.0	6	5	20.0	236	186	26.9
Employees	3,853	3,639	5.9	192	182	5.0	1,925	1,691	13.9

The Group's pay review, taking effect from 1 January 2018, awarded a percentage increase in wages and salaries of 2.9% to all employees subject to role specific industry benchmarks.

The 2016 employee bonus pool has been adjusted to reflect revised calculations.

The nature and level of benefits to employees in the year ended 31 December 2017 was broadly similar to those of the previous year.

Relative importance of the spend on pay

	2017 £000	2016 £000	Percentage change
Remuneration paid to employees of the Group	11,346	10,440	9
Distributions to shareholders	25,870	23,497	10
Group revenue ¹	133,430	128,500	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

The Company's remuneration policy was approved at the AGM on 26 April 2017. The remuneration policy can be found on pages 51 to 60 of the 2016 annual report and its key components together with how it is to be implemented in 2018, are set out below:

Element	Policy and Operation for 2018			
Base Salary	No change to policy. Following the annual review, salaries for the executive directors for 2018 are:			
	Name	2017 Salary	2018 Salary	Percentage change
	Henry Klotz	£205,400	£400,000 ¹	94.7%
	Fredrik Widlund	£334,290	£343,985	2.9%
	John Whiteley	£271,130	£278,995	2.9%
	Sten Mortstedt	£308,100	£317,035	2.9%

¹ Mr Klotz's contract was changed from 50% part-time to full-time following a review of the time commitment required for this role.

Average annual employee salary rise for 2018 is 2.9%.

Non-Executive Director Fees	2017	2018	Percentage change
Board membership	£30,000	£30,000	Nil
Senior Independent Director	£5,000	£5,000	Nil
Committee chairmanship	£8,000	£8,000	Nil
Committee membership	£5,000	£5,000	Nil

Benefits As per policy.

Pension As per policy.

Performance As per policy.

Incentive Plan ('PIP')

Both elements are outlined below:

Element A

- Maximum annual contribution into a Participant's Plan Account of 150% of salary.
- Contributions will be earned based on the Company's KPIs and the individual's personal performance rating.
- Contributions will be made for three years with payments made over four years.
- 50% of the value of a Participant's Plan Account will be paid out annually for three years with 100% of the residual value paid out at the end of year four.
- 50% of the unpaid balance of a Participant's Plan account will be at risk of annual forfeiture, the application of which will take account of relative TSR, absolute TSR, strategic, financial and operational performance.

Element B

- Maximum annual deferred share award of up to 100% of salary.
- Deferred share award will be earned based on the same performance conditions as set for Element A.
- Shares earned under Element B are subject to a three-year vesting period during which the participant must remain employed by the Company and also cannot be sold for five years from the date of award, irrespective of employment status. Awards under Element B will be made in March/April of the year following the year during which performance was measured.
- The maximum opportunity for the executive directors for 2018 has been set at 80% of salary for the Chief Executive Officer and 65% for the Chief Financial Officer.

Element	Policy and Operation for 2018
Performance Incentive Plan ("PIP") continued	For 2018 the KPIs and their respective targets were reassessed and it was concluded that they remained appropriate, subject to the renaming of the EPRA NAV Growth to Total Accounting Return, following a change in distribution policy, as explained on page 62. The respective targets for all KPIs remain unchanged.

The following table sets out the maximum bonus which can be earned in respect of each KPI for 2018, expressed as a percentage of salary:

KPIs	Performance breakdown (%)	
	CEO (Max bonus target)	CFO (Max bonus target)
Total Shareholder Return (absolute)	37.5	25.0
Total Shareholder Return (relative)	22.5	15.0
Vacancy Rate	22.5	10.0
Administration cost ratio (as % of Net Rental Income)	22.5	20.0
Personal Performance	15.0	10.0
Total Accounting Return (previously EPRA NAV Growth)	30.0	20.0
Available Bonus Target as a % of salary	150.0	100.0

The following table sets out the targets for 2018 in respect of each KPI:

KPI	Maximum forfeiture	Bonus/ forfeiture threshold	On target performance	Good performance	Maximum performance
Total Shareholder Return (absolute)	1%	3%	12%	14%	16%
Total Shareholder Return (relative)	Lower Quartile	(linear)	Median	(linear)	Upper Quartile
Vacancy Rate	10%	8%	5%	4%	3%
Administration Cost Ratio (as % of Net Rental)	18.50%	17.50%	16.50%	15.50%	14.50%
Personal Performance	2	2.5	4	4.5	5
Total Accounting Return (previously EPRA NAV Growth)	0%	3%	6%	7.5%	9%

All Employee Share Plan	The Company operates a Share Incentive Plan ("SIP") to allow all employees, including executive directors, to share in the potential value created by the Company. Matching shares offered at a ratio of one for every partnership share purchased. Mr Widlund and Mr Whiteley participate in this scheme.
Founder Shareholder	As per the policy, although it should be noted that the Committee are proposing to restructure this element at the next policy review, as explained on page 62.

Consideration 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

Each of the Executive Directors has a service contract of no fixed term. There is no provision in the contracts of Mr Mortstedt, Mr Klotz, Mr Widlund or Mr Whiteley for contractual termination payments, save for those payments normally due under employment law.

Each non-executive director has a letter of appointment but, in accordance with best practice, none has a service contract. All of the Non-Executive Directors are appointed until such time as they are not re-elected. In compliance with the Code, all Company Directors will face re-election at the Company's AGM in April. If a director fails to be re-elected the terms of their appointment will cease. It is the Company's policy not to offer notice periods of more than 12 months exercisable by either party.

Corporate governance

Remuneration report continued

Details of the service contracts or letters of appointment of those who served as directors during the year are as follows:

Name		Contract Date	Notice Period (months)
Henry Klotz	Executive	10 November 2015	6
Fredrik Widlund	Executive	3 November 2014	12
John Whiteley	Executive	1 October 2009	6
Sten Mortstedt	Executive	1 January 2005	12
Malcolm Cooper	Non-Executive	15 June 2007	3
Joseph Crawley ¹	Non-Executive	25 November 2008	3
Elizabeth Edwards	Non-Executive	13 May 2014	3
Christopher Jarvis	Non-Executive	25 November 2008	3
Thomas Lundqvist ²	Non-Executive	1 October 1995	3
Bengt Mortstedt ³	Non-Executive	7 March 2017	3
Philip Mortstedt ⁴	Non-Executive	11 May 2015	3
Anna Seeley	Non-Executive	11 May 2015	3
Lennart Sten	Non-Executive	1 August 2014	3

1 Resigned 15 May 2017.

2 Retired 31 December 2017.

3 Appointed 7 March 2017.

4 Resigned 7 March 2017.

Advisers 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 £84,950 (2016: £40,800). 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 2017 Annual General Meeting, when the existing Policy was approved:

	Directors' Remuneration Policy		Directors Remuneration Report	
	Number of votes	% of votes cast	Number of votes	% of votes cast
In favour	27,785,622	85.7	27,533,840	84.9
Against	4,633,023	14.3	4,891,805	15.1
Total votes cast	32,418,645		32,425,645	
Votes withheld	13,488		6,488	

See the Committee Chairman's Annual Statement on page 62 for the Committee's analysis and actions.

On behalf of the Board Committee

Christopher Jarvis

Chairman

Remuneration Committee

7 March 2018

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2017.

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 90.
- The Group objective, business model and strategy is set out on pages 4, 5, 16 and 17. KPIs are set out on pages 18 and 19.
- Important events (including post balance sheet events) affecting the Company are set out on pages 2 to 32.
- The principal risks and uncertainties are set out on pages 20 and 21.
- The use of financial instruments are set out on page 30, and in note 23 to the Group financial statements.
- The risk management objectives are also detailed in note 23 to the Group financial statements.
- The Group's likely future developments are set out on pages 2 and 3.

Directors

Biographical details of the current Directors of the Company are set out on pages 46 and 47.

As explained in the Corporate Governance Report on page 50, Philip Mortstedt, Joseph Crawley and Thomas Lundquist also served as a Directors of the Company during the year until 7 March 2017, 15 May 2017 and 31 December 2017, respectively.

All Directors will be subject to annual re-election at the 2018 Annual General Meeting in accordance with the UK Corporate Governance Code. In his role as Executive Chairman, Henry Klotz recommends the re-election of the retiring Directors at the 2018 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 Klotz.

Directors remuneration and interests in shares is set out on pages 62 to 76.

Related party transactions are set out in note 33 to the Group financial statements.

Dividends

An interim dividend of 2.05 pence per share was paid on 29 September 2017. The Directors are proposing a final dividend of 4.30 pence per share making a total dividend for the year ended 31 December 2017 of 6.35 pence per share. The final dividend will be paid on 27 April 2018 to shareholders who are on the register of members on 3 April 2018.

Purchase of the Company's shares

There were no purchases of the Company's own shares during the year. A resolution will be proposed at the 2018 Annual General Meeting to give the Company authority to make market purchases of up to 40,739,576 shares, being 10% of the current issued share capital.

Share capital

Changes in share capital are shown in note 24 to the Group financial statements. At 31 December 2017, and at the date of this report, the Company's issued share capital consisted of 438,777,780 ordinary shares of 2.5 pence each, of which 407,395,760 held voting rights and 31,382,020 shares were held as treasury shares, and all of which ranked pari passu. 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.

Major interests in the company's shares

Other than Mr Sten Mortstedt's 50.99% interest referred to in the Directors' Remuneration Report, on page 71, as at 7 March 2018 the Company has been notified of the following interests above 3% in the Company's issued share capital:

	No. of shares	%
FIL Limited	40,899,575	10.04%
Bengt Mortstedt	28,072,550	6.89%
Bank of Montreal	21,562,981	5.29%
Schroder Investment Management Limited	13,166,570	3.23%

Details of the Directors' interests in shares are shown in the Remuneration Committee Report on page 71. 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.

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 alter or terminate or provisions in those agreements to take effect. 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.

Relationship agreement – controlling shareholder

As at 31 December 2017, Creative Value Investment Group Limited ("CVIG"), the investment vehicle for the Sten and Karin Mortstedt Family and Charity Trust, held 50.99% of the Company's shares in issue and was therefore seen as a controlling shareholder under the Listing Rules.

Pursuant to Listing Rule 9.8.4, the Company has entered into a relationship agreement which shall only be terminated in the event that CVIG 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, CVIG has also complied.

Property portfolio

A valuation of all the investment properties and properties held for sale in the Group at 31 December 2017 was carried out by Cushman and Wakefield for the UK and Germany, and Jones Lang Lasalle for France, which produced an aggregate market value of £1,771.3 million (2016: £1,536.6 million).

Corporate governance

The Corporate Governance Statement, prepared in accordance with rule 7.2 of the FCA's Disclosure Guidance and Transparency Rules, is set out on pages 38 to 76 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 32 to 37. No political donations to any parties, organisations or candidates, or political expenditure were made during 2017. The Group notes the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 which came into force in April 2017. The regulations apply to companies with over 250 employees, and as a result the Group is not required to report this information, however it is actively looking at ways in which to gather and report this data on a voluntary basis in the future. 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 Board has also noted its moral and legal obligations under the Modern Slavery Act 2015. The Board has a zero tolerance towards modern slavery, and throughout the year the Company has contacted its first tier contractors and suppliers. Our full statement on Modern Slavery can be found on our website at www.clsholdings.com. 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 2017, 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.

2018 Annual General Meeting

The 2018 Annual General Meeting will be held on Wednesday, 25 April 2018. 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 20 and 21. 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 37. 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 further details of this analysis are set out in the Viability Statement on page 52. Therefore, the Directors 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 13
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	Page 66
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 78

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 71
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 78
9.8.6(3)	The going concern statement	Page 79
9.8.6(4)(a)	Amount of authority to purchase own shares available at year end	The Company had the authority to purchase 40,739,570 shares at the year end
9.8.6(4)(b)	Off-market purchases of own shares during the year	None
9.8.6(4)(c)	Off-market purchases of own shares since year end	None
9.8.6(4)(d)	Non-pro rata sales of treasury shares during the year	None
9.8.6(5)	Compliance with the Main Principles of the UK Corporate Governance Code	Page 40
9.8.6(6)(b)	Details of non-compliance with the UK Corporate Governance Code	Pages 38 to 61
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 77, 46 and 47

On behalf of the Board

David Fuller BA FCIS

Company Secretary
7 March 2018

Director's responsibility statement

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 7 March 2018.

On behalf of the Board

David Fuller BA FCIS

Company Secretary
7 March 2018

Financial statements

Independent auditor's report

To the members of CLS Holdings plc

Report on the audit of the financial statements

Opinion

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 2017 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with 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.

We have audited the financial statements of CLS Holdings plc (the 'parent company') and its subsidiaries (the 'Group') which comprise:

- the group income statement;
- the group statement of comprehensive income;
- the group and parent company balance sheets;
- the group statement of cash flows;
- the group and parent company statements of changes in equity; and
- the related notes 1 to 33 to the group financial statements and 1 to 15 to the parent company financial statements.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).



Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	<p>The key audit matters that we identified in the current year were:</p> <ul style="list-style-type: none">• the valuation of the investment property portfolio; and• accounting for significant transactions. <p>Within this report, any new key audit matters are identified with  and any key audit matters which are the same as the prior year identified with .</p>
Materiality	<p>The materiality that we used for the group financial statements was £20.7 million based on 2% of net assets. For testing of balances that impacted EPRA adjusted profit before tax, a lower materiality of £2.2 million was used based on 5% of that measure.</p>
Scoping	<p>We subject all locations in which CLS operate to specific audit procedures, this accounts for 100% of the Group's net assets, revenue and profit before tax.</p>
Significant changes in our approach	<p>In the current year, we considered the 'accounting for significant transactions' as a key audit matter as a result of the material quantum of the Vauxhall Square and Metropolis Portfolio transactions completed in the year.</p>

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in note 2.1 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 and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Principal risks and viability statement

Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

- the disclosures on pages 20–21 that describe the principal risks and explain how they are being managed or mitigated;
- 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; or
- the directors' explanation on page 52 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 are also required to report whether the directors' statement relating to the prospects of the group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Independent auditor's report *continued*

To the members of CLS Holdings plc

Valuation of the investment property portfolio

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



The Group's investment properties in the UK, Germany and France are held at £1,753.4 million at 31 December 2017 (31 December 2016: £1,536.6 million), see note 13 for full disclosure, making this the most quantitatively material balance in the financial statements.

The valuation of the portfolio is a significant judgement area that is underpinned by a number of assumptions including capitalisation yields and future lease income. Our key audit matter in relation to the valuation of the investment property portfolio is pinpointed to the judgement within the inputs used in the data supplied to the Group's valuers for the valuation process and the risk of potential manipulation of this by management in order to fraudulently misstate the valuation.

Refer to the Audit Committee report on page 58 where this is included as a significant issue. The relevant accounting policy for the Group is presented in note 3 on page 98.

How the scope of our audit responded to the key audit matter



We assessed the design and implementation of key controls in respect of this business process.

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

We utilised the expertise of a real estate specialist and chartered surveyor for our challenge of the investment property valuations, in particular to challenge the significant judgements and assumptions applied in their valuation model.

We obtained the external valuation reports and met with the external valuers of the property portfolio to discuss, understand and challenge the valuation process, estimated rental values, performance of the portfolio, significant assumptions and critical judgement areas, including occupancy rates, yields and development milestones.

As part of our meeting with the external valuers we assessed their competence, independence and integrity.

Our real estate specialist provided relevant industry data for the UK and drew on local expertise in the European markets in which CLS operates. This was used to benchmark the portfolio performance and key assumptions used to assess whether the external evidence supported the assumptions used by the valuers.

Finally, we assessed, on a sample basis, the integrity of information provided to the valuer, relating to rental income, to evaluate whether it was consistent with the leases.

Key observations



We concluded that the assumptions applied in arriving at the fair value of the Group's property portfolio were appropriate.

Accounting for significant transactions

Key audit matter description

The assessment of the accounting treatment for the most significant investment property transactions completed in the year.



The Group has completed a significant number of transactions in the year of varying sizes, those that are significantly more material are:

- the disposal of the development site at Vauxhall Square for total proceeds of £141.1 million; and
- the acquisition of the Metropolis portfolio in Germany at a total cost of £140.1 million.

Sale and Purchase Agreements are typically complex agreements and consequently, for all significant transactions we deem the accounting for these to require significant focus in particular around the more complex areas such as rental top-up payments and conditionality.

The key audit matter around accounting for transactions is pinpointed to the accounting treatment of the major transactions being the Vauxhall Square disposal and the Metropolis acquisition, and specifically in respect of the latter, whether this is a business combination as this was a purchase of shares in companies and included some employees.

How the scope of our audit responded to the key audit matter



We assessed the design and implementation of key controls in respect of this business process.

We audited the disposal of Vauxhall Square and acquisition of the Metropolis portfolio by agreeing key amounts per completion statements to signed Sale and Purchase Agreements and tracing proceeds or consideration received to bank statements.

We performed a detailed review of completed transaction Sale and Purchase Agreements for the above transactions, specifically checking for the inclusion of any unusual consideration clauses.

Related costs of these transactions have been tested on a sample basis with payments and receipts traced to bank statement.

Management's paper on the Metropolis transaction has been reviewed and challenged to consider if the share purchase of these companies and employees acquired means business processes have been acquired and thus a business combination has arisen or if an asset purchase has been completed.

Key observations



We concluded that the significant transactions completed in the year are free from material error and in respect of the Metropolis transaction, we concurred with Management's opinion that this is a straightforward asset purchase and not a business combination.

Our application of materiality

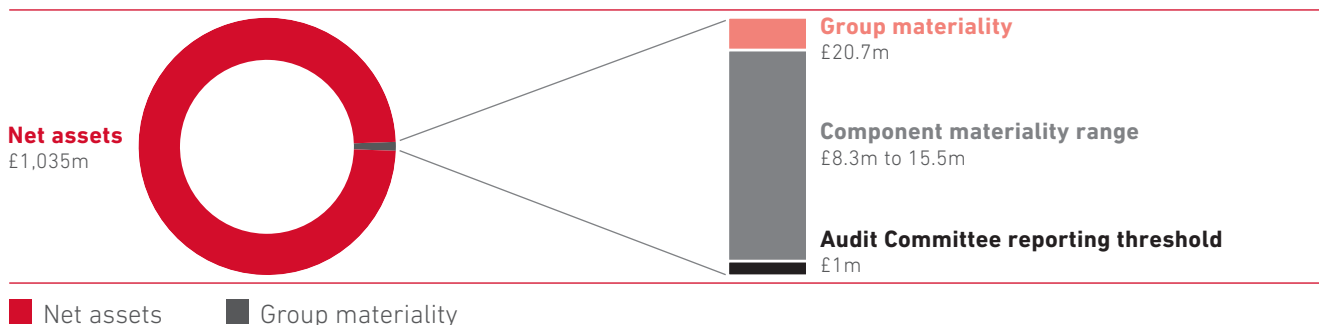
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

Independent auditor's report *continued*

To the members of CLS Holdings plc

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£20.7 million (2016: £17.5 million)	£15.5 million (2016: £10.5 million)
	We continue to 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 (2016: £2.7 million) 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 financial instruments.	Lower materiality for those items impacting EPRA adjusted profit before tax of £1.6 million (2016: £1.8 million).
Basis for determining materiality	We have determined materiality for the Group and Parent Company based on 2% (2016: 2%) of net assets.	
	For testing of balances that impact EPRA adjusted profit before tax, a basis of 5% (2016: 5%) of that measure has been used.	
Rationale for the benchmark applied	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, largely as a result of the favourable exchange rate movements.	



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1,035,200 (2016: £875,000) for the Group 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 risk 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 on the audit work at each of the Group's principal business units, being the UK, France, Germany and Sweden. These locations represent the principal business units and account for 100% (2016: 100%) of the Group's net assets, revenue and profit before tax. All business units were subject to specific audit procedures. This approach provides an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

Our audit work at each of the four business units has been executed by Deloitte component auditors at levels of materiality applicable to each individual business unit which were lower than Group materiality and ranged from £8.3 million to £15.5 million (2016: £4.0 million to £8.9 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 matters has been led by the Group audit team, supplemented by specific procedures by the component auditors. The component auditors' work has been reviewed by the Group team on site for the French component and remotely for all other components in the current year 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.

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. In the year, we have visited our component team in France.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report included in the Annual Report, other than the financial statements and our auditor's report thereon.

**We have nothing to report
in respect of these matters.**

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- *Fair, balanced and understandable* – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- *Audit committee reporting* – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- *Directors' statement of compliance with the UK Corporate Governance Code* – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Financial statements

Independent auditor's report *continued*

To the members of CLS Holdings plc

Responsibilities of directors

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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception**Adequacy of explanations received and accounting records**

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the directors' remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Other matters**Auditor tenure**

Following the recommendation of the audit committee, we were appointed by The Board of CLS Holdings Plc on 23 May 2007 to audit the financial statements for the year ending 31 December 2007 and subsequent financial periods. Following a competitive tender process, we were reappointed as auditor for the period ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is ten years, covering the years ending 31 December 2007 to 31 December 2017.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the audit committee we are required to provide in accordance with ISAs (UK).

Georgina Robb FCA (Senior statutory auditor)**For and on behalf of Deloitte LLP**

Statutory Auditor
London, United Kingdom
7 March 2018

Financial statements

Group income statement

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Continuing operations			
Group revenue	4	133.4	128.5
Net rental income	4	113.1	107.1
Administration expenses		(21.6)	(21.3)
Other expenses		(15.9)	(14.0)
Group revenue less costs		75.6	71.8
Net movements on revaluation of investment properties	13	94.2	36.1
Profit on sale of properties		43.7	9.1
Gain on sale of other financial instruments, net of impairments		2.5	3.2
Operating profit		216.0	120.2
Finance income	8	10.1	13.6
Finance costs	9	(34.0)	(32.7)
Share of loss of associates after tax	15	(0.7)	(1.0)
Profit before tax		191.4	100.1
Taxation	10	(33.5)	(1.8)
Profit for the year	6	157.9	98.3
Attributable to:			
Owners of the Company		157.7	97.8
Non-controlling interests		0.2	0.5
		157.9	98.3
Earnings per share from continuing operations (expressed in pence per share)			
Basic	11	38.7	23.6*

* Restated for subdivision of shares (see note 11).

Group statement of comprehensive income

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Profit for the year		157.9	98.3
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Foreign exchange differences		7.7	33.1
Items that may be reclassified to profit or loss			
Fair value gains on corporate bonds and other financial investments	16	13.9	7.7
Fair value (gains)/losses taken to gain on sale of other financial investments, net of impairments		(0.9)	1.3
Revaluation of property, plant and equipment	14	(1.5)	2.6
Fair value of gains taken to profit on sale of properties		(3.9)	–
Deferred tax on net fair value losses/(gains)	20	1.9	(3.8)
Total items that may be reclassified to profit or loss		9.5	7.8
Total comprehensive income for the year		175.1	139.2
Total comprehensive income attributable to:			
Owners of the Company		174.4	138.3
Non-controlling interests		0.7	0.9
		175.1	139.2

The notes on pages 94 to 122 are an integral part of these Group financial statements.

Group balance sheet

at 31 December 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Investment properties	13	1,753.4	1,536.6
Property, plant and equipment	14	102.8	106.4
Goodwill and intangibles		1.3	1.2
Investments in associates	15	–	0.2
Other financial investments	16	121.8	116.4
Derivative financial instruments	22	0.1	–
Deferred tax	20	3.3	3.1
		1,982.7	1,763.9
Current assets			
Trade and other receivables	17	9.5	59.9
Properties held for sale	13	17.9	–
Derivative financial instruments	22	0.6	0.5
Cash and cash equivalents	18	146.7	99.0
		174.7	159.4
Total assets		2,157.4	1,923.3
Current liabilities			
Trade and other payables	19	(58.9)	(50.5)
Current tax		(11.5)	(9.9)
Borrowings	21	(107.1)	(125.8)
		(177.5)	(186.2)
Non-current liabilities			
Deferred tax	20	(137.9)	(120.7)
Borrowings	21	(801.8)	(724.1)
Derivative financial instruments	22	(6.9)	(9.8)
		(946.6)	(854.6)
Total liabilities		(1,124.1)	(1,040.8)
Net assets		1,033.3	882.5
Equity			
Share capital	24	11.0	11.0
Share premium	26	83.1	83.1
Other reserves	27	143.0	125.9
Retained earnings		789.4	656.4
Equity attributable to owners of the Company		1,026.5	876.4
Non-controlling interests		6.8	6.1
Total equity		1,033.3	882.5

The financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 7 March 2018 and were signed on its behalf by:

Mr E H Klotz

Executive Chairman

The notes on pages 94 to 122 are an integral part of these Group financial statements.

Financial statements

Group statement of changes in equity

for the year ended 31 December 2017

	Share capital £m Note 24	Share premium £m Note 26	Other reserves £m Note 27	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
Arising in 2017:							
Total comprehensive income for the year	–	–	16.7	157.7	174.4	0.7	175.1
Employee Performance Incentive Plan charge	–	–	0.4	–	0.4	–	0.4
Dividends to shareholders	–	–	–	(24.7)	(24.7)	–	(24.7)
Total changes arising in 2017	–	–	17.1	133.0	150.1	0.7	150.8
At 1 January 2017	11.0	83.1	125.9	656.4	876.4	6.1	882.5
At 31 December 2017	11.0	83.1	143.0	789.4	1,026.5	6.8	1,033.3
Arising in 2016:							
Total comprehensive income for the year	–	–	40.5	97.8	138.3	0.9	139.2
Issue of share capital	–	0.1	–	–	0.1	–	0.1
Purchase of own shares	(0.3)	–	0.3	(24.7)	(24.7)	–	(24.7)
Expenses thereof	–	–	–	(0.1)	(0.1)	–	(0.1)
Total changes arising in 2016	(0.3)	0.1	40.8	73.0	113.6	0.9	114.5
At 1 January 2016	11.3	83.0	85.1	583.4	762.8	5.2	768.0
At 31 December 2016	11.0	83.1	125.9	656.4	876.4	6.1	882.5

The notes on pages 94 to 122 are an integral part of these Group financial statements.

Group statement of cash flows

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Cash flows from operating activities			
Cash generated from operations	28	75.9	62.0
Interest received		8.8	5.8
Interest paid		(25.4)	(20.5)
Income tax paid		(16.1)	(7.2)
Net cash inflow from operating activities		43.2	40.1
Cash flows from investing activities			
Purchase of investment properties		(230.8)	(45.7)
Capital expenditure on investment properties		(24.2)	(20.9)
Proceeds from sale of properties		241.9	39.4
Purchases of property, plant and equipment		(3.3)	(20.9)
Purchase of corporate bonds		(11.9)	(35.9)
Proceeds from sale of corporate bonds		12.0	54.3
Purchase of equity investments		–	(1.1)
Proceeds from sale of equity investments		5.6	7.4
Dividends received from equity investments		1.4	1.4
Distributions received from associate undertakings		–	0.3
Costs on foreign currency transactions		(3.8)	(1.5)
Net cash outflow from investing activities		(13.1)	(23.2)
Cash flows from financing activities			
Dividends paid		(24.7)	–
Purchase of own shares		–	(24.8)
New loans		211.6	200.2
Issue costs of new loans		(2.5)	(1.5)
Repayment of loans		(176.9)	(199.6)
Net cash inflow/(outflow) from financing activities		7.5	(25.7)
Cash flow element of net increase/(decrease) in cash and cash equivalents			
Foreign exchange gains		4.6	7.1
Net increase/(decrease) in cash and cash equivalents		42.2	(1.7)
Cash and cash equivalents at the beginning of the year		99.0	100.7
Cash and cash equivalents at the end of the year	18	141.2	99.0

The notes on pages 94 to 122 are an integral part of these Group financial statements.

Notes to the Group financial statements

31 December 2017

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, Germany and France.

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 79 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 applied a number of amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2017. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to IAS 7 Disclosure Initiative

The Group has adopted the amendments to IAS 7 for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. The Group’s liabilities arising from financing activities consist of borrowings (note 21) and certain derivatives (note 22). A reconciliation between the opening and closing balances of these items is provided in note 28. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 28, the application of these amendments has had no impact on the Group’s consolidated financial statements.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

The Group has adopted the amendments to IAS 12 for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference. The application of these amendments has had no impact on the Group’s consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs 2014–2016 Cycle

The Group has adopted the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014–2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group. IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

2 Significant accounting policies *continued*

At the date of authorisation of these financial statements, The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 9 Financial Instruments (2009, 2010 and 2014)
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- IFRS 17 Insurance Contracts
- IFRS 2 (amendments) Classification and measurement of share based payment transactions
- IFRS 4 (amendments) Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
- IAS 40 (amendments) Transfers of investment property
- Annual Improvements to IFRSs: 2012–2014 Cycle
- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- IFRIC 22 Foreign Currency transactions and advanced consideration
- IFRIC 23 Uncertainty over income tax treatments

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods except for a reclassification arising as a result of IFRS 9.

Listed equity securities (see note 16) are currently treated as available for sale assets under IAS 39 and are held at market value on the balance sheet with movements in fair value being recognised directly in equity through other comprehensive income. On derecognition or impairment of these assets, any gains previously recognised in equity are recycled to the income statement. Under IFRS 9, this accounting treatment will change and fair value movements will be recognised directly in the income statement. On transition to IFRS 9 this will result in a material reclassification of the available for sale reserve to retained earnings. At 31 December 2017 the amount to be reclassified on transition was £17.9 million.

In relation to IFRS 15 Revenue from Contracts with Customers the Group's material revenue stream relates to property rental income. On the adoption of the standard this revenue stream will not be materially impacted due to property rental income continuing to be within the scope of IAS 17 Leases and therefore is out of scope.

In relation to IFRS 16 (which has not yet been endorsed by the EU) as the Group is predominantly a lessor this standard will not have a material impact on adoption. Where the Group is currently a lessee, this relates to immaterial contracts.

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 Significant accounting policies *continued*

2.3 Foreign currency

(i) Foreign currency transactions

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

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

(ii) Consolidation of foreign entities

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

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

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

2.4 Investment properties

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

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

2.5 Property, plant and equipment

Property, plant and equipment is 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.

2 Significant accounting policies *continued*

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 Significant accounting policies *continued*

2.8 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

Critical accounting judgements

In accordance with IAS 1, the Directors have considered the judgements that have been made in the process of applying the Group's accounting policies, which are described in note 2, and which of those judgements have the most significant effect on amounts recognised in the financial statements.

In the Directors' opinion for the year ended 31 December 2017 there are no accounting judgements that are material to the financial statements.

Key sources of estimation uncertainty

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 (see note 13 for more detail). The valuers also make reference to market evidence of transaction prices for similar properties.

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 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: United Kingdom
Germany
France
Sweden

Other Investments

There are no transactions between the operating segments.

Previously, the United Kingdom segment was split between London and the Rest of United Kingdom. From 2017, the management of the United Kingdom portfolio has merged and comparative data has been restated to reflect this change.

4 Segment information continued

The Group's results for the year ended 31 December 2017 by operating segment were as follows:

	Investment Property				Other Investments £m	Total £m
	United Kingdom £m	Germany £m	France £m	Sweden £m		
Rental income	54.1	24.4	15.2	–	–	93.7
Other property-related income	2.8	0.6	0.5	–	17.5	21.4
Service charge income	7.2	5.9	5.2	–	–	18.3
Revenue	64.1	30.9	20.9	–	17.5	133.4
Service charges and similar expenses	(9.1)	(5.9)	(5.3)	–	–	(20.3)
Net rental income	55.0	25.0	15.6	–	17.5	113.1
Administration expenses	(6.0)	(1.8)	(1.7)	–	(7.4)	(16.9)
Other expenses	(6.2)	(2.5)	(0.7)	–	(6.5)	(15.9)
Group revenue less costs	42.8	20.7	13.2	–	3.6	80.3
Net movements on revaluation of investment properties	39.9	34.2	20.1	–	–	94.2
Profit/(loss) on sale of investment property	43.7	(0.1)	0.1	–	–	43.7
Gain on sale of corporate bonds	–	–	–	–	4.5	4.5
Permanent impairment of value of corporate bond	–	–	–	–	(2.0)	(2.0)
Segment operating profit/(loss)	126.4	54.8	33.4	–	6.1	220.7
Finance income	–	–	–	2.2	7.9	10.1
Finance costs	(23.6)	(2.9)	(2.3)	–	(5.2)	(34.0)
Share of loss of associates after tax	–	–	–	–	(0.7)	(0.7)
Segment profit/(loss) before tax	102.8	51.9	31.1	2.2	8.1	196.1
Central administration expenses						(4.7)
Profit before tax						191.4

The Group's results for the year ended 31 December 2016 by operating segment were as follows:

	Investment Property				Other Investments £m	Total £m
	United Kingdom £m (restated)	Germany £m	France £m	Sweden £m		
Rental income	54.9	20.4	14.7	1.3	–	91.3
Other property-related income	3.7	–	0.9	–	16.8	21.4
Service charge income	6.3	4.6	4.8	0.1	–	15.8
Revenue	64.9	25.0	20.4	1.4	16.8	128.5
Service charges and similar expenses	(9.9)	(5.6)	(5.4)	(0.5)	–	(21.4)
Net rental income	55.0	19.4	15.0	0.9	16.8	107.1
Administration expenses	(5.7)	(1.4)	(1.8)	(0.2)	(7.2)	(16.3)
Other expenses	(5.2)	(1.4)	(0.8)	–	(6.6)	(14.0)
Group revenue less costs	44.1	16.6	12.4	0.7	3.0	76.8
Net movements on revaluation of investment properties	12.1	12.4	11.6	–	–	36.1
Profit/(loss) on sale of investment property	4.8	–	(1.1)	5.4	–	9.1
Gain on sale of corporate bonds	–	–	–	–	3.2	3.2
Segment operating profit/(loss)	61.0	29.0	22.9	6.1	6.2	125.2
Finance income	–	–	0.1	1.4	12.1	13.6
Finance costs	(23.2)	(3.1)	(2.2)	(0.1)	(4.1)	(32.7)
Share of loss of associates after tax	–	–	–	–	(1.0)	(1.0)
Segment profit/(loss) before tax	37.8	25.9	20.8	7.4	13.2	105.1
Central administration expenses						(5.0)
Profit before tax						100.1

Financial statements

Notes to the Group financial statements continued

31 December 2017

4 Segment information continued

Other segment information:

	Assets		Liabilities		Capital expenditure	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Investment Property						
United Kingdom ¹	925.4	948.9	510.3	567.6	66.2	20.2
Germany	584.8	368.4	346.3	206.5	190.1	42.0
France	296.1	263.8	201.9	184.2	6.0	4.4
Sweden	10.6	42.8	8.1	3.4	–	–
Other Investments	340.5	299.4	57.5	79.1	2.3	20.6
	2,157.4	1,923.3	1,124.1	1,040.8	264.6	87.2

1 2016 restated to reflect merger of London and Rest of United Kingdom.

Included within the assets of other investments are investments in associates of £nil (2016: £0.2 million).

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:

	2017 £m	2016 £m
Administration expenses of the operating segments	16.9	16.3
Central administration expenses	4.7	5.0
Total administration expenses of the Group	21.6	21.3
Less: administration expenses of Other Investments	(7.4)	(7.2)
Property-related and central administration expenses (A)	14.2	14.1
Net rental income	113.1	107.1
Less: net rental income of First Camp	(13.1)	(12.5)
Net rental income of Investment Properties (B)	100.0	94.6
Administration cost ratio (A divided by B)	14.2%	14.9%

6 Profit for the year

Profit for the year has been arrived at after charging:

	2017 £m	2016 £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	–	0.1
Audit of the Company's subsidiaries pursuant to legislation	0.1	0.1
Depreciation of property, plant and equipment (note 14)	1.1	1.1
Employee benefits expense (note 7)	14.5	14.0
Net foreign exchange gains (note 8)	1.8	4.8
Impairment loss recognised on other financial instruments	2.0	–
Provision against trade receivables	0.6	0.5

7 Employee benefits expense

	2017 £m	2016 £m
Wages and salaries	10.9	10.5
Social security costs	1.7	1.9
Pension costs – defined contribution plans	0.6	0.6
Performance incentive plan	0.4	–
Other employee-related expenses	0.9	1.0
	14.5	14.0

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 62 to 76.

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

	2017					2016				
	Property number	Hotel number	Other operations number	First Camp number	Total number	Property number	Hotel number	Other operations number	First Camp number	Total number
Male	43	8	1	36	88	43	10	1	52	106
Female	43	10	–	49	102	44	9	–	44	97
	86	18	1	85	190	87	19	1	96	203

8 Finance income

	2017 £m	2016 £m
Interest income	6.9	7.4
Other finance income	1.4	1.4
Foreign exchange variances	1.8	4.8
	10.1	13.6

9 Finance costs

	2017 £m	2016 £m
Interest expense		
Bank loans	17.3	15.2
Debenture loan	2.4	2.8
Zero coupon note	–	0.8
Secured notes	2.8	2.9
Unsecured bonds	3.6	3.8
Amortisation of loan issue costs	1.6	1.5
Total interest costs	27.7	27.0
Less interest capitalised on development projects	(0.5)	(0.7)
	27.2	26.3
Loss on early redemption of debt	9.7	2.4
Movement in fair value of derivative financial instruments		
Interest rate swaps: transactions not qualifying as hedges	(2.9)	4.0
	34.0	32.7

10 Taxation

	2017 £m	2016 £m
Current tax charge	17.7	8.9
Deferred tax charge/(credit) (note 20)	15.8	(7.1)
	33.5	1.8

A deferred tax credit of £1.9 million (2016: charge of £3.8 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:

	2017 £m	2016 £m
Profit before tax	191.4	100.1
Tax calculated at domestic tax rates applicable to profits in the respective countries	39.6	22.2
Expenses not deductible for tax purposes	0.2	1.5
Tax effect of fair value movements on investments	(0.1)	(1.0)
Change in tax basis of United Kingdom properties, including indexation uplift	(5.6)	(3.1)
Non-taxable income	(1.4)	(0.3)
Deferred tax on losses not recognised	1.5	0.5
Tax liability released on disposals	1.7	(6.6)
Adjustment in respect of prior periods	(2.4)	(1.3)
Change in tax rate	–	(10.3)
Tax effect of losses in associates and joint ventures	–	0.2
Tax charge for the year	33.5	1.8

The weighted average applicable tax rate of 20.7% (2016: 22.2%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated.

11 Earnings per share

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

	2017 £m	2016 £m
Earnings		
Profit for the year attributable to owners of the Company	157.7	97.8
Net movements on revaluation of investment properties	(94.2)	(36.1)
Loss on early redemption of debt, net of tax	7.9	–
Profit on sale of investment properties, net of tax	(30.8)	(6.8)
Gain on sale of corporate bonds, net of tax	(3.6)	(3.2)
Permanent impairment of value of corporate bond, net of tax	1.6	–
Change in fair value of derivative financial instruments	(2.9)	5.4
Impairment of carrying value of associates	0.7	1.0
Deferred tax relating to the above adjustments	15.8	(7.2)
EPRA earnings	52.2	50.9

11 Earnings per share continued

Weighted average number of ordinary shares	2017 Number	2016 Number (restated ¹)
Weighted average number of ordinary shares in circulation	407,395,760	413,798,550

Earnings per Share	2017 Pence	2016 Pence (restated ¹)
Basic	38.7	23.6
EPRA	12.8	12.3

1 On 8 May 2017, the Company subdivided each of its ordinary shares of 25 pence into ten new ordinary shares of 2.5 pence each. In accordance with IAS 33 Earnings per Share, the weighted average number of ordinary shares in circulation and earnings per share have been restated as if the subdivision were effective from 1 January 2016.

12 Net assets per share

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

Net assets	2017 £m	2016 £m
Basic net assets attributable to owners of the Company	1,026.5	876.4
Adjustment to increase fixed rate debt to fair value, net of tax	(5.9)	(28.3)
Goodwill as a result of deferred tax	(1.1)	(1.1)
EPRA triple net assets	1,019.5	847.0
Deferred tax on property and other non-current assets, net of minority interest	133.4	115.8
Fair value of derivative financial instruments	6.2	9.3
Adjustment to decrease fixed rate debt to book value, net of tax	5.9	28.3
EPRA net assets	1,165.0	1,000.4

Number of ordinary shares	2017 Number	2016 Number (restated ¹)
Number of ordinary shares in circulation	407,395,760	407,395,760

Net assets per share	2017 Pence	2016 Pence (restated ¹)
Basic	252.0	215.1
EPRA	286.0	245.6
EPRA triple net	250.2	207.9

1 On 8 May 2017, the Company subdivided each of its ordinary shares of 25 pence into ten new ordinary shares of 2.5 pence each. The number of ordinary shares in circulation and net assets per share have been restated as if the subdivision were effective from 1 January 2016.

Financial statements

Notes to the Group financial statements *continued*

31 December 2017

13 Investment properties

	United Kingdom £m	Germany £m	France £m	Total £m
At 1 January 2017	921.3	356.9	258.4	1,536.6
Acquisitions	49.9	187.7	0.9	238.5
Capital expenditure	15.4	2.4	5.1	22.9
Disposals	(120.6)	(25.5)	(7.1)	(153.2)
Net movement on revaluation of investment properties	39.9	34.2	20.1	94.2
Rent-free period debtor adjustments	1.0	1.0	1.5	3.5
Exchange rate variances	–	17.7	11.1	28.8
Transfer to properties held for sale	(11.9)	(6.0)	–	(17.9)
At 31 December 2017	895.0	568.4	290.0	1,753.4

	United Kingdom £m	Germany £m	France £m	Total £m
At 1 January 2016	891.8	259.4	215.6	1,366.8
Acquisitions	6.4	39.3	–	45.7
Capital expenditure	13.6	2.7	4.4	20.7
Disposals	(13.9)	–	(7.6)	(21.5)
Net movement on revaluation of investment properties	12.1	12.4	11.6	36.1
Rent-free period debtor adjustments	2.1	0.1	0.2	2.4
Exchange rate variances	–	43.0	34.2	77.2
Transfer to properties held for sale	9.2	–	–	9.2
At 31 December 2016	921.3	356.9	258.4	1,536.6

The investment properties (and the hotel, landholding and owner-occupied property detailed in note 14) were revalued at 31 December 2017 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:

United Kingdom: Cushman and Wakefield (2016: Cushman and Wakefield; Knight Frank)

Germany: Cushman and Wakefield

France: Jones Lang LaSalle

Property valuations are complex and require a degree of judgement 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. 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 £73.1 million (2016: £48.1 million).

Interest capitalised within capital expenditure in the year amounted to £0.1 million (2016: £0.7 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 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 (2016: £nil).

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 2016	26.7	44.4	6.0	4.7	81.8
Additions	–	20.6	–	0.2	20.8
Revaluation	0.4	2.3	(0.1)	–	2.6
Exchange rate variances	–	5.2	–	–	5.2
At 31 December 2016	27.1	72.5	5.9	4.9	110.4
Additions	–	2.3	–	0.9	3.2
Disposals	–	–	(5.9)	–	(5.9)
Revaluation	0.5	(2.0)	–	–	(1.5)
Exchange rate variances	–	1.5	–	–	1.5
At 31 December 2017	27.6	74.3	–	5.8	107.7
Comprising:					
At cost	–	–	–	5.8	5.8
At valuation 31 December 2017	27.6	74.3	–	–	101.9
	27.6	74.3	–	5.8	107.7
Accumulated depreciation and impairment					
At 1 January 2016	(0.2)	(0.4)	(0.2)	(2.1)	(2.9)
Depreciation charge	(0.2)	(0.4)	–	(0.5)	(1.1)
At 31 December 2016	(0.4)	(0.8)	(0.2)	(2.6)	(4.0)
Disposals	–	–	0.2	–	0.2
Depreciation charge	(0.2)	(0.3)	–	(0.6)	(1.1)
At 31 December 2017	(0.6)	(1.1)	–	(3.2)	(4.9)
Net book value					
At 31 December 2017	27.0	73.2	–	2.6	102.8
At 31 December 2016	26.7	71.7	5.7	2.3	106.4

A hotel, an owner-occupied property and a landholding were revalued at each balance sheet date based on the external valuation performed by Cushman and Wakefield, Knight Frank and L Fällström AB, respectively. The other land and buildings, which were owned by the First Camp Sverige Holding AB group, were revalued based on an external valuation performed by Forum Fastighetsekonomi AB.

15 Investments in associates

	Total £m
At 1 January 2017	0.2
Conversion of convertible loan into shares	0.5
Impairment	(0.7)
At 31 December 2017	–

A convertible loan to Nyheter 24 Media Network AB was converted into equity on 26 November 2017 at the option of the borrower.

Financial statements

Notes to the Group financial statements continued

31 December 2017

15 Investments in associates continued

	Net assets £m	Goodwill £m	Impairment £m	Total £m
At 1 January 2016	0.6	1.3	(0.4)	1.5
Share of loss of associates after tax	(0.1)	–	0.1	–
Dividends received	(0.3)	–	–	(0.3)
Impairment	–	(1.3)	0.3	(1.0)
At 31 December 2016	0.2	–	–	0.2

16 Other financial investments

Investment type	Destination of Investment	2017 £m	2016 £m
Available-for-sale financial investments carried at fair value	Listed corporate bonds		
	UK	11.5	10.9
	Eurozone	6.3	9.8
	Other	47.7	44.4
		65.5	65.1
	Listed equity securities		
	Sweden	55.9	50.8
	Unlisted investments	0.4	0.5
		121.8	116.4

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 ¹ £m	Total £m
At 1 January 2017	50.8	65.1	0.5	116.4
Additions	–	11.9	–	11.9
Disposals	(3.5)	(9.6)	–	(13.1)
Fair value movements recognised in reserves on available-for-sale assets	9.8	4.1	–	13.9
Fair value movements recognised in profit before tax on available-for-sale assets	(1.6)	(1.3)	–	(2.9)
Exchange rate variations	0.4	(4.7)	(0.1)	(4.4)
At 31 December 2017	55.9	65.5	0.4	121.8

	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods ¹ £m	Total £m
At 1 January 2016	43.1	73.4	4.5	121.0
Additions	1.1	35.9	–	37.0
Disposals	(2.3)	(52.1)	(4.1)	(58.5)
Fair value movements recognised in reserves on available-for-sale assets	4.7	3.0	–	7.7
Fair value movements recognised in profit before tax on available-for-sale assets	(0.4)	1.7	–	1.3
Exchange rate variations	4.6	3.2	0.1	7.9
At 31 December 2016	50.8	65.1	0.5	116.4

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

16 Other financial investments continued**Corporate Bond Portfolio**

At 31 December 2017

Sector	Banking	Insurance	Travel and Tourism	Telecoms and IT	Energy and Resources	Other	Total
Value	£23.9m	£2.0m	£9.5m	£12.1m	£10.4m	£7.6m	£65.5m
Running yield	6.8%	5.8%	7.4%	7.1%	10.2%	4.1%	7.1%
Issuers	RBS HSBC Lloyds Barclays Unicredit Santander Allied Irish Std Chartered Credit Agricole Deutsche Bank Societe Generale	PGH Capital Brit Insurance	SAS Hertz Stena British Airways	Dell Seagate Centurylink Telecom Italia Western Digital	Enel Seadrill Transocean Freeport-McMoRan	L Brands Stora Enso Liberty Interactive	

17 Trade and other receivables

	2017 £m	2016 £m
Current		
Trade receivables	3.7	3.8
Prepayments	1.6	2.3
Accrued income	1.5	3.4
Other debtors	2.7	50.4
	9.5	59.9

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 (2016: none). No trade and other receivables were interest-bearing.

Included within other debtors is £nil (2016: £0.2 million) due after more than one year, and £nil (2016: £42.1 million) due on the disposal of an investment property.

18 Cash and cash equivalents

	2017 £m	2016 £m
Cash at bank and in hand	141.2	99.0
Cash held on behalf of third parties	5.5	–
	146.7	99.0

At 31 December 2017, Group cash at bank and in hand included £17.6 million (2016: £12.5 million) which was restricted by a third-party charge.

At 31 December 2017 the Group held, on behalf of a third party, cash which was paid to the third party in January 2018. As the Group holds no beneficial interest in this cash at the year end it has been excluded from the group cash flow statement and all other cash and gearing metrics.

Financial statements

Notes to the Group financial statements continued

31 December 2017

19 Trade and other payables

	2017 £m	2016 £m
Current		
Trade payables	2.8	3.4
Social security and other taxes	3.2	8.2
Other payables	16.7	11.1
Accruals	21.4	13.9
Deferred income	14.8	13.9
	58.9	50.5

20 Deferred tax

	2017 £m	2016 £m
Deferred tax assets:		
– after more than 12 months	(3.3)	(3.1)
Deferred tax liabilities:		
– after more than 12 months	137.9	120.7
	134.6	117.6

The movement in deferred tax was as follows:

	2017 £m	2016 £m
At 1 January	117.6	111.4
Charged/(credited) in arriving at profit after tax	15.8	(7.1)
(Credited)/charged to other comprehensive income	(1.9)	3.8
Exchange rate variances	3.1	9.5
At 31 December	134.6	117.6

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

Deferred tax assets	Tax losses £m	Other £m	Total £m
At 1 January 2017	–	(3.1)	(3.1)
Credited in arriving at profit after tax	–	(1.0)	(1.0)
Charged to other comprehensive income	–	0.8	0.8
At 31 December 2017	–	(3.3)	(3.3)

Deferred tax assets	Tax losses £m	Other £m	Total £m
At 1 January 2016	(0.1)	(3.2)	(3.3)
Charged in arriving at profit after tax	0.1	–	0.1
Charged to other comprehensive income	–	0.2	0.2
Exchange rate variances	–	(0.1)	(0.1)
At 31 December 2016	–	(3.1)	(3.1)

20 Deferred tax continued

Deferred tax liabilities	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m
At 1 January 2017	11.1	106.9	2.7	120.7
(Credited)/charged in arriving at profit after tax	(0.7)	16.9	0.6	16.8
Credited to other comprehensive income	–	(2.0)	(0.7)	(2.7)
Exchange rate variances	–	3.0	0.1	3.1
At 31 December 2017	10.4	124.8	2.7	137.9

Deferred tax liabilities	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m
At 1 January 2016	10.5	102.8	1.4	114.7
Charged/(credited) in arriving at profit after tax	0.5	(8.1)	0.4	(7.2)
Charged to other comprehensive income	–	2.8	0.8	3.6
Exchange rate variances	0.1	9.4	0.1	9.6
At 31 December 2016	11.1	106.9	2.7	120.7

Deferred tax has been calculated at a weighted average across the Group of 19.6% (2016: 20.7%), and has been based on the rates applicable under legislation substantively enacted at the balance sheet date.

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 2017 the Group did not recognise deferred tax assets of £8.2 million (2016: £6.7 million) in respect of losses amounting to £30.4 million (2016: £26.5 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 2017			At 31 December 2016		
	Current £m	Non-current £m	Total borrowings £m	Current £m	Non-current £m	Total borrowings £m
Bank loans	103.0	678.1	781.1	119.8	573.2	693.0
Debenture loans	–	–	–	2.0	23.4	25.4
Unsecured bonds	–	65.0	65.0	(0.1)	64.7	64.6
Secured notes	4.1	58.7	62.8	4.1	62.8	66.9
	107.1	801.8	908.9	125.8	724.1	849.9

Arrangement fees of £5.4 million (2016: £4.5 million) have been offset in arriving at the balances in the above tables.

Bank loans

Interest on bank loans is charged at fixed rates ranging between 0.8% and 5.5%, including margin (2016: 0.8% and 6.9%) and at floating rates of typically LIBOR, EURIBOR or STIBOR, plus a margin. Floating rate margins range between 0.9% and 2.8% (2016: 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.

Notes to the Group financial statements *continued*

31 December 2017

21 Borrowings *continued*

Debenture loans

The debenture loans, which represented amortising bonds repayable in equal quarterly instalments of £1.2 million (2016: £1.2 million) with final repayment due in January 2025, were redeemed in full in December 2017. Each instalment had been apportioned between principal and interest on a reducing balance basis. Interest was charged at an annual fixed rate of 10.8%, including margin, and the debentures had been secured by a legal charge over a property and securitisation of its rental income.

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.

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 2017	Bank loans £m	Debenture loans £m	Unsecured bonds £m	Secured notes £m	Total £m
Within one year or on demand	104.5	–	–	4.2	108.7
More than one but not more than two years	55.7	–	65.0	4.2	124.9
More than two but not more than five years	501.4	–	–	54.9	556.3
More than five years	124.4	–	–	–	124.4
	786.0	–	65.0	63.3	914.3
Unamortised issue costs	(4.9)	–	–	(0.5)	(5.4)
Borrowings	781.1	–	65.0	62.8	908.9
Less amount due for settlement within 12 months	(103.0)	–	–	(4.1)	(107.1)
Amounts due for settlement after 12 months	678.1	–	65.0	58.7	801.8

At 31 December 2016	Bank loans £m	Debenture loans £m	Unsecured bonds £m	Secured notes £m	Total £m
Within one year or on demand	120.9	2.0	–	4.2	127.1
More than one but not more than two years	112.2	2.2	–	4.2	118.6
More than two but not more than five years	368.5	8.4	65.0	12.5	454.4
More than five years	95.0	12.8	–	46.5	154.3
	696.6	25.4	65.0	67.4	854.4
Unamortised issue costs	(3.6)	–	(0.4)	(0.5)	(4.5)
Borrowings	693.0	25.4	64.6	66.9	849.9
Less amount due for settlement within 12 months	(119.8)	(2.0)	0.1	(4.1)	(125.8)
Amounts due for settlement after 12 months	573.2	23.4	64.7	62.8	724.1

21 Borrowings continued

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

	At 31 December 2017		At 31 December 2016	
	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	4.5	3.5	5.6	5.1
Euro	1.4	5.1	1.3	5.7

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

	At 31 December 2017			At 31 December 2016		
	% 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	6	3.0	0.5	10	4.1	1.0
Euro	14	2.7	1.6	11	3.8	1.9

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

	At 31 December 2017			At 31 December 2016		
	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
Sterling	149.5	278.1	427.6	182.7	296.3	479.0
Euro	233.5	210.1	443.6	92.8	223.8	316.6
Swedish Krona	13.0	24.7	37.7	14.6	39.7	54.3
	396.0	512.9	908.9	290.1	559.8	849.9

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

	Carrying amounts		Fair values	
	2017 £m	2016 £m	2017 £m	2016 £m
Current borrowings	107.1	125.8	107.1	125.8
Non-current borrowings	801.8	724.1	809.0	748.2
	908.9	849.9	916.1	874.0

The valuation methods used to measure the fair values of the Group's borrowings were derived from inputs which were either observable as prices or derived from prices (Level 2).

Arrangement fees of £5.4 million (2016: £4.5 million) have been offset in arriving at the balances in the above table.

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

21 Borrowings *continued*

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

	2017 £m	2016 £m
Floating rate:		
– expiring within one year	63.1	45.8

22 Derivative financial instruments

	2017 Assets £m	2017 Liabilities £m	2016 Assets £m	2016 Liabilities £m
Non-current				
Interest rate caps and swaps	0.1	(6.9)	–	(9.8)
Current				
Forward foreign exchange contracts	0.6	–	0.5	–
	0.7	(6.9)	0.5	(9.8)

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 2017 was £158.0 million (2016: £158.4 million). The average period to maturity of these interest rate swaps was 3.9 years (2016: 4.9 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 2017 the Group had £23.3 million of outstanding net foreign exchange contracts (2016: £18.4 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:

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

23 Financial instruments continued

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.

The gearing ratio at the year end was as follows:

	2017 £m	2016 £m
Debt	914.3	854.4
Liquid resources	(206.7)	(164.1)
Net debt	707.5	690.3
Equity	1,033.3	882.5
Net debt to equity ratio	68%	78%

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 2017 the Group was subject to a minimum equity ratio of total equity to total assets of 22.5% imposed by unsecured bonds of £65.0 million (2016: £65.0 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 (2016: £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.

Notes to the Group financial statements *continued*

31 December 2017

23 Financial instruments *continued**(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	2017 Income statement £m	2016 Income statement £m
Cash +50 basis points	0.7	0.5
Variable borrowings (including caps) +50 basis points	(2.4)	(2.8)
Cash -50 basis points	(0.7)	(0.5)
Variable borrowings (including caps) -50 basis points	1.4	1.5

(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	2017 Net assets £m	2017 Profit before tax £m	2016 Net assets £m	2016 Profit before tax £m
1% increase in value of sterling against the euro	(3.6)	(0.8)	(2.0)	(0.4)
1% increase in value of sterling against the Swedish krona	(0.4)	–	(0.4)	(0.1)
1% fall in value of sterling against the euro	3.6	0.8	2.0	0.4
1% fall in value of sterling against the Swedish krona	0.4	–	0.4	0.1

(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.

23 Financial instruments continued

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	2017 Other Comprehensive Income £m	2016 Other Comprehensive Income £m
10% fall in value	(12.1)	(11.6)
10% increase in value	12.1	11.6

(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.

At 31 December 2017 the Group held £121.8 million (2016: £116.4 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	2017 £m	2016 £m
Investment grade	6.7	6.8
Non-investment grade	52.7	43.7
Not rated	62.4	65.9
Total	121.8	116.4

(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.

23 Financial instruments continued

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 2017	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings	108.7	124.9	556.3	124.4
Interest payments on borrowings¹	26.9	27.2	24.4	26.3
Trade and other payables	53.4	–	–	–
Forward foreign exchange contracts:				
Cash flow hedges				
– Outflow	0.6	–	–	–
– Inflow	0.6	–	–	–

At 31 December 2016	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings	127.1	118.6	454.4	154.3
Interest payments on borrowings ¹	25.9	25.0	24.4	24.3
Trade and other payables	50.5	–	–	–
Forward foreign exchange contracts:				
Cash flow hedges				
– Outflow	(18.4)	–	–	–
– Inflow	18.4	–	–	–

¹ 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 2017	40,739,576	3,138,202	43,877,778	10.2	0.8	11.0
Issued on subdivision	366,656,184	28,243,818	394,900,002	–	–	–
At 31 December 2017	407,395,760	31,382,020	438,777,780	10.2	0.8	11.0

24 Share capital continued

	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 2016	42,140,581	2,888,103	45,028,684	10.6	0.7	11.3
Issued	5,000	(5,000)	–	–	–	–
Cancelled following tender offers	(1,150,906)	–	(1,150,906)	(0.3)	–	(0.3)
Purchase of own shares:						
– pursuant to market purchase	(255,099)	255,099	–	(0.1)	0.1	–
At 31 December 2016	40,739,576	3,138,202	43,877,778	10.2	0.8	11.0

On 8 May 2017, each of the existing ordinary shares of 25 pence each was subdivided into ten new ordinary shares of 2.5 pence each.

25 Distributions to shareholders

An interim dividend for 2017 of 2.05 pence per ordinary share of 2.5 pence, or £8.4 million, was paid on 29 September 2017. The proposed final dividend of 4.30 pence per ordinary share was recommended by the Board on 6 March 2018 and, subject to approval by shareholders, is payable on 27 April 2018 to shareholders on the register at the close of business on 3 April 2018. The aggregate amount of the 2017 final dividend of £17.5 million has been calculated using the total number of eligible shares outstanding at 31 December 2017. The total dividend for the year would be 6.35 pence per ordinary share of 2.5 pence (2016: 57.5 pence per ordinary share of 25 pence), comprising £25.9 million.

A tender offer by way of a Circular dated 26 August 2016 for the purchase of 1 in 100 shares at 1,750 pence per ordinary share of 25 pence was completed in September 2016. It returned £7.2 million to shareholders, equivalent to 17.5 pence per ordinary share of 25 pence. A final dividend in respect of the financial year ended 31 December 2016 of 40.0 pence per ordinary share of 25 pence was paid on 28 April 2017, returning £16.3 million to shareholders, and making total distributions for the year £23.5 million.

26 Share premium

	2017 £m	2016 £m
At 1 January	83.1	83.0
Ordinary shares issued from treasury shares	–	0.1
At 31 December	83.1	83.1

27 Other reserves

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2017	22.7	57.2	17.9	–	28.1	125.9
Exchange rate variances	–	7.5	–	–	–	7.5
Property, plant and equipment						
– net fair value deficits in the year	–	–	(1.2)	–	–	(1.2)
– deferred tax thereon	–	–	0.9	–	–	0.9
– disposals	–	–	(3.9)	–	–	(3.9)
– deferred tax thereon	–	–	0.5	–	–	0.5
Available-for-sale financial assets:						
– fair value gains in the year	–	–	13.9	–	–	13.9
– realised fair value gains	–	–	(2.9)	–	–	(2.9)
– released on impairment	–	–	2.0	–	–	2.0
– deferred tax thereon	–	–	(0.1)	–	–	(0.1)
Share-based payment charge	–	–	–	0.4	–	0.4
At 31 December 2017	22.7	64.7	27.1	0.4	28.1	143.0

Financial statements

Notes to the Group financial statements continued

31 December 2017

27 Other reserves continued

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Other reserves £m	Total £m
At 1 January 2016	22.4	24.6	10.0	28.1	85.1
Purchase of own shares:					
– cancellation pursuant to tender offer	0.3	–	–	–	0.3
Exchange rate variances	–	32.6	–	–	32.6
Property, plant and equipment					
– net fair value gains in the year	–	–	1.7	–	1.7
– deferred tax thereon	–	–	(1.8)	–	(1.8)
Available-for-sale financial assets:					
– net fair value gains in the year	–	–	9.0	–	9.0
– deferred tax thereon	–	–	(1.0)	–	(1.0)
At 31 December 2016	22.7	57.2	17.9	28.1	125.9

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 Notes to the cash flow

	2017 £m	2016 £m
Cash generated from operations		
Operating profit	216.0	120.2
Adjustments for:		
Net movements on revaluation of investment properties	(94.2)	(36.1)
Depreciation and amortisation	1.1	1.1
Profit on sale of investment property	(43.7)	(9.1)
Gain on sale of other financial instruments, net of impairments	(2.5)	(3.2)
Non-cash rental income	(3.5)	(2.4)
Share-based payment expense	0.4	0.1
Changes in working capital:		
Decrease/(increase) in receivables	2.6	(2.7)
(Decrease) in payables	(0.3)	(5.9)
Cash generated from operations	75.9	62.0

	Notes	1 January 2017 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	Foreign exchange £m	31 December 2017 £m
Changes in liabilities arising from financing activities							
Borrowings	21	849.9	41.9	1.6	–	15.5	908.9
Interest rate swaps	22	9.8	–	–	(2.9)	–	6.9
Interest rate caps	22	–	(0.1)	–	–	–	(0.1)
Forward foreign exchange contracts	22	(0.5)	(3.7)	–	–	3.6	(0.6)
		859.2	38.1	1.6	(2.9)	19.1	915.1

29 Contingencies

At 31 December 2017 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	2017 £m	2016 £m
Within one year	98.5	84.9
More than one but not more than five years	293.7	268.5
More than five years	165.4	193.1
	557.6	546.5

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 2017 the Group had contracted capital expenditure of £9.1 million (2016: £9.3 million). At the balance sheet date, the Group had conditionally exchanged contracts to acquire an investment property for £nil million (2016: £31.4 million). There were no authorised financial commitments which were yet to be contracted with third parties (2016: 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

401 King Street Limited	CLS Horton Road Limited	Fetter Lane Leasehold Limited	Sentinel House Limited
62 London Road Limited	CLS London Limited	Great West House Limited	Shard of Glass Limited
Apex Tower Limited	CLS London Properties Limited	GWH Birkenhead Limited	Southern House Limited
Birmingham Crescent Limited	CLS Northern Properties Limited	Harman House Limited	Spring Gardens III Limited
Brent House Limited	CLS One Limited	Hygeia Harrow Limited	Spring Mews (Block D) Limited
Buspace Studios Limited	CLS Peterborough Limited	Ingrove Limited	Spring Mews (Hotel) Limited
Cassini Pascal Limited	CLS Residential Investments Limited	Instant Office Limited	Spring Mews (Student) Limited
Centenary Court Limited	CLS South London Limited	Kennington Road Limited	Spring Mews Limited
Central London Securities Limited	CLS Spring Gardens Limited	Larkhall Lane Limited	Three Albert Embankment Limited
Chancel House Limited	CLS UK Properties Limited	Maidenhead Cloud Gate Limited	Tweedwind (Three) Limited
Citadel Finance Limited	CLSH Management Limited	Melita House Limited	Vauxhall Square Limited
Citadel Holdings plc	Columbia Bracknell Limited	Mirenwest Limited	Vauxhall Square (Nominee 2) Limited
CI Tower Investments Limited	Coventry House Limited	New Printing House Square Limited	Vauxhall Square (Nominee 3) Limited
CLS Bromley Limited	Crosspoint House Limited	NYK Investments Limited	Vauxhall Square One Limited
CLS Capital Partners Limited	Dukes Road Limited	One Elmfield Park Limited	Vauxhall Square (Student) Limited
CLS Chancery House Limited	Elmfield Road Limited	One Leicester Square Limited	Vauxhall Square (Wandsworth Road) Limited
CLS Cliffords Inn Limited	Falcon Quest Limited	Quayside Lodge Limited	Wandsworth Road Limited
CLS England and Wales Limited	Fetter Lane Apartments Limited	Rayman Finance Limited	
CLS Gateway House Limited		Reflex Bracknell Limited	
CLS Germany Limited		Rex House Limited	
CLS Holdings UK Limited			

Financial statements

Notes to the Group financial statements *continued*

31 December 2017

31 Subsidiaries *continued*

United Kingdom

Registered Office: 15 Atholl Crescent, Edinburgh EH3 8HA

CLL Aberdeen Limited
CLL Scotland Limited
Ladywell House Limited
Sidlaw House Limited

France

Registered Office: 120 Rue Jean Jaurés, 92300 Levallois, Paris

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

Germany

Registered Office: Brodschragen 4, D-20457 Hamburg

CLL Germany Management GmbH
Jarrestrasse Immobilien GmbH

Luxembourg

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

Adlershofer Sàrl CLL Metropolis Sàrl Grossglockner Sàrl Network Perlach Sàrl
Albertina Sàrl CLL Palisade Sàrl Haydn Sàrl Salisbury Hill Sàrl
Cavernet Sàrl CLL Tangentis Sàrl Hermalux Sàrl Satimood Sàrl
Chronotron Sàrl Freepost Sàrl Kapellen Sàrl Schönbrunn Sàrl
CLL Investments Sàrl Frohbösestrasse Sàrl Lipizzaner Sàrl St Stephan Sàrl
CLL Investments 2 Sàrl Garivet Sàrl Naropere Sàrl Zillertal Sàrl
CLL Luxembourg Sàrl Gotic Haus Sàrl Prater Sàrl

Netherlands

Registered Office: Burgemeester van Reenensingel 101, 2803 DA Gouda

120 Jean Jaures BV Hamersley 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
CLL Management BV Mission Marchand BV Portapert Properties UK BV Stockport Investments BV
Forum d'Aubigny BV Parc Avenue du Park BV Rasstaf BV

31 Subsidiaries continued**Jersey**

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

////////////////////////////////////
 Hawkswell Limited

Sweden

Registered Office: Skönabäck 122, 274 91 Skurup

////////////////////////////////////
 Jarrestrasse Holding AB (94.5%)
 Museion Förvaltning AB

Sweden

Registered Office: Västmannagatan 10, 111 24 Stockholm

////////////////////////////////////
 Endicott Sweden 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):

Brf Gunnarsö (83.45%)	First Camp Ahus och Oknö AB	First Camp Kungshamn AB	First Camp Tylösand AB
Brf Kolmården	First Camp Bråviken AB	First Camp Luleå AB	First Camp Umeå AB
Brf Möllen Brf Solcamp	First Camp Gunnarsö AB	First Camp Malmö AB	First Camp Upplands-Bro AB
Brf Solgläntan (96.7%)	First Camp Holding Karradal AB	First Camp Mölle AB	Solvik Camping och Stugby AB
Brf Umeå Stugor	First Camp Karlstad AB	First Camp Sverige AB	Stugbyn Gunnarsö AB
Brf Wermelandia Stugor	First Camp Kärradal AB	First Camp Torekov AB	Svalans Stugförmedling 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
Nyheter 24 Media Network AB	Sweden	24.2%
Lociloci AB	Sweden	24.6%

33 Related party transactions

Associates and joint ventures

At 31 December 2016, the Group had a convertible loan of SEK 5.0 million, due from Nyheter24 Media Network AB, an associate company. This loan attracted interest at Swedish base rate plus 2%. On 26 November 2017, the loan was converted by the borrower into shares in Nyheter24 Media Network AB at SEK 40.5 each.

Transactions with directors

Distributions totalling £14,385,247 (2016: £11,023,983) were made through dividend payments in the year in respect of ordinary shares held by the Company's directors.

Distributions totalling £nil (2016: £11,023,983) were made through tender offer buy-backs in the year in respect of ordinary shares held by the Company's directors.

During the year the following transactions occurred with companies associated to Sten Mortstedt:

- the Group rented office space at a cost of SEK 400,000 (2016: 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 (2016: £nil).
- the Group charged a management fee in relation to providing property management and administration services for the period 2013 to 2017. A Group company, CLSH Management Limited, invoiced fees totalling £101,573 (2016: £nil). At the balance sheet date £635 was outstanding (2016: £nil)
- the Group recharged salary costs in relation to providing administration services. A Group company, CLS Holdings plc, invoiced costs totalling £37,634 (2016: £nil). At the balance sheet date £16,650 was outstanding (2016: £nil).
- the Group provided periodic use of a company owned flat. A Group company, CLSH Management Limited, invoiced costs totalling £3,730 (2016: £nil). At the balance sheet date £590 was outstanding (2016: £nil).
- the Group were charged costs incurred. A Group company, CLS Holdings plc, received an invoice of £2,985 (2016: £4,168). No balances were outstanding at the balance sheet date (2016: £nil).

During the year, the Group recharged costs to a company with a common Director, Catena AB, in relation to costs incurred by the Group. The Group company, CLS Holdings plc, invoiced costs totalling £3,202 (2016: £2,139). At the balance sheet date £1,311 was outstanding (2016: £2,139).

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 62 to 76.

	2017 £000	2016 £000
Short-term employee benefits	2,634	2,377
Post-employment benefits	11	32
Other long-term benefits	306	125
	2,951	2,534

Company balance sheet

at 31 December 2017

	Notes	2017 £m	2016 £m
Non-current assets			
Investment in subsidiary undertakings	6	361.1	354.5
Intangible assets		0.1	–
Current assets			
Trade and other receivables	7	4.2	5.5
Cash and cash equivalents		–	0.1
Total assets		365.4	360.1
Current liabilities			
Trade and other payables	8	(24.8)	(21.4)
Borrowings	9	–	(18.1)
Non-current liabilities			
Borrowings	9	(64.8)	(64.7)
Total liabilities		(89.6)	(104.2)
Net assets		275.8	255.9
Equity			
Share capital	10	11.0	11.0
Share premium	11	83.1	83.1
Other reserves	12	27.7	27.3
Profit and loss account	12	154.0	134.5
Shareholders' funds		275.8	255.9

The Company reported a profit for the financial year ended 31 December 2017 of £44.2 million (2016: £0.8 million).

These financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 7 March 2018 and were signed on its behalf by:

Mr E H Klotz

Executive Chairman

Financial statements

Company statement of changes in equity

for the year ended 31 December 2017

	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Arising in 2017:						
Profit for the year	12	–	–	–	44.2	44.2
Employee Performance Incentive Plan charge	12	–	–	0.4	–	0.4
Dividends	12	–	–	–	(24.7)	(24.7)
Total changes arising in 2017		–	–	0.4	19.5	19.9
At 1 January 2017		11.0	83.1	27.3	134.5	255.9
At 31 December 2017		11.0	83.1	27.7	154.0	275.8
Arising in 2016:						
Profit for the year	12	–	–	–	0.8	0.8
Issue of share capital	11	–	0.1	–	–	0.1
Purchase of own shares	12	(0.3)	–	0.3	(24.7)	(24.7)
Expenses thereof	12	–	–	–	(0.1)	(0.1)
Total changes arising in 2016		(0.3)	0.1	0.3	(24.0)	(23.9)
At 1 January 2016		11.3	83.0	27.0	158.5	279.8
At 31 December 2016		11.0	83.1	27.3	134.5	255.9

The notes on pages 125 to 128 are an integral part of these financial statements.

Notes to the Company financial statements

31 December 2017

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

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 79.

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.

Financial statements

Notes to the Company financial statements *continued*

31 December 2017

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 £44.2 million (2016: £0.8 million).

Audit fees for the Company were £0.1 million (2016: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Committee Report on pages 62 to 76.

5 Distributions to shareholders

An interim dividend for 2017 of 2.05 pence per ordinary share of 2.5 pence, or £8.4 million, was paid on 29 September 2017. The proposed final dividend of 4.30 pence per ordinary share was recommended by the Board on 6 March 2018 and, subject to approval by shareholders, is payable on 27 April 2018 to shareholders on the register at the close of business on 3 April 2018. The aggregate amount of the 2017 final dividend of £17.5 million has been calculated using the total number of eligible shares outstanding at 31 December 2017. The total dividend for the year would be 6.35 pence per ordinary share of 2.5 pence (2016: 57.5 pence per ordinary share of 25 pence), comprising £25.9 million.

A tender offer by way of a Circular dated 26 August 2016 for the purchase of 1 in 100 shares at 1,750 pence per ordinary share of 25 pence was completed in September 2016. It returned £7.2 million to shareholders, equivalent to 17.5 pence per ordinary share of 25 pence. A final dividend in respect of the financial year ended 31 December 2016 of 40.0 pence per ordinary share of 25 pence was paid on 28 April 2017, returning £16.3 million to shareholders, and making total distributions for the year £23.5 million.

6 Investment in subsidiary undertakings

	2017 £m	2016 £m
At 1 January	354.5	256.5
Additions	11.5	99.2
Disposals	(10.3)	–
Reversal of/(addition to impairment)	5.4	(1.2)
At 31 December	361.1	354.5

7 Trade and other receivables

	2017 £m	2016 £m
Current		
Amounts owed by subsidiary undertakings	2.8	2.2
Prepayments and accrued income	0.2	0.1
Other debtors	1.2	3.2
	4.2	5.5

8 Trade and other payables

	2017 £m	2016 £m
Current		
Trade payables	–	0.1
Amounts owed to subsidiary undertakings	20.4	17.5
Accruals	4.4	3.7
Social security and other taxes	–	0.1
	24.8	21.4

9 Borrowings

	Current £m	Non-current £m	Total borrowings £m
At 31 December 2017			
Unsecured bonds	–	65.0	65.0
Arrangement fees	–	(0.2)	(0.2)
	–	64.8	64.8
At 31 December 2016			
Unsecured bonds	18.2	65.0	83.2
Arrangement fees	(0.1)	(0.3)	(0.4)
	18.1	64.7	82.8

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.

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 2017	40,739,576	3,138,202	42,877,778	10.2	0.8	11.0
Issued on subdivision	366,656,184	28,243,818	385,900,002	–	–	–
At 31 December 2017	407,395,760	31,382,020	438,777,780	10.2	0.8	11.0

	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 2016	42,140,581	2,888,103	45,028,684	10.6	0.7	11.3
Issued	5,000	(5,000)	–	–	–	–
Cancelled following tender offers	(1,150,906)	–	(1,150,906)	(0.3)	–	(0.3)
Purchase of own shares: – pursuant to market purchase	(255,099)	255,099	–	(0.1)	0.1	–
At 31 December 2016	40,739,576	3,138,202	43,877,778	10.2	0.8	11.0

On 8 May 2017, each of the existing ordinary shares of 25 pence each was subdivided into ten new ordinary shares of 2.5 pence each.

Financial statements

Notes to the Company financial statements continued

31 December 2017

11 Share premium

	2017 £m	2016 £m
At 1 January	83.1	83.0
Ordinary shares issued from treasury shares	–	0.1
At 31 December	83.1	83.1

12 Profit and loss account and other reserves

	Other reserves			Total £m	Profit and loss account £m
	Capital redemption reserve £m	Share-based payment reserve £m	Other £m		
At 1 January 2017	22.7	–	4.6	27.3	134.5
Share-based payment charge	–	0.4	–	0.4	–
Profit for the year	–	–	–	–	44.2
Dividends to shareholders	–	–	–	–	(24.7)
At 31 December 2017	22.7	0.4	4.6	27.7	154.0

	Other reserves			Total £m	Profit and loss account £m
	Capital redemption reserve £m	Share-based payment reserve £m	Other £m		
At 1 January 2016		22.4	4.6	27.0	158.5
Purchase of own shares		0.3	–	0.3	(24.7)
Expenses thereof		–	–	–	(0.1)
Profit for the year		–	–	–	0.8
At 31 December 2016		22.7	4.6	27.3	134.5

13 Reconciliation of movements in shareholders' funds

	2017 £m	2016 £m
At 1 January	255.9	279.8
Profit for the year	44.2	0.8
Dividends to shareholders	(24.7)	–
Share-based payment charge	0.4	–
Issue of share capital	–	0.1
Purchase of own shares	–	(24.8)
At 31 December	275.8	255.9

14 Contingencies

At 31 December 2017 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 2017, the Company had no contracted capital expenditure (2016: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2016: £nil).

Additional information

Five year financial summary

31 December 2017

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Group revenue	133.4	128.5	118.9	99.6	91.2
Net rental income	113.1	107.1	99.0	82.2	73.1
Administration expenses	(21.6)	(21.3)	(19.5)	(13.6)	(12.4)
Other expenses	(15.9)	(14.0)	(13.8)	(4.9)	(3.5)
Group revenue less costs	75.6	71.8	65.7	63.7	57.2
Net movements on revaluation of investment properties	94.2	36.1	98.0	186.0	(0.2)
Profit on sale of properties	43.7	9.1	4.3	8.7	4.5
Gain/(loss) on sale of corporate bonds and other financial investments	2.5	3.2	0.7	–	14.1
Gain arising from acquisition	–	–	–	1.2	–
Profit on sale of subsidiaries/joint venture/associates	–	–	–	–	1.8
Fair value gain on reclassification of associate	–	–	–	0.2	14.9
Operating profit	216.0	120.2	168.7	259.8	92.3
Finance income	10.1	13.6	10.0	7.7	7.6
Finance costs	(34.0)	(32.7)	(27.5)	(28.1)	(23.7)
Share of (loss)/profit of associates after tax	(0.7)	(1.0)	–	(2.6)	(4.8)
Profit before tax	191.4	100.1	151.2	236.8	71.4
Taxation	(33.5)	(1.8)	(19.1)	(42.0)	(8.2)
Profit for the year	157.9	98.3	132.1	194.8	63.2
Distributions paid and proposed	25.9	23.5	19.1	15.9	15.0
Net Assets Employed					
Non-current assets	1,982.7	1,763.9	1,572.6	1,477.8	1,257.0
Current assets	169.2	159.4	173.3	111.0	142.8
	2,151.9	1,923.3	1,745.9	1,588.8	1,399.8
Current liabilities	(172.0)	(186.2)	(282.2)	(269.6)	(121.3)
Non-current liabilities	(946.6)	(854.6)	(695.7)	(661.7)	(797.6)
Net assets	1,033.3	882.5	768.0	657.5	480.9
Ratios	2017	2016	2015	2014	2013
Net assets per share (pence)	252.0	215.1	181.0	152.1	109.4
EPRA net assets per share (pence)	286.0	245.6	208.3	177.4	126.8
Earnings per share (pence)	38.7	23.6	30.6	44.9	14.7
EPRA earnings per share (pence)	12.8	12.3	8.5	7.7	6.6
Net gearing (%)	68.5	78.8	82.0	89.4	125.0
Balance sheet loan-to-value (%)	36.7	43.7	42.7	44.3	52.6
Interest cover (times)	3.72	3.36	3.19	3.34	3.18

Additional information

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 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 property assets, in each case excluding First Camp

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 or EPRA NAV

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

Return on equity

The aggregate of the change in equity attributable to the owners of the Company plus the amounts paid to the shareholders by way of distributions and the purchase of shares in the market, divided by the opening equity attributable to the owners of the Company

Reversionary

The amount by which ERV exceeds passing rent

Solidity

Equity shareholders' funds expressed as a percentage of total assets

Total accounting return

The change in EPRA NAV before the payment of dividends

Total shareholder return

The change in the market price of a share

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

Additional information

Directors, officers and advisers

Directors

Henry Klotz	(Executive Chairman)
Anna Seeley [◇]	(Non-Executive Vice Chairman)
Fredrik Widlund	(Chief Executive Officer)
John Whiteley	(Chief Financial Officer)
Sten Mortstedt [◇]	(Executive Director)
Malcolm Cooper ^{†*†}	(Non-Executive Director)
Elizabeth Edwards ^{†◇}	(Non-Executive Director)
Christopher Jarvis ^{*†}	(Non-Executive Director)
Bengt Mortstedt	(Non-Executive Director)
Lennart Sten ^{*◇}	(Non-Executive Director)

‡ Senior Independent Director.

* Member of Remuneration Committee.

† Member of Audit Committee.

◇ Member of Nomination Committee.

Company Secretary

David Fuller BA, FCIS

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