



CLS Holdings plc
Annual Report & Accounts

2016



2016
PORTFOLIO



SCHEDULE OF GROUP PROPERTIES 2016

LONDON

	Tenure	Area sqm	Use
EC4			
138 Fetter Lane	Freehold	2,742	Offices
139 Fetter Lane	Freehold	428	Residential
SE1			
Westminster Tower, 3 Albert Embankment	Freehold	4,457	Offices
SW6			
Quayside, William Morris Way	Freehold	3,064	Offices
SW8			
Cap Gemini House, 95 Wandsworth Road & 72/78 Bondway & 22 Miles Street	Freehold	10,427	Offices/Industrial
80/84 Bondway	Freehold	1,631	Offices
86 Bondway*	Freehold	891	Offices
18/20 Miles Street	Freehold	152	Offices
101/103/107/109/111 Wandsworth Road	Freehold	742	Residential
131/137 Wandsworth Road	Freehold	1,546	Offices
SE11			
35 Albert Embankment Western House, 5 Glasshouse Walk	Freehold	527	Leisure
Gateway House, Milverton Street	Freehold	589	Community Centre
Spring Gardens, Tinworth Street	Freehold	1,844	Offices
Spring Mews, Tinworth Street	Freehold	19,964	Offices
	Freehold	10,997	Student accommodation/ Offices
Spring Gardens Court, 79 Vauxhall Walk	Leasehold	115	Residential
92/98 Vauxhall Walk	Freehold	415	Offices
405 Kennington Road	Freehold	1,680	Offices
WC1			
214/236 Gray's Inn Road	Freehold	26,295	Offices
W3			
Armstrong Road	Freehold	4,039	Offices
W10			
Buspace Studios, 10 Conlan Street	Freehold	3,006	Studios/ Workshops/Offices
Bracknell			
Reflex Building, Cain Road, RG12	Freehold	9,607	Offices
Brentford			
Great West House, Great West Road, TW8	Freehold	14,197	Offices
Bromley			
King's House, 32/40 Widmore Road, BR1	Freehold	2,244	Offices/Retail
One Elmfield Park, BR1	Freehold	2,238	Offices
Unicorn House, 29 Elmfield Road, BR1	Freehold	5,456	Offices
Chertsey			
Melita House, 124 Bridge Road, KT16	Freehold	1,257	Offices
Coulsdon			
Sentinel House, 163 Brighton Road, CR5	Freehold	3,411	Offices
Datchet			
18 Horton Road	Freehold	945	Offices
Harrow			
Hygeia, College Road, HA1	Freehold	6,757	Offices
Hayes			
The Grange, 501 Uxbridge Road, UB4	Freehold	1,042	Offices
Hounslow			
115/123 Staines Road, TW3	Freehold	2,314	Offices
125/135 Staines Road, TW3	Freehold	2,340	Offices
Leatherhead			
Cassini Court, Randalls Research Park, KT22†	Freehold	1,630	Offices
Pascal Place, Randalls Research Park, KT22†	Freehold	983	Offices

* Owner-occupied

† Acquired in 2016

‡ Acquired in 2017

	Tenure	Area sqm	Use
Maidenhead			
St Cloud Gate St Cloud Way, SL6‡	Freehold	941	Offices
New Malden			
Cl Tower, High Street, KT3	Freehold	7,597	Offices
Apex Tower, High Street, KT3	Freehold	10,066	Offices/Retail
Reigate			
45 London Road, RH2‡	Freehold	1,791	Offices
Sidcup			
Heather Court 6 Maidstone Road, DA14‡	Freehold	2,904	Offices
Staines			
62 London Road, TW18	Freehold	1,272	Offices
Sunbury-on-Thames			
Benwell House, Green Street, TW16	Freehold	2,377	Offices
Sutton			
Chancery House, St Nicholas Way, SM1	Freehold	5,132	Offices
Teddington			
Harlequin House 7 High Street, TW11‡	Freehold	1,981	Offices
Wallington			
Crosspoint House, 28 Stafford Road, SM6	Freehold	1,963	Offices
Total London		185,996	

REST OF UK

SOUTH

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

MIDLANDS

Bedford			
Chailey House, 30 Cardington Street, MK42	Freehold	1,534	Offices
Birmingham			
Aqueous 2, Aston Cross, Chester Street, B6	Leasehold	3,434	Offices
Unit 2500, The Crescent‡	Freehold	2,525	Offices
Northampton			
St Katherine's House, 21/27 St Katherine's Street, NN1	Freehold	2,578	Offices
Norwich			
Blackburn House, 1 Theatre Street, NR2	Leasehold	864	Retail
Peterborough			
Clifton House, 84 Broadway & 126/128 Park Road, PE1	Freehold	5,344	Offices
Wolverhampton			
Temple House, Temple Street, WV2	Freehold	2,557	Offices

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

	Tenure	Area sqm	Use
NORTH			
St Asaph			
Netcom House, St Asaph Business Park LL17	Leasehold	1,972	Offices
Billingham			
Theatre Buildings, Kingsway, TS23	Freehold	675	Offices
Birkenhead			
Great Western House, Woodside Ferry Approach, CH41	Freehold	7,445	Offices
Bradford			
Centenary Court, Forster Square, BD1	Freehold	9,774	Offices
Phoenix House, Rushton Avenue, BD3	Freehold	3,498	Offices
Chester			
Chantry House, 55/59 City Road, CH1	Freehold & leasehold	3,237	Offices
Redcar			
Portland House, West Dyke Road, TS10	Freehold	892	Offices
Rotherham			
Bradmarsh Business Park, Bow Bridge Close, S60	Freehold	1,120	Offices
Salford Quays			
Units 1 & 2 Dallas Court, South Langworthy Road, M50	Leasehold	1,491	Offices
Total Rest of UK		88,277	



SCHEDULE OF GROUP PROPERTIES *CONTINUED*

Spring Mews, London



Unit 2500, The Crescent, Birmingham



Chancery House, Sutton

Reflex Building, Bracknell



Unicorn House, Bromley



Westminster Tower, London SE1

SCHEDULE OF GROUP PROPERTIES CONTINUED

GERMANY

	Tenure	Area sqm	Use
Munich			
East Gate, Kapellenstrasse 12, D-85622 Feldkirchen	Freehold	16,460	Offices
Maximilian Forum, Lochhamer Strasse 11, 13 & 15, D-82152 Martinsried	Freehold	13,835	Offices
Lochhamer Schlag 1 D-82166 Gräfelfing	Freehold	8,527	Offices
Rüdesheimer Strasse 9, D-80686	Freehold	2,588	Offices
Tangentis, Beta Strasse 5/9a, D-85774 Unterföhring	Freehold	14,867	Offices
Hamburg			
Harburger Ring 33, D-21073	Freehold	3,330	Offices
Harburger Ring 35, D-21073 [†]	Freehold	3,415	Offices
Fleethaus, Schellerdamm 2, D-21079	Freehold	5,419	Offices
Silo, Schellerdamm 16, D-21079	Freehold	13,233	Offices
Fangdieckstrasse 75, 75a, b, D-22547	Freehold	13,151	Offices
Jarrestrasse 8/10, D-22303	Freehold	5,569	Offices
Merkurring 33/35, D-22143	Freehold	5,605	Offices
Frohösestrasse 12, D-22525	Freehold	1,941	Offices
Berlin			
Adlershofer Tor Rudower Chausee 12, D-12489	Freehold	19,991	Offices/ Retail
Bismarckstrasse 105 & Leibnitzstrasse 11/13, D-10625 Charlottenburg	Freehold	6,045	Offices
Bochum			
Hans-Böckler-Strasse 19, D-44787	Freehold	25,007	Offices
Düsseldorf			
Schanzenstrasse 76, D-40549	Freehold	3,095	Residential
Parsevalstrasse 11, D-40648 [†]	Freehold	22,770	Offices
Freiburg			
Bismarckallee 18/20, D-79098	Freehold	7,471	Offices
Landshut			
E.On Allee 1, 3 & 5, Roeder-Jackl-Strasse & Kiem-Pauli-Strasse 2, D-84036	Freehold	16,054	Offices
Süderhastedt			
Dorfstrasse 14, D-25727	Freehold	1,185	Nursing home
		209,558	



[†] Acquired in 2016

Lochhamer Schlag, Munich



Bismarckstrasse, Berlin



Landshut, Germany

SCHEDULE OF GROUP PROPERTIES CONTINUED

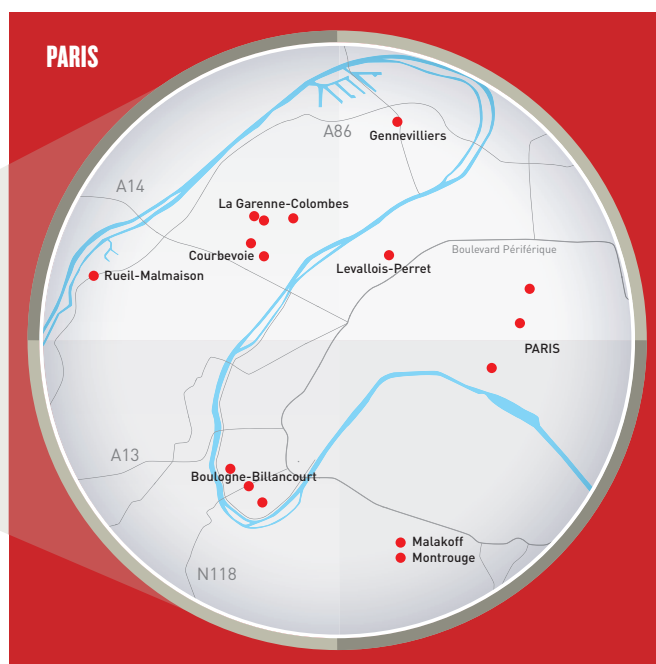
FRANCE

	Tenure	Area sqm	Use
Paris			
Ateliers Victoires, 48 Rue Croix des Petits Champs, 75001	Freehold	2,000	Offices
20/22 Rue des Petits Hôtels, 75010	Freehold	2,080	Offices
18 Rue Stephenson, 75018	Freehold	563	Offices
Le Sully, Ilôt 2, Rue Georges Bizet, 78200 Mantes la Jolie	Freehold	2,798	Offices
95/97 Bis Rue de Bellevue, 92100 Boulogne	Freehold	2,477	Offices
16 Rue de Solférino, 92100 Boulogne	Freehold	1,020	Offices
58 Avenue Général Leclerc, 92100 Boulogne ⁺⁺	Freehold	525	Offices
Le Quatuor, 168 Avenue Jean Jaurès, 92120 Montrouge	Freehold	2,459	Offices
2 Rue Pierre Timbaud, 92230 Gennevilliers	Freehold	3,118	Offices
23/27 Rue Pierre Valette, 92240 Malakoff	Freehold	10,778	Offices
Le Sigma, Place de Belgique, 90 Bld de L'Europe, 92250 la Garenne-Colombes	Freehold	6,690	Offices
Le Debussy, 77/81 Boulevard de la République, 92250 la Garenne-Colombes	Freehold	4,198	Offices
62 Avenue Foch, 92250 la Garenne-Colombes	Freehold	181	Offices
120 Rue Jean Jaurès, 92300 Levallois Perret*	Freehold	4,029	Offices
56 Boulevard de la Mission Marchand, 92400 Courbevoie	Freehold	2,784	Offices
53/55 Rue du Capitaine Guynemer, 92400 Courbevoie	Freehold	2,121	Offices
7 Rue Eugène et Armand Peugeot, 92500 Rueil-Malmaison	Freehold	7,308	Offices

⁺⁺ co-ownership
* owner occupied



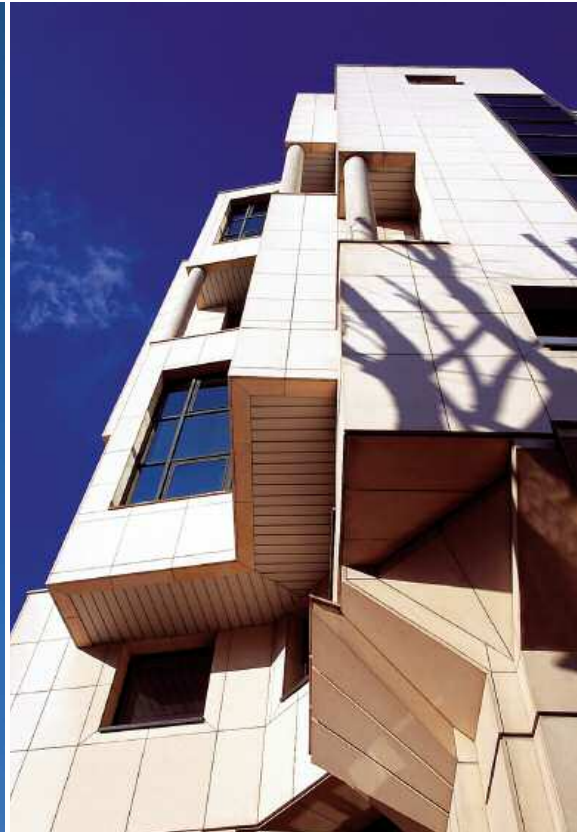
	Tenure	Area sqm	Use
Lyon			
Forum, 27/33 Rue Maurice Flandin, 69003 ⁺⁺	Freehold	6,783	Offices
D'Aubigny, 27 Rue de la Villette, 69003 ⁺⁺	Leasehold	4,316	Offices
Rhône Alpes, 235 Cours Lafayette, 69006 ⁺⁺	Freehold	3,147	Offices
Park Avenue, 81 Boulevard de Stalingrad, Villeurbanne, 69100 ⁺⁺	Freehold	4,249	Offices
Front de Parc, 109 Boulevard de Stalingrad, 69100	Leasehold	5,373	Offices
Lille			
96 Rue Nationale, 59000	Freehold	2,599	Offices
La Madeleine, 105 Avenue de la République, 59110	Freehold	4,446	Offices
		86,042	



Rue Pierre Timbaud, Paris



Avenue Général Leclerc, Paris



Ateliers Victoires, Paris



Park Avenue, Lyon

PROPERTY PORTFOLIO

RENTAL DATA

	Gross rental income for the year £m	Net rental income for the year £m	Lettable space sqm	Contracted rent at year end £m	ERV at year end £m	Contracted rent subject to indexation £m	Vacancy rate at year end
London	43.4	41.8	169,697	41.5	51.1	7.2	4.0%
Rest of UK	11.5	13.2	80,693	11.3	8.6	6.0	0.9%
Germany	20.4	19.4	209,450	22.5	23.3	16.3	1.7%
France	14.7	15.0	83,675	15.9	16.0	15.9	2.9%
Sweden	1.3	0.9	–				
Total Portfolio	91.3	90.3	543,515	91.2	99.0	45.4	2.9%

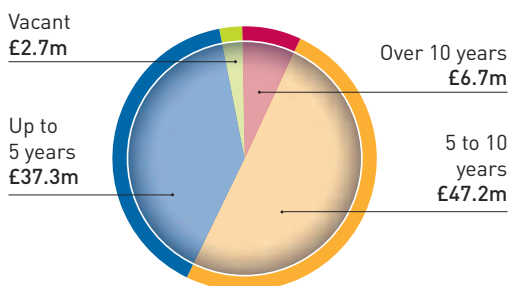
VALUATION DATA

	Market value of property £m	Valuation movement in the year			EPRA net initial yield	EPRA topped up net initial yield	Reversion	Over-rented	True equivalent yield
		Underlying £m	Foreign exchange £m						
London	826.6	20.4	–		4.7%	5.0%	21.7%	2.6%	5.7%
Rest of UK	94.7	(6.2)	–		11.9%	11.9%	0.8%	25.6%	8.4%
Germany	356.9	12.5	43.0		5.8%	5.9%	7.4%	5.9%	5.9%
France	258.4	11.8	34.2		5.6%	6.0%	2.8%	4.9%	5.8%
Total Portfolio	1,536.6	38.5	77.2		5.6%	5.9%	12.3%	6.7%	

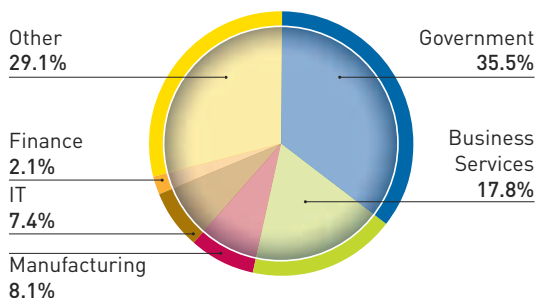
LEASE DATA

	Average lease length		Passing rent of leases expiring in:				ERV of leases expiring in:			
	To break years	To expiry years	Year 1 £m	Year 2 £m	Year 3 to 5 £m	After year 5 £m	Year 1 £m	Year 2 £m	Year 3 to 5 £m	After year 5 £m
London	4.7	6.1	6.5	1.2	7.5	26.3	9.4	1.2	9.0	29.9
Rest of UK	2.3	5.4	1.2	2.0	1.6	6.5	0.9	1.5	1.4	4.6
Germany	7.0	7.2	2.3	2.2	8.8	9.3	3.2	2.3	8.6	8.8
France	3.0	5.7	0.8	1.5	1.8	11.8	0.7	1.2	1.8	11.8
Total Portfolio	4.7	6.2	10.8	6.9	19.6	53.9	14.2	6.2	20.8	55.1

RENT BY LEASE LENGTH



RENT BY SECTOR



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

Centenary Court, Bradford



62 Avenue Foch, Paris



Maximilian Forum, Munich

FINANCIAL CALENDAR**Announcement of results**

– 8 March 2017

Publication of Annual Report and Accounts

– 23 March 2017

Annual General Meeting

– 26 April 2017

Trading Update

– mid-May 2017

Announcement of half-year results

– 16 August 2017 (provisional)

Trading Update

– mid-November 2017

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CLS AT A GLANCE

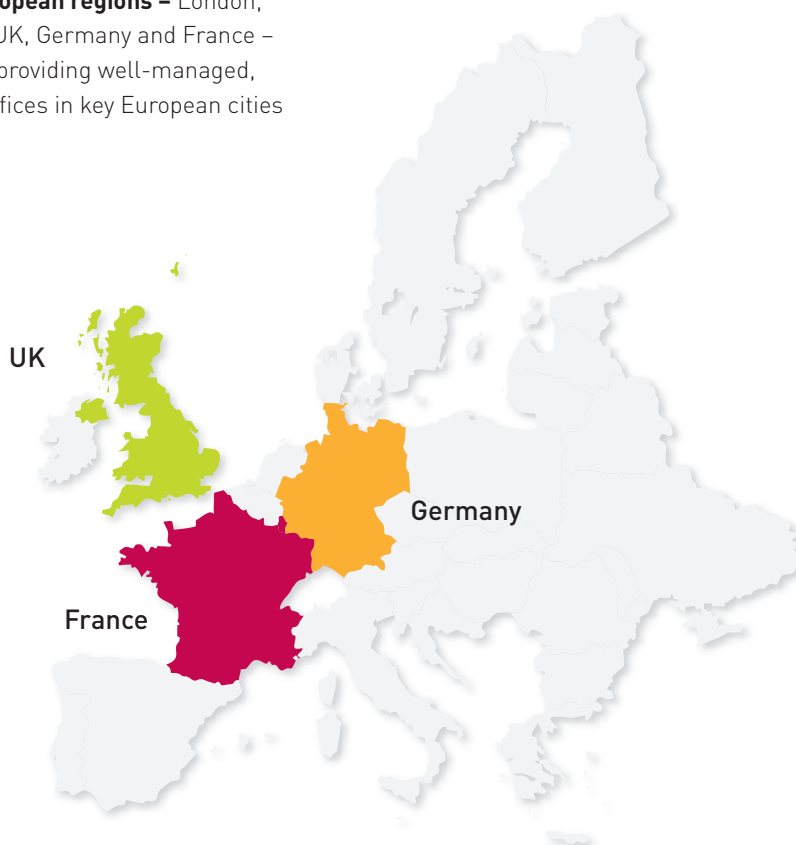
WHO WE ARE

CLS IS A FTSE 250 PROPERTY INVESTMENT COMPANY WITH A £1.6 BILLION PORTFOLIO IN THE UK, GERMANY AND FRANCE OFFERING GEOGRAPHICAL DIVERSIFICATION WITH LOCAL PRESENCE AND KNOWLEDGE

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

- HOW WE OPERATE**
- See pages 4-5

- WHERE WE OPERATE**
- The main activity of the Group is the investment in commercial real estate across four European regions – London, the Rest of the UK, Germany and France – with a focus on providing well-managed, cost-effective offices in key European cities



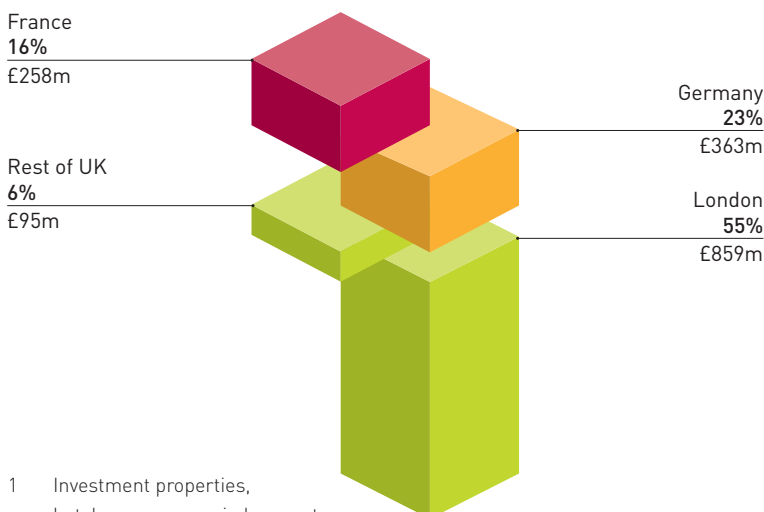
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TOP 15 CUSTOMERS

The fifteen customers which contribute most rental income to the Group account for 43.7% of contracted rent, and comprise:

CUSTOMER	LOCATION	SECTOR
Secretary of State	London and Rest of UK	Government
National Crime Agency	London	Government
Trillium	London and Rest of UK	Government
City of Bochum	Germany	Government
E.ON	Germany	Major Corporation
BAe Systems	London	Major Corporation
Kaufland	Germany	Major Corporation
Honda Motor Europe	London	Major Corporation
Veolia	France	Major Corporation
Colt	France	Major Corporation
Dr. Hönle	Germany	Major Corporation
Volksbank	Germany	Major Corporation
Signature Litigation	London	Major Corporation
CPAM	France	Major Corporation
MediGene	Germany	Major Corporation

PROPERTY PORTFOLIO¹ BY VALUE £1,575 MILLION



1 Investment properties, hotel, owner-occupied property and landholding

KEY STATISTICS

115

Number of properties

544,000 sqm

Lettable floor space

525

Number of tenants

£91 million

Contracted annual rents

£1.6 billion

Value of property portfolio

£40 million

Annual operating cash flow

159%

Total shareholder return in last 5 years

£98 million

Profit after tax

HOW WE OPERATE

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

BUSINESS MODEL	STRATEGY	KPIs
<p>INVESTMENTS</p> <p>Invest in high-yielding properties, predominantly offices, with a focus on cash returns</p> <p>Diversify market risk by investing in geographical areas with differing characteristics</p>	<p>We target modern, high quality, well-let properties in good non-prime locations in key European cities</p> <p>We maintain and add value through an active rolling refurbishment programme</p> <p>We create extra value through developments at the appropriate time in the cycle, after largely mitigating letting risk and financing risk</p> <p>We invest in the UK, Germany and France and in sterling and the euro</p>	<p>To achieve a return on equity of over 12%*</p> <p>To achieve EPRA NAV growth of over 7.5%*</p>
<p>CUSTOMERS</p> <p>Maintain high occupancy rates</p> <p>Maintain a diversified customer base underpinned by a strong core income stream</p>	<p>We use in-house local property managers who maintain close links with occupiers to understand their needs</p> <p>We focus on the quality of service and accommodation for our customers</p> <p>We avoid a heavy reliance on any one customer or business sector</p>	<p>To maintain an occupancy rate of 95%*</p>
<p>COST CONTROL</p> <p>Maintain strict cost control</p>	<p>We perform as many back office functions as possible in-house, and monitor our performance against our peer group</p>	<p>To maintain an administration cost ratio of 16.5%* or below</p>
<p>FINANCE</p> <p>Target a low cost of debt</p> <p>Utilise diversified sources of finance to reduce risk</p> <p>Maintain a high level of liquid resources</p>	<p>We keep the cost of debt well below the net initial yield of the properties to enhance the return on equity</p> <p>We use interest rate caps and hedges to control interest rate risk</p> <p>We maintain strong links with banks and other lending sources across Europe</p> <p>We own properties in single purpose vehicles, financed by non-recourse bank debt in the currency used to purchase the asset</p> <p>We restrict the exposure of the Group to any one bank</p> <p>We operate an in-house Treasury team which manages cash and corporate bonds to maximise their returns</p>	<p>To maintain a cost of debt at least 200 bps below the net initial yield</p>

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ACHIEVEMENTS IN 2016	PLANS FOR 2017	RISKS (See details on page 28 & 29)
<p>Return on equity was 18.1% EPRA NAV growth was 17.9% 4 properties acquired for £45.7 million at an average net initial yield of 6.9% 4 properties sold for £85.5 million at an average net initial yield of 5.6%</p>	<p>To continue to reposition the portfolio through acquisitions and selective disposals We expect to continue to see the better investment opportunities to be in the UK and Germany To consider several options on Vauxhall Square</p>	<p>Property Investment Risks Development Risk</p>
<p>At 31 December 2016 our occupancy rate was 97.1%</p> <p>We have 525 customers 36% of rental income is derived from government occupiers, and a further 31% from major corporations The weighted average unexpired lease term is 6.2 years</p>	<p>To maintain close and regular contact with customers to proactively understand their needs To add to the asset management and property management teams in London and Germany to reflect the planned growth in the portfolio</p>	<p>Sustainability Risk Political and Economic Risk</p>
<p>Our administration cost ratio for 2016 of 14.9% was one of the lowest in the property sector</p>	<p>To reflect the loss of rental income from properties under development and refurbishment, the target administration cost ratio for 2017 has been set at 16.5%</p>	<p>Taxation Risk</p>
<p>At 31 December 2016 the weighted average cost of debt was 2.91% During the year we took out £177m of loans at an average interest rate of 1.90%</p> <p>We have 58 loans from a range of lenders, including 24 banks, 2 public bonds and other financial institutions 79 of our 115 properties are owned by single purpose vehicles, principal amounts of debt are non-recourse to the rest of the Group, and all are in the currency used to purchase the asset No bank provides over 13% of the Group's debt</p> <p>At 31 December 2016 we had liquid resources of £164m, and undrawn bank facilities of £105m</p>	<p>If medium-term interest rates remain low, the debt refinanced in the year is likely to be predominantly set at fixed rates</p> <p>We have £81m of debt due to expire, which will be refinanced on a case-by-case basis</p> <p>To maintain a high level of liquid resources to ensure flexibility for the Group's development programme</p>	<p>Funding Risk Other Investment Risk</p>

2016 BUSINESS HIGHLIGHTS

OPERATING ENVIRONMENT

THE YEAR WAS DEFINED BY POLITICAL AND ECONOMIC UNCERTAINTY TRIGGERED BY THE PROSPECT OF BREXIT, BUT OUR DIVERSITY – OF OPERATING IN THREE MARKETS, OF A BROAD SPREAD OF TENANTS AND OF SOURCES OF FINANCING – PROVIDED THE RESILIENCE TO PRODUCE A STRONG YEAR FOR THE GROUP

Actively managing our business in-house

- 58,933 sqm of new lettings and lease renewals and 59,386 sqm of expiries
- The resulting vacancy rate fell to 2.9% (2015: 3.1%)

Repositioning the portfolio through acquisitions and disposals

- 4 properties acquired for £45.7 million at an average net initial yield of 6.9%
- 4 properties sold for £85.5 million at an average net initial yield of 5.6%
- 5 further acquisitions since the year end for £31.4 million and at an average net initial yield of 8.0%

Enhancing our assets through developments and ongoing refurbishments

- Obtained enhanced planning consent on Vauxhall Square, SW8 and began works on site at 3 developments

Financing the business prudently

- 14 new loans or refinancings completed with a value of £177 million and at an average all-in annual rate of 1.90%
- Repositioned the loan portfolio to 63% at fixed rates (2015: 51%)
- Reduced the weighted average cost of debt to 2.91% (2015: 3.40%)

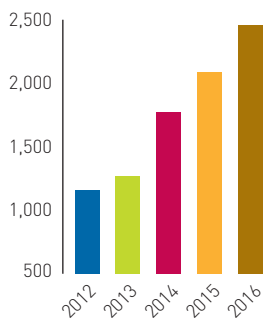
Achieving wins in sustainability

- Group Carbon Emissions reduced by 11.4%
- Increased the amount of renewable and low carbon energy generated on our sites by 32%

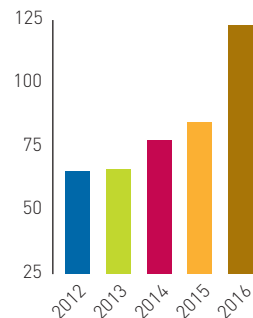
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2016 FINANCIAL HIGHLIGHTS

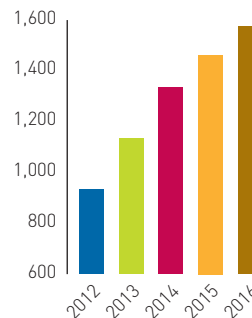
EPRA NET ASSETS PER SHARE
(pence)



EPRA EARNINGS PER SHARE
(pence)



PROPERTY PORTFOLIO
(£ million)



+17.9%

Increase in EPRA net assets per share to 2,456p (2015: 2,083p)

+45.2%

Increase in EPRA earnings per share to 123.0p (2015: 84.7p)

+7.6%

Increase in portfolio value to £1,574.7m¹ (2015: £1,462.9m)

+18.8%

Increase in net assets per share to 2,151p (2015: 1,810p)

-22.7%

Fall in earnings per share to 236.3p (2015: 305.7p)

-24.7%

Fall in profit after tax to £97.8m (2015: £129.9m)

+23.0%

Increase in distributions to shareholders for the year with a proposed dividend of 40p per share

2.91%

Weighted average cost of debt lowered still further (2015: 3.40%)

3.4 times

Interest cover at a strong level (2015: 3.2 times)

97.1%

Occupancy rate remains well above KPI target of 95% (2015: 96.9%)

69.0%

Adjusted gearing continues well under control (2015: 71.3%)

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

CHAIRMAN'S STATEMENT

OUR RESULTS SHOW THE BENEFITS OF A DIVERSE BUSINESS INVESTING IN HIGH-YIELDING OFFICES IN MAJOR CITIES ACROSS THREE MARKETS WITH A BROAD TENANT BASE AND DIVERSIFIED SOURCES OF FUNDING

Overview Our 2016 results reflected a successful year for the Group in which we passed several milestones. While EPRA earnings per share and EPRA NAV rose to their highest ever levels, the vacancy rate and cost of debt fell to record lows.

The rise in EPRA NAV was driven by underlying earnings, foreign exchange gains and property valuation uplifts across London and Europe, and the strong cash flow from operations underpinned the increase in distributions to our shareholders. To make the Group more comparable with other listed companies, and following feedback from our shareholders, we have decided to change our method of distribution and in April we will pay the final distribution for 2016 by way of a dividend.

In the year we made acquisitions and selective disposals across the Group as we continued to reposition our investment property portfolio to further improve returns, and we gained an enhanced planning consent on our Vauxhall Square development scheme in London which increased the office space.

In the second half of the year the UK investment market demonstrated resilience to the prospect of the UK leaving the EU, while the rise in the relative value of the euro further emphasised the benefits of the Group's geographical diversity.

The Group is strongly cash-generative. Our portfolio produces a net initial yield of 5.6%, which will rise to 5.9% on the expiry of rent-frees, and is financed by debt with a weighted average cost of 2.91%. In 2016 our Group revenue rose 8.1% to £128.5 million (2015: £118.9 million), and our net cash flow from operating activities was £40.1 million (2015: £48.9 million).

Property Portfolio The increase in EPRA net assets per share was driven by a rise in values across virtually all of our regions. The Group's property portfolio grew to £1.57 billion, due predominantly to revaluation uplifts and foreign exchange gains. The investment property portfolio rose by 2.7% in local currencies, with strong contributions from France (+4.8%), Germany (+3.8%) and London (+2.5%). The only part of our portfolio to see a decline in value was the rest of the UK, representing 6% of the total portfolio, lower by 6.1% as it approached several lease events in March 2018, but which are already under negotiation.

At the year end the contracted rent roll was £91.2 million (2015: £89.0 million), of which 67% came from governments and major corporations and 50% was index-linked. Overall, the vacancy rate at 31 December 2016 was only 2.9% (2015: 3.1%); whilst 59,386 sqm of space was vacated in the year, 4,026 sqm was taken to development stock and 58,933 sqm was let or renewed.

Our development schemes in Vauxhall have progressed in line with expectations. As previously reported, at Vauxhall Square, SW8, in February 2016 we gained an amendment to the overall planning consent, replacing a four-star hotel with offices, increasing the office element of the entire scheme to 353,300 sq ft (32,823 sqm). In September, we began the demolition of Wendle Court in preparation for the construction of a new hostel and at the end of 2016 we gained vacant possession of 95 Wandsworth Road. The Board is considering several options for Vauxhall Square and I look forward to informing our shareholders of those discussions when they have been concluded.

At Spring Mews, SE11, in July we began the development of the next phase of the site, adjacent to the hotel, student and office scheme which completed in 2014. Phase 2 comprises a £8.6 million, 7-storey development of 9,181 sq ft (853 sqm) of office accommodation and nine residential apartments, expected to reach practical completion by the end of this year.

We acquired four properties in Düsseldorf, Hamburg and Leatherhead during the year at an aggregate cost of £45.7 million, generating a net initial yield of 6.9%. The largest, Parsevalstrasse 11, Düsseldorf, comprised 239,496 sq ft (22,701 sqm) of high quality, mixed-use space, and was acquired for €43.6 million at a net initial yield of 7.1% and financed for 7 years at a fixed rate of 0.92%.

Since the year end we have bought a portfolio of five buildings in the UK comprising 107,000 sq ft (9,940 sqm) of offices in Reigate, Teddington, Sidcup, Maidenhead and Birmingham for £31.4 million generating a net initial yield of 8.0%, and providing excellent short to medium-term asset management opportunities.

We also continued to dispose of peripheral assets which did not fit within the Group's strategy. We sold Vänerparken, our only remaining investment property in Sweden, for SEK590 million, and we disposed of our only properties in Luxembourg and Antibes. In London, we sold Chancel House, Neasden at 39% above its book value. In total, disposals produced proceeds of £85.5 million, generating an aggregate profit on disposal of £9.1 million, and a release of tax of a further £6.6 million.

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Results In 2016 EPRA net assets per share rose by 17.9% to 2,456 pence (2015: 2,083 pence), and basic NAV increased by 18.8% to 2,151 pence (2015: 1,810 pence). Profit after tax of £97.8 million (2015: £129.9 million) included a property revaluation uplift of £36.1 million (2015: £98.0 million) and, excluding such revaluations, EPRA earnings per share rose by 45.2% to 123.0 pence (2015: 84.7 pence); basic earnings per share were 236.3 pence (2015: 305.7 pence).

The 373 pence increase in EPRA net assets per share to 2,456 pence largely comprised underlying earnings (131 pence), foreign exchange gains (119 pence) and property valuation uplifts (97 pence). Shareholders' funds rose by 14.9% to £876.4 million, after distributions to shareholders of £24.8 million, and the balance sheet continued to be strong, with cash and liquid resources of £164.1 million.

Recurring interest cover remained robust at 3.4 times (2015: 3.2 times), as the Group continued to enjoy a very low weighted average cost of debt and at 31 December 2016 the weighted average loan to value of our secured debt was 49.8% (2015: 48.1%).

Financing The Group's strategy is to have diversity of financing from banks and other debt providers and to ring-fence debt on individual properties where appropriate. During the year, £177 million was financed in 14 new loans at a weighted average rate of 1.90%, and our weighted average cost of debt was reduced to 2.91%. Diversity of financing is important to reduce risk and we enjoy active lending relationships with 24 debt providers. Medium-term interest rate swaps have remained attractively low, and by taking advantage of these we have increased the proportion of loans at fixed rate to 63% (2015: 51%), with a further 5% protected against rising rates with interest rate caps. 32% of our debt remains unhedged.

The Group's corporate bond portfolio has continued to be a valuable part of our cash management strategy. The portfolio outperformed the bond market during the year, delivering a total return of £10.5 million, or 18.6% in local currencies on invested capital. At the year end the portfolio consisted of 31 bonds valued at £65.1 million with a running yield of 7.8% on market value, and a weighted average duration of 12.6 years.

People Our skilled and motivated workforce, drawn from 15 nationalities and split evenly between men and women, is key to the Group's success. In order to continue to understand the needs and requirements of our employees, we conducted an anonymous Group-wide staff survey during the year, from which we received positive and constructive feedback and have begun to implement several of the suggestions, with a timetable to address those which remain.

Sustainability We have continued to implement our sustainability strategy across the Group, with technological improvements in the way we are able to monitor energy usage and to work with our customers to reduce costs. We maintain our involvement in the communities in which we invest, and have increased staff involvement in community and charitable events. I am very pleased that we have been able to reduce our carbon emissions for the fifth consecutive year, which will continue with the installation of further photovoltaic arrays during 2017. Further details of these initiatives are set out in the Corporate Social Responsibility Report on page 30.

Distributions to Shareholders In 2016, the Group distributed through tender offer buy-backs £13.4 million in April, equivalent to 31.8 pence per share, and £7.2 million in September, equivalent to 17.5 pence per share. In addition, £4.1 million was spent pursuant to market purchases on acquiring 255,099 shares which were placed in treasury.

The Board intends to make future distributions by way of a progressive dividend paid twice-yearly. Accordingly, the Board is proposing a final dividend of 40 pence per share, bringing the total distribution for the year to 57.5 pence per share, or £23.5 million. In addition, the Board is proposing a share sub-division of the existing ordinary shares of 25 pence each into 10 ordinary shares of 2.5 pence each.

Outlook Our record results illustrate the benefits of our diverse business: investing in high-yielding properties in secondary areas of major cities, across three markets, with a broad tenant base and diversified sources of funding.

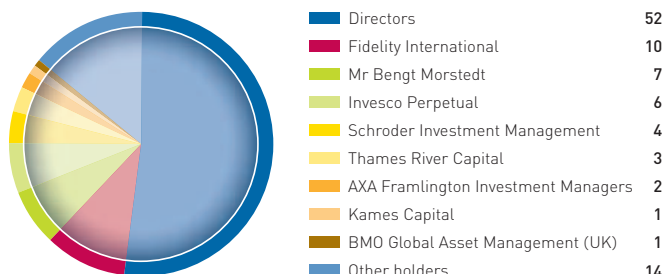
Looking ahead, 2017 is set to be an eventful year, with the UK due to start the process of leaving the European Union and several important elections taking place in Europe. With our proven and successful business model, a strong balance sheet and ample liquid resources, and our highly skilled and committed staff, we are well positioned to benefit from any challenges and opportunities which lie ahead.

With our proven opportunistic business approach we will continue to focus on cash flow, selling low yielding assets with no immediate prospect of value-adding initiatives, and redeploying our capital elsewhere with our customary discipline. I remain confident that the Group is well positioned to continue to deliver value to our shareholders.

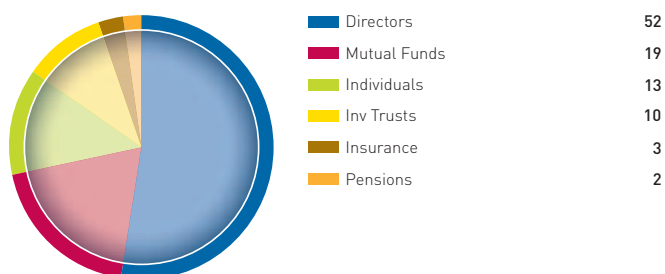
Henry Klotz
Executive Chairman

8 March 2017

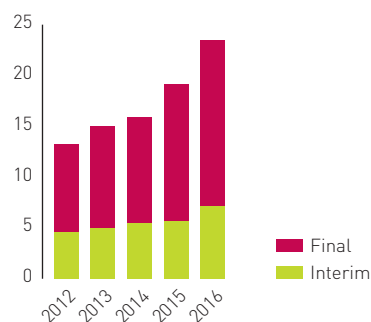
TOP 10 SHAREHOLDERS (% of ISC)



SHAREHOLDERS BY SECTOR



SHAREHOLDER DISTRIBUTIONS (£ million)



INVESTOR ENGAGEMENT

March 2017	Annual results presentation Annual results roadshow: London, Edinburgh
April 2017	Annual General Meeting
May 2017	Q1 Trading Update
August 2017	Half-year results presentation
September 2017	Half-year results roadshow: London, Edinburgh
November 2017	Q3 Trading Update

DISTRIBUTIONS TO SHAREHOLDERS

THE BOARD INTENDS TO MAKE FUTURE DISTRIBUTIONS BY WAY OF TWICE-YEARLY DIVIDENDS AND TO SUB-DIVIDE THE ORDINARY SHARES

Tender Buy-Backs For many years the Company has made distributions to shareholders twice a year through tender offer buy-backs. The last of these was in September 2016, being £7.2 million with which the Company bought back 1 in 100 shares at 1,750 pence per share.

Dividends On 8 February 2017, the Company announced that future distributions would be by dividend, beginning in April 2017 when we propose to distribute £16.3 million (40 pence per share), making a total of £23.5 million for the year. This is an increase of 23.0% on distributions last year and 47.6% above the level of two years ago.

Share Split At the annual general meeting we will ask shareholders to approve a sub-division of each of the Company's ordinary shares of 25 pence into 10 shares of 2.5 pence each.

Why Change? We believe that changing the distribution method to one of dividends and splitting the shares will make CLS more easily comparable with other listed property companies and a more attractive investment proposition for new shareholders. Our aim is to improve liquidity in the Group's shares and broaden the shareholder base.

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 made as an interim in September, with the balance paid as a final dividend in April.

Market Purchases Between 13 May and 31 May 2016, the Company engaged in a share buy-back programme, acquiring 255,099 shares in the market at an aggregate cost of £4.1 million and at an average price of 1,595 pence per share, which added 3 pence per share to NAV.

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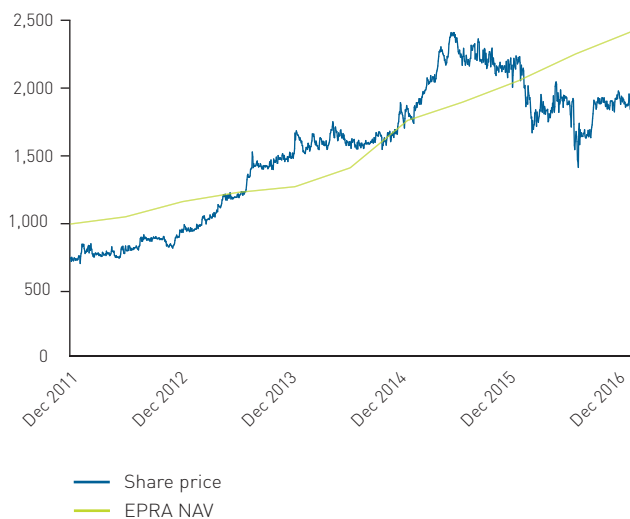
Fangdieckstrasse, Germany

- Acquired in 2007
- Multi-let property of 141,556 sq ft (13,151 sqm) with office, production and laboratory space
- Extended leases with existing tenants in 2016

“WE BELIEVE THAT PAYING DIVIDENDS AND SUB-DIVIDING THE SHARES WILL MAKE CLS A MORE ATTRACTIVE INVESTMENT PROPOSITION FOR SHAREHOLDERS.”

Fredrik Widlund
Chief Executive Officer

SHARE PRICE v EPRA NAV
(Pence)



TOTAL RETURNS TO SHAREHOLDERS 1994-2016
1994 = 100



BUSINESS REVIEW

THE MAIN ACTIVITY OF THE GROUP IS THE INVESTMENT IN COMMERCIAL REAL ESTATE ACROSS FOUR EUROPEAN REGIONS – LONDON, THE REST OF THE UNITED KINGDOM, GERMANY AND FRANCE – WITH A FOCUS ON PROVIDING WELL-MANAGED, COST-EFFECTIVE OFFICES IN KEY EUROPEAN CITIES

INVESTMENT PROPERTIES

Overview At 31 December 2016, the directly held investment property portfolio was independently valued at £1,536.6 million (31 December 2015: £1,366.8 million). The increase of £169.8 million comprised new acquisitions of £45.7 million and other capital expenditure of £20.7 million, a £38.5 million valuation uplift, £77.2 million of positive exchange rate variances, and £9.2 million transferred from properties held for sale; the cumulative effect of these was mitigated by disposals of £21.5 million. In local currencies, the portfolio rose by 2.7%, after acquisitions and development expenditure. The drivers were the French (+4.8%), German (+3.8%) and London (+2.5%) portfolios; the rest of the UK fell by 6.1%.

At the beginning of the year the last Swedish investment property, Vänerparken, was held in the balance sheet as a property held for sale, and was duly sold in 2016.

Of the £45.7 million spent on acquisitions in the year, £39.3 million related to two properties in Germany, and £6.4 million to two in London. Our only properties in Sweden, Luxembourg and Antibes were sold, and a London property was sold to a special purchaser. Contracted rent rose by 0.7% on a like-for-like basis. The increase in capital values was driven by a fall in yields: the EPRA net initial yield of the overall investment property portfolio (excluding developments) at 31 December 2016 fell to 5.6% (2015: 5.9%) and the topped-up EPRA net initial yield to 5.9% (2015: 6.2%). The average rent across the Group remained very affordable at £16 per sq ft (£172 per sqm), and the average capital value was also low at just £268 per sq ft (£2,883 per sqm). This was very close to replacement cost, meaning that the land element of our investments in key European cities was minimal. This also highlights how successful the Group can be in attracting occupiers with cost-effective rents.

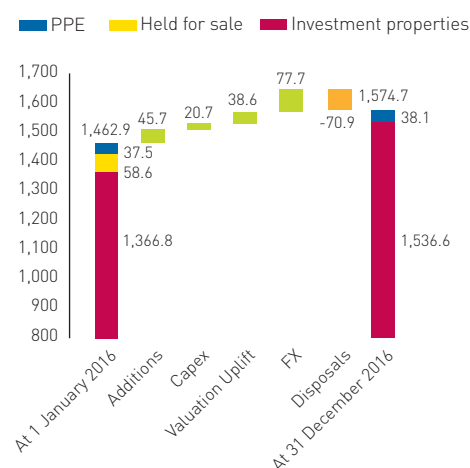
The bedrock of the Group's rental income is strong, with 36% being paid by government occupiers and 31% from major corporations, and 50% of our rents are subject to indexation. The weighted average lease length at 31 December 2016 increased to 6.2 years, or 4.7 years to first break, and the portfolio was let at a net £5.1 million below current market rents.

The overall vacancy rate remained very low at just 2.9% (2015: 3.1%), which is testament to the benefit of active in-house asset management and property management, and of maintaining strong links with our customers to ensure we understand and respond to their needs.

The benefits of the Group's geographical diversification remain self-evident: the threat of Brexit undermined the London investment market for a time in 2016, but it also weakened sterling, adding to the sterling value of our euro-denominated assets, whilst we saw good growth in values in Germany and France, and Germany continues to provide good investment opportunities and readily available debt.

The Group maintains its strong commitment to sustainability, which has benefited both occupiers and the Group. The Corporate, Social and Environmental Responsibility Statement on page 30 provides more detail.

MOVEMENT IN PROPERTY PORTFOLIO 2016
(£ million)



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138 Fetter Lane, London EC4

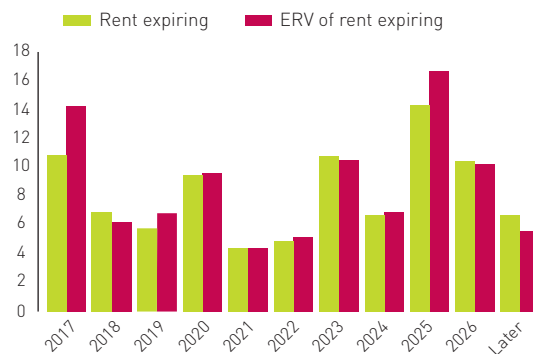
- Acquired in 1986
- 29,528 sq ft (2,742 sqm) of office space and 4,610 sq ft (428 sqm) of residential flats
- Refurbishment completed in 2014, including a new stone façade and the addition of eight new flats
- The property is fully let



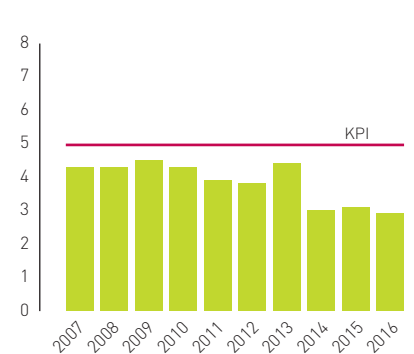
AVERAGE UNEXPIRED LEASE TERM
(Years)



EFFECT OF RENT EXPIRIES
(£ million)



VACANCY RATE HISTORY
(%)



LONDON

TOP CUSTOMERS

- **National Crime Agency**
Government
- **Secretary of State**
Government
- **Trillium**
Government
- **BaE Systems**
Major Corporation

MARKET DURING THE YEAR:

- GDP growth for 2016 down to 1.8% (2015: 2.2%)
- The impact of the EU referendum was a short-lived hiatus in the investment market in Q3
- Investment volumes rebounded in Q4 to a total of £12bn for the year, in line with the 5 year average
- 75% of investment transactions involved overseas buyers
- Tenant demand for secondary properties remained unaffected by the prospect of Brexit
- PMI business confidence index remains strong at over 50

Outlook:

The decision to leave the EU created uncertainty in the London commercial property market, especially in the City where the demand for space from the financial services sector is likely to decline in the medium term. In the assets in which CLS invests, which are outside the City and prime West End, tenant demand remains robust. A negative impact on the broader economy could affect CLS more tangibly, but the supply of commercial space in London remains constrained and by managing all of our assets in-house we are in a strong position to withstand such an impact.

In 2016 the supply of, and demand for, investment opportunities in London were constrained by the prospect of the EU referendum and by its outcome. Consequently, in January we made our only acquisition in Greater London in the year, comprising Cassini Court and Pascal Place, Randalls Research Park, Leatherhead for £6.4 million, including costs. These adjacent buildings provided 28,122 sq ft (2,613 sqm) of offices and, with a net initial yield of 6.0% and around 10,580 sq ft of vacant space, presented the opportunity to undertake a modernisation programme, which is now under way.

Since the end of the year we have acquired a portfolio of five properties comprising 107,000 sq ft (9,940 sqm) of offices in Reigate, Teddington, Sidcup and Maidenhead (which will be managed within the London portfolio) and Birmingham (Rest of UK) for £31.4 million generating a net initial yield of 8.0% from 10 tenants, and providing excellent short to medium-term asset management opportunities.

In October, Chancel House, Neasden Lane NW10 was sold to the Education Funding Agency for £18.7 million, 39% above its valuation at 31 December 2015. It comprised 74,700 sq ft (7,081 sqm) of office space; 56% of the building was income-producing from the Department of Works and Pensions until March 2018 and, with 44% of the property vacant, the sales price represented a net initial yield of 3.3%.

The London occupancy market in which we operate maintained its strength in 2016, largely ignoring the impact Brexit might have, and with a lack of new developments to satisfy this demand, rental values rose. On average, new lettings were achieved at 5.4% above their estimated rental values (ervs) of 31 December 2015. During 2016, ervs of the London portfolio rose by 2.6%, and at 31 December 2016 the London portfolio was net reversionary. Those leases which were reversionary were £9.0 million or 21.7% under-rented; of the £1.1 million (2.6%) of over-renting in London, £0.7 million was on leases which expire in 2026. The vacancy rate for London remained low at just 4.0% (2015: 3.6%), excluding development stock. During 2016, 142,374 sq ft (13,227 sqm) became vacant, of which 43,335 sq ft (4,026 sqm) was taken into development stock, and we let or renewed leases on 106,573 sq ft (9,901 sqm).

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Great West House, Brentford

- Acquired in 1996
- Multi-let office building of 152,815 sq ft (14,197 sqm)
- Internal refurbishments completed in 2016
- Improved external signage

£826.6 million

Value of investment properties

55%

Percentage of Group's property interests

44

No. of properties

178,377 sqm

Lettable space

170

No. of tenants

4.7%

EPRA net initial yield¹

5.0%

EPRA topped-up net initial yield¹

4.0%

Vacancy rate

2.5%

Valuation uplift

64%

Government and major corporates

6.1 years

Average unexpired lease length

4.7 years

To first break

¹ excluding developments

BUSINESS REVIEW

CONTINUED

At Vauxhall Square, SW8, our 1.6 million sq ft (151,700 sqm) major development opportunity adjacent to Vauxhall's transport hub, construction is well advanced on the 454 bed, 30 storey student tower by Urbanest, to whom we sold this adjacent site in 2015. This represents just one of a number of tower developments under way in the immediate vicinity of our main development site. In February 2016 we gained an amendment to the overall planning consent, replacing a four-star hotel with 108,586 sq ft (10,088 sqm) of Grade A offices, increasing the office element of the entire scheme to 353,300 sq ft (32,823 sqm). In September, we began the demolition of Wendle Court to the south of the scheme at 131/137 Wandsworth Road, in preparation for the construction of a new hostel to replace the one on the main site. As previously indicated, at the end of 2016 we were able to gain vacant possession from Cap Gemini of 95 Wandsworth Road, the largest existing building on the main site. We are considering several options on the future of the main scheme.

At Spring Mews, SE11, in July we began the development of the next phase of the site, adjacent to the hotel, student and office scheme which completed in 2014. Phase 2 comprises a £8.6 million, 7-storey development of 9,181 sq ft (853 sqm) of office accommodation and nine residential apartments expected to reach practical completion by the end of this year.

The London portfolio rose in value by 2.5% in the year, dampened by the 1% increase in stamp duty land tax, and reflected a 30 bps fall in yield and a 1.6% growth like-for-like in contracted rents.

Hygeia, Harrow

- Acquired in 2013
- Multi-let office building of 72,732 sq ft (6,757 sqm)
- Ongoing lift and lobby refurbishment
- Located in a growing and dynamic office location



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TOP CUSTOMERS

- Secretary of State Government
- Trillium Government

REST OF UK

MARKET DURING THE YEAR:

- Tenant demand remained stable in regional cities
- Demand for student accommodation and the private rented sector continued to restrict the supply of office stock
- Vacancy levels fell as supply diminished

Outlook:

The key to the Rest of UK portfolio is the impact of the lease events in March 2018.

The Rest of UK portfolio is predominantly let to government departments. In 2016 there were no acquisitions or disposals; during the year we exchanged contracts to sell Atholl House, 84/88 Guild Street, Aberdeen, with vacant possession but the purchaser did not complete the contract, and a non-refundable deposit of £1.5 million was taken to Other Property Income in the income statement.

Since the year end, the acquisition in Birmingham referred to above has been added to the rest of UK portfolio.

In 2016, the only lease to expire was of 7,664 sq ft (712 sqm) and was renewed to the existing tenant.

There are 11 leases with the Department of Work and Pensions (Job Centres) which have tenant breaks or expiries in March 2018 and we are in discussions with the tenant's advisers to extend most of these.

The Rest of UK portfolio fell in value by 6.1% in the year, including the effect of the rise in stamp duty land tax. Excluding the impact of stamp duty and Atholl House, the remaining 25 properties in the portfolio fell by less than 1.5% as the March 2018 lease events approached.

£94.7 million

Investment properties

6%

Percentage of Group's property interests

26

No. of properties

85,751 sqm

Lettable space

25

No. of tenants

11.9%

EPRA net initial yield

11.9%

EPRA topped-up net initial yield

0.9%

Vacancy rate

-6.1%

Valuation fall

100%

Government and major corporates

5.4 years

Average unexpired lease length

2.3 years

To first break

GERMANY

TOP CUSTOMERS

- **City of Bochum**
Government
- **E.ON**
Major Corporation
- **Kaufland**
Major Corporation
- **Dr Höhle**
Major Corporation

MARKET DURING THE YEAR:

- GDP growth stable at 1.9% (2015: 1.7%)
- Unemployment fell to 5.8%
- Buoyant investment market driven by international investors
- Office take-up increased by 6% on 2015 level
- Rental growth of over 5% in major cities

Outlook:

Vacancies are falling, rental growth in larger cities has been over 5% per annum and the economy grew by 1.9% in 2016. Further strong economic growth is expected in 2017 which, underpinned by a widely-diversified economic structure, will benefit our tenants. The general election will inevitably create some uncertainty, but the economy is strong enough to withstand it. We intend to grow our portfolio in a German economy which provides attractive investment and financing opportunities in non-prime offices.

We continue to see good investment value in German commercial real estate, supported by favourable financing conditions. In September, we acquired Parsevalstrasse 11, Düsseldorf, comprising 239,496 sq ft (22,700 sqm) of high quality, mixed-use space close to the airport. The cost of €43.6 million provided a net initial yield of 7.1% and we financed the acquisition for 7 years at a fixed rate of 0.92%. In August, we bought Harburger Ring 35, Hamburg, adjacent to our existing holding of Harburger Ring 33, for €5.7 million, which comprised 36,028 sq ft (3,415 sqm) of office space.

During 2016, 213,093 sq ft (19,797 sqm) vacated or expired in the German portfolio, but 232,789 sq ft (21,627 sqm) was relet or renewed and, consequently, the vacancy rate fell to 1.7% (2015: 2.5%). New leases and renewals were achieved at 6.1% above their ervs at the end of 2015.

The valuation of the German portfolio rose by 3.8% in local currency, or by 18.4% in sterling. The uplift was driven by a 5 bps fall in yields, whilst ervs were up 0.3% on a like-for-like basis in the year.

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Parsevalstrasse 11, Düsseldorf

- Acquired in 2016
- Purchase price of €43.6 million
- Net initial yield of 7.1%
- Multi-let office building of 244,341 sq ft (22,700 sqm)
- Negotiations with tenants to extended leases will be carried out in 2017

£356.9 million

Value

23%

Percentage of Group's property interests

21

No. of properties

209,558 sqm

Lettable space

164

No. of tenants

5.8%

EPRA net initial yield

5.9%

EPRA topped-up net initial yield

1.7%

Vacancy rate

3.8%

Valuation uplift

63%

Government and major corporates

7.2 years

Average unexpired lease length

7.0 years

To first break

FRANCE

TOP CUSTOMERS

- **Veolia**
Major Corporation
- **Colt**
Major Corporation
- **CPAM**
Government
- **Carsat**
Government

MARKET DURING THE YEAR:

- Low GDP growth of 1.1% (2015:1.3%)
- Unemployment still high at 9.9%
- Strong Paris letting market was 7% up on 2015
- Fall in availability of office space due to increase in demand and lack of new supply
- Investment market 45% above 10 year average, dominated by domestic buyers

Outlook:

The French economy remains challenging, with GDP growth in 2016 of only 1.1% and unemployment at 10%, and uncertainty surrounds both the outcome of the 2017 presidential election and its economic consequences. But 2016 proved the strength of the Paris office letting market, and a continuing fall in supply bodes well for rents. Robust valuations reflect a market dominated by domestic investors and a lack of supply. Overall, we remain cautious of further investment in France until signs of recovery and political stability have returned.



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Jean Jaurès

- Acquired in 2004
- Multi-let office building of 43,368 sq ft (4,029 sqm)
- Fully let and well located for transport links
- Contains HQ of CLS France



In a highly competitive market, no acquisitions were made in France during the year, but we took the opportunity to dispose of peripheral assets which did not fit within the Group's strategy of investing in Greater London and the larger cities of Germany and France. We disposed of our only property investment in Luxembourg, at 16 Rue Eugene Ruppert, for €10.2 million, marginally ahead of the 2015 valuation for this empty property. Later in the year we sold Le Chorus, 2203 Chemin de St Claude, Antibes a 46,640 sq ft (4,421 sqm) office building at a price of €9.4 million, 2.4% above its valuation at 31 December 2015.

Our in-house French team managed to reduce still further our vacancy rate in France to only 2.9% (2015: 3.9%). Whilst a significantly large 276,094 sq ft (25,650 sqm) of space vacated or expired during the year, 287,321 sq ft (26,693 sqm) was let. This was achieved at a weighted average rent 1.9% above ervs at 31 December 2015.

The French portfolio valuation rose by 4.8% in the year in local currency, and by 21.6% in sterling. Contracted rent on a like-for-like basis fell by 1.5%, but yields fell by 8 bps, which accounted for most of the rise in the value of the properties.

£258.4 million

Value

16%

Percentage of Group's property interests

24

No. of properties

86,042 sqm

Lettable space

166

No. of tenants

5.6%

EPRA net initial yield¹

6.0%

EPRA topped-up net initial yield¹

2.9%

Vacancy rate

4.8%

Valuation uplift

56%

Government and major corporates

5.7 years

Average unexpired lease length

3.0 years

To first break

¹ excluding developments

OTHER INVESTMENTS

Financial Investments

£45.3 million

Catena AB – value

11.2%

Catena AB – interest

£5.5 million

NP3 Fastigheter AB – value

2.3%

NP3 Fastigheter AB – interest

£65.1 million

Corporate bonds – value

At 31 December 2016 the Group held financial investments in the shares of two companies listed on Nasdaq Stockholm. The Group's main financial investment was an 11.2% interest in the share capital of Catena AB, a property company which specialises in logistics warehouses in Sweden, from which we received a dividend of £1.0 million during the year. NP3 Fastigheter AB is an investor in commercial real estate in northern Sweden which produced good capital growth during the Group's ownership, and was sold in full in February 2017.

The Group's other significant financial investment is in corporate bonds, which are held as an alternative to cash as a cash management tool. The average capital invested in corporate bonds in the year was £56.4 million, which generated a total return in local currencies of 18.6%. At the year end the Group owned bonds from 31 issuers with an aggregate value of £65.1 million.

Property, Plant and Equipment

£26.8 million

Hotel – value

£5.7 million

86 Bondway – value

£66.8 million

First Camp – gross value of assets

58.0%

First Camp – interest

£5.6 million

Landholding – value

The *Staybridge Suites London – Vauxhall* hotel is part of our Spring Mews development completed in 2014, and is operated under a franchise agreement with Intercontinental Hotels Group. It increased its revenue by 21.6% in 2016, contributing £4.3 million (2015: 3.5 million) to other property income.

The assets of First Camp Sverige Holding AB, predominantly vacation sites in Sweden, were valued at £66.8 million at 31 December 2016, and accounted for the majority of additions in property, plant and equipment in 2016 as the company consolidated its share of the Swedish market. The Group's share in the net assets of First Camp at the year end was £14.1 million.

RESULTS FOR THE YEAR

Headlines Profit after tax attributable to the owners of the Company of £97.8 million (2015: £129.9 million) generated EPRA earnings per share of 123.0 pence (2015: 84.7 pence), and basic earnings per share of 236.3 pence (2015: 305.7 pence). Investment properties at 31 December 2016 were £1,536.6 million (2015: £1,366.8 million), EPRA net assets per share were 17.9% higher at 2,456 pence (2015: 2,083 pence), and basic net assets per share rose by 18.8% to 2,151 pence (2015: 1,810 pence).

Approximately 55% of the Group's business is conducted in the reporting currency of sterling, 32% in euros, with the balance in Swedish kronor. Compared to last year, sterling weakened against the euro by 11.1% and against the krona by 10.1%, increasing profits accordingly. Likewise, at 31 December 2016 the euro was 15.1% stronger and the krona 10.3% stronger against sterling than twelve months previously, increasing the sterling equivalent value of non-sterling net assets.

Exchange rates to the £

	EUR	SEK
At 31 December 2014	1.2876	12.1654
2015 average rate	1.3774	12.8889
At 31 December 2015	1.3571	12.4420
2016 average rate	1.2242	11.5801
At 31 December 2016	1.1731	11.2754

Income Statement In 2016, rental income of £91.3 million was £6.0 million higher than in 2015. Acquisitions added £3.7 million, completed developments contributed £1.8 million for the first time, general letting activity added £1.0 million and the weakness of sterling added £4.3 million; these were offset by £4.8 million of income lost through disposals. Other property income of £21.4 million included income from First Camp of £12.5 million (2015: £14.0 million), hotel revenue from Spring Mews of £4.3 million (2015: £3.5 million) and one-off receipts of £1.5 million on the aborted disposal of Atholl House and £1.0 million from a rights of light settlement. In aggregate net rental income rose by 8.2% to £107.1 million (2015: £99.0 million).

We monitor the administration expenses incurred in running the property portfolio by reference to the income derived from it, which we call the administration cost ratio, and this is a key performance indicator of the Group. In 2016, the one-off cost of closing the Lyon office and of moving the Paris office to larger premises to accommodate the entire French team was part of the increase in administration expenses of the property segment of the Group to £14.1 million (2015: £13.5 million). But net rental income rose more steeply, and the administration cost ratio fell to 14.9% (2015: 15.9%), well within our KPI target for the year of 16.5%.

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The net surplus on revaluation of investment properties of £36.1 million was predominantly generated by the London portfolio, which rose in value by £18.3 million, Germany rose by £12.4 million and France by £11.6 million.

The disposals in Neasden, Luxembourg, Antibes and Vänerparken together raised proceeds of £85.5 million, realising a gain of £9.1 million after costs over their aggregate valuation at 31 December 2015. In addition, tax liabilities of £6.6 million were extinguished for the Group by selling the corporate vehicles which contained the properties (and their associated tax liabilities).

Finance income of £13.6 million (2015: £10.0 million) included interest income of £4.1 million (2015: £4.9 million) from our corporate bond portfolio, and also foreign exchange gains on non-sterling monetary net assets at the year end, dividends from Catena and interest on the deferred consideration on the sale of Vänerparken. The average balance of corporate bond investments in the year was lower than in previous years, but they remained an important cash management tool of the Group.

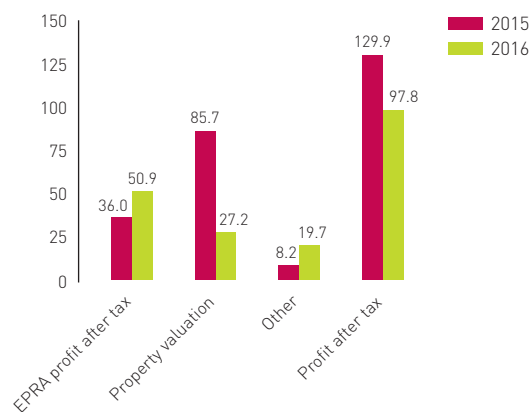
Finance costs of £32.7 million (2015: £27.5 million) were higher than last year, but the underlying cost, excluding the fair value movements of derivative financial instruments and atypical losses on buying back the remaining balance of a zero coupon note, fell to £26.3 million (2015: £26.6 million), after capitalising interest of £0.7 million (2015: £0.4 million) on developments. Interest costs before such capitalisation were in line with last year at £27.0 million (2015: £27.0 million) reflecting a higher level of borrowings in the year at a lower average cost.

The tax charge of 1.8% was significantly below the weighted average rate of the countries in which we do business (22.2%), primarily due to the change in the tax rate on existing liabilities, and the release of liabilities on the disposal of properties by selling the corporate vehicles which owned them. The tax rate in France fell from 33.3% to 28.0%, and in the UK from 18.0% to 17.0%, the collective effect of which was a one-off reduction of the tax charge of £10.3 million. Without this and the effect of the property disposals the effective tax rate would have been 18.7%.

Overall, profit attributable to the owners of the Company was £97.8 million (2015: 129.9 million). EPRA earnings, which excludes items which are non-recurring in nature, such as profits on sales of investment properties, or which have no impact to earnings over their life, such as movements on the revaluation of investment properties, were £50.9 million (2015: 36.0 million), and generated EPRA earnings per share up 45.2% at 123.0 pence (2015: 84.7 pence).

EPRA Net Asset Value At 31 December 2016, EPRA net assets per share (a diluted measure which highlights the fair value of the business on a long-term basis) were 2,456 pence (2015: 2,083 pence), a rise of 17.9%, or 373 pence per share. The main reasons for the increase were underlying profit after tax of 131 pence, foreign exchange gains from the weakness of sterling (119 pence), and the benefit of the uplift in the valuation of the investment property portfolio (97 pence). Smaller gains were made from buying back shares at a discount to NAV (11 pence) and the revaluation of bonds and equities (15 pence).

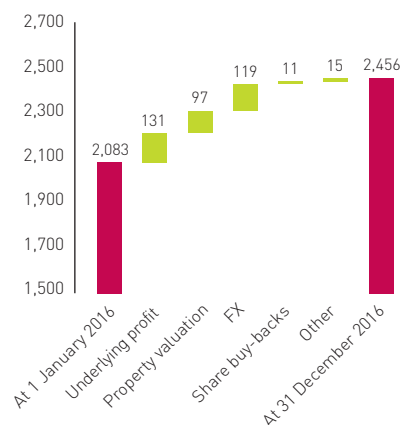
PROFIT AFTER TAX
(£ million)



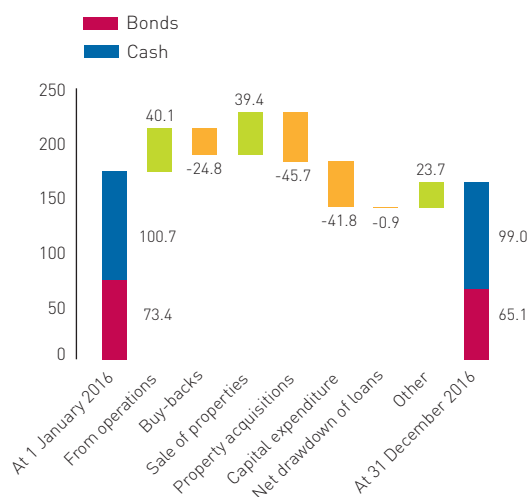
MOVEMENT IN RENTAL INCOME
(£ million)



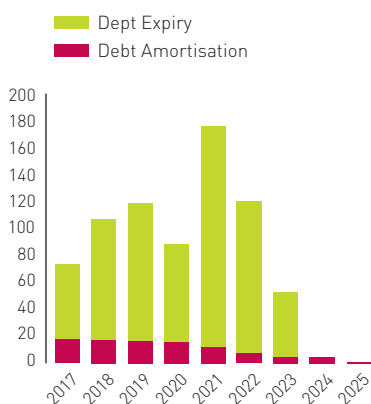
MOVEMENT IN EPRA NAV 2016
(Pence)



MOVEMENT IN LIQUID RESOURCES 2016 (£ million)



DEBT PROFILE AT 31 DECEMBER 2016 (£ million)



Cash Flow, Net Debt and Gearing Net cash flow from operating activities generated £40.1 million, of which £24.8 million was distributed to shareholders through tender buy-backs or market purchases of shares; a further £39.4 million was raised from disposals of investment properties, and £24.7 million from net sales of corporate bonds and equity investments. The main cash outflows were £45.7 million spent on the four acquisitions in the year, and £41.8 million on other capital expenditure. At 31 December 2016, the Group's cash balances were £99.0 million, virtually unchanged from twelve months previously, and were supplemented by £65.1 million of corporate bonds and undrawn bank facilities of £105 million.

Gross debt rose by £54.5 million to £854.5 million, of which £49.6 million was due to foreign exchange rate movements. £191.6 million of loans and a net £8.6 million of overdrafts were drawn, replacing £199.6 million of loan repayments. At 31 December 2016, the weighted average unexpired term of the Group's debt was 4.0 years, excluding overdrafts.

Balance sheet loan to value (net debt to gross assets less cash) fell to 41.1% (2015: 42.5%), and the weighted average loan-to-value on borrowings secured against properties was a comfortable 49.8% (2015: 48.1%). Adjusted solidity was 52.1% (2015: 50.4%).

The weighted average cost of debt at 31 December 2016 was 2.91%, 49 basis points lower than 12 months earlier. The fall was largely due to taking out new debt of £177 million at a weighted average cost of 1.90%, and was further helped by the weakness in sterling (our cheapest debt is in euros) and by buying back early the zero coupon note taken out in 1992 at 11.2%.

In 2016, our low cost of debt led to strong recurring interest cover of 3.4 times (2015: 3.2 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 50% of the Group's exposure to foreign currency is naturally hedged, and the most efficient use can be made of the Group's assets. Bank debt ordinarily attracts covenants on loan-to-value and on interest and debt service cover. None of the Group's debt was in breach of covenants at 31 December 2016. The Group had 55 loans across the portfolio from 24 banks, plus a debenture, 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 the use of financial derivatives, particularly interest rate caps and swaps. Since 2015, medium-term interest swap rates have been close to short-term rates, and the Board chose to take advantage of these conditions, fixing medium-term debt taken out during the year predominantly with co-terminus interest rate swaps. During the year the Group financed or refinanced 14 loans to a value of £177 million at a weighted average all-in rate of 1.90%, and of these £119 million was fixed at a weighted average all-in rate of 1.75%.

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Consequently, at 31 December 2016, 63% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 5% were subject to caps and 32% of debt costs were unhedged.

The Group's financial derivatives – predominantly interest rate caps and interest rate swaps – are marked to market at each balance sheet date. At 31 December 2016 they were a net liability of £9.3 million (2015: £5.3 million).

Distributions to Shareholders In April 2016, £13.4 million was distributed as a final distribution to shareholders for 2015 by means of a tender offer buy-back of 1 in 57 shares at 1,810 pence per share. In September, £7.2 million was distributed as an interim distribution to shareholders for 2016 by means of a tender offer buy-back of 1 in 100 shares at 1,750 pence per share. The Board has decided to change the nature of distributions to shareholders and the proposed final distribution for 2016, which will be put to shareholders at the Annual General Meeting in April 2017, is to be a dividend of 40 pence per share, representing £16.3 million. Accordingly, distributions for 2016 will comprise £23.5 million in aggregate, an increase of 23.0% over last year.

Share Capital At 1 January 2016, there were 45,028,684 shares in issue, of which 2,888,103 were held as treasury shares. Shares were cancelled during the year under the distribution policy of tender offer buy-backs: in April, 739,396 shares, and in September, 411,510 shares, were cancelled. Also during the year, 255,099 shares were acquired in the market at an average cost of 1,595 pence per share and were placed in treasury, and 5,000 shares were issued from treasury shares to a Director in compensation for incentives forfeited on cessation of his previous employment.

Consequently, at 31 December 2016, 40,739,576 shares were listed on the London Stock Exchange, and 3,138,202 shares remained held in Treasury.

TOTAL RETURNS TO SHAREHOLDERS

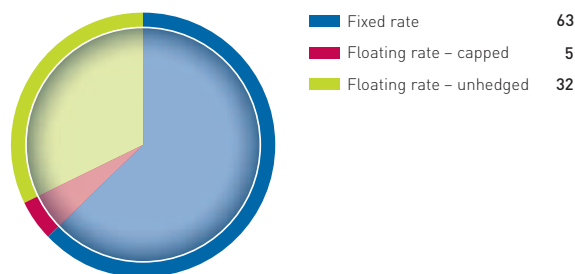
The prospect of the possible fallout from Brexit adversely affected the share prices of much of the property sector, including that of CLS, and so for the first time in ten years the share price ended the year below the level at which it started it, and consequently total shareholder return in 2016 was a negative 16.0%. Nevertheless, in the five years to 31 December 2016, our total shareholder return of 159.1%, which represented a compound annual return of 21.0%, was one of the best performances in the listed real estate sector.

Since the Company listed on the London Stock Exchange, it has outperformed the FTSE Real Estate and FTSE All Share indices, as set out in the graph on page 11.

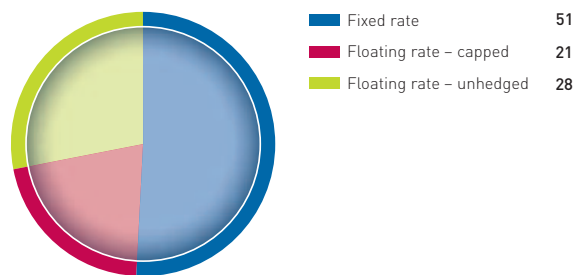
KEY PERFORMANCE INDICATORS

Our performance against our key performance indicators is set out on page 4.

DEBT HEDGING 2016



DEBT HEDGING 2015



ACTIVELY MANAGING OUR PORTFOLIO



Vauxhall Square, SW8

- Acquired 1988-2004
- Multi-let office/industrial
- Planning consent gained in 2012 for 1.54 million sq ft (143,000 sqm) mixed-use scheme of residential, office, hotels, retail and student accommodation

In 2016:

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

In 2017:

- Demolition of Wendle Court completed and construction of new hostel under way
- Enabling works and surveys commenced on main site
- Several options under consideration on the future of the scheme



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CI Tower, New Malden

- Acquired in 1988
- Multi-let office building of 81,773 sq ft (7,597 sqm) over 15 floors
- New reception completed in 2015
- Upgrade of M&E systems and common parts under way
- Internal refurbishments planned for 2017/18

One Elmfield Park, Bromley

- Acquired in 2015
- 24,090 sq ft (2,238 sqm) of office space over 4 floors
- Vacant possession gained; refurbishment and relaunch in 2017

405 Kennington Road, SE11

- Acquired in 2013
- 14,854 sq ft (1,380 sqm) of office space, 3,230 sq ft (300 sqm) of rental space and 15 residential flats (sold on long leaseholds)
- Office space refurbished in 2015



PRINCIPAL RISKS AND UNCERTAINTIES

THERE ARE A NUMBER OF POTENTIAL RISKS AND UNCERTAINTIES WHICH COULD HAVE A MATERIAL IMPACT ON THE GROUP'S PERFORMANCE AND COULD CAUSE THE RESULTS TO DIFFER MATERIALLY FROM EXPECTED OR HISTORICAL RESULTS; THE MANAGEMENT AND MITIGATION OF THESE RISKS ARE THE RESPONSIBILITY OF THE BOARD

Risk	Areas of impact	Mitigation	Change in risk in year
PROPERTY INVESTMENT RISK			
Underperformance of investment portfolio due to:	Cash flow Profitability Net asset value Banking covenants	Geographically-diversified portfolio with 40% of the Group's properties being outside the UK.	↑ Increased
<ul style="list-style-type: none"> Cyclical downturn in property market 			
<ul style="list-style-type: none"> Changes in supply of space and/or occupier demand 	Rental income Cash flow Vacancy rate Void running costs Property values Net asset value	51% of London and rest 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 disquiet.	↑ Increased
<ul style="list-style-type: none"> Poor asset management 	Rental income Cash flow Vacancy rate Void running costs Property values Net asset value	Asset management is not outsourced, property teams proactively manage customers to ensure changing needs are met, and review the current status of all properties weekly. Written reports are submitted monthly to senior management on, inter alia, vacancies, lease expiry profiles and progress on rent reviews.	→ Unchanged
OTHER INVESTMENT RISK			
Corporate bond investments:	Net asset value Liquid resources	In advance of the referendum, the Group sold £47 million of bonds.	↑ Increased
<ul style="list-style-type: none"> Underperformance of bond portfolio 			
DEVELOPMENT RISK			
Failure to secure planning permission	Abortive costs Reputation	Planning permission is sought only after engaging in depth with all stakeholders.	→ Unchanged
Contractor solvency and availability	Reduced development returns Cost overruns Loss of rental revenue	Only leading contractors are engaged. Prior to appointment, contractors are the subject of a due diligence check and assessed for financial viability.	→ Unchanged
Downturn in investment or occupational markets	Net asset value Cash flow Profitability	Developments are undertaken only after an appropriate level of pre-lets have been sought.	→ Unchanged
Increased construction costs	Net asset value Reduced development returns Cost overruns	All development appraisals contain contingencies, and are subject to sensitivity analysis. Monthly cost reports are produced for the Executive Directors to identify and address potential issues at an early stage.	↓ Reduced
TAXATION RISK			
Increases in tax rates or changes to the basis of taxation	Cash flow Profitability Net asset value	The Group monitors legislative proposals and consults external advisors to understand and mitigate the effects of any such change.	↓ Reduced

Risk	Areas of impact	Mitigation	Change in risk in year
SUSTAINABILITY RISK			
Increasing building regulation and obsolescence	Rental income Cash flow Vacancy rate Net asset value Profitability Liquid resources	Continual assessment of all properties against emerging regulatory changes. Fit-out and refurbishment projects benchmarked against third party schemes.	→ Unchanged
Increasing energy costs and regulation	Net asset value Profitability Liquid resources	Investment in energy efficient plant and building mounted renewable energy systems.	→ Unchanged
FUNDING RISK			
Unavailability of financing at acceptable prices	Cost of borrowing Ability to invest or develop	The Group has a dedicated treasury team and relationships are maintained with some 24 banks, thus reducing credit and liquidity risk. The exposure on refinancing debt is mitigated by the lack of concentration in maturities.	→ Unchanged
Adverse interest rate movements	Cost of borrowing Cost of hedging	63% of borrowings are at fixed rates and 5% are subject to interest rate caps	↑ Increased
Breach of borrowing covenants	Cost of borrowing	Borrowing agreements contain cure clauses to rectify LTV breaches through part repayment of the loan or the depositing of cash.	↑ Increased
Foreign currency exposure	Net asset value Profitability	Property investments are partially funded in matching currency. The difference between the value of the property and the amount of financing is generally unhedged and monitored on an ongoing basis.	↓ Reduced
Financial counterparty credit risk	Loss of deposits Cost of rearranging facilities Incremental cost of borrowing	The Group has a dedicated treasury team and relationships are maintained with some 24 banks, thus reducing credit and liquidity risk. The exposure on refinancing debt is mitigated by the lack of concentration in maturities.	→ Unchanged
POLITICAL AND ECONOMIC RISK			
Break-up of the Euro	Net asset value Profitability	Euro-denominated liquid resources are kept to a minimum. Euro property assets are largely financed with euro borrowings in the countries in which they are situated.	→ Unchanged
Impact of UK exit from the EU	Net asset value Profitability Availability of funding	51% of rents in London and the rest of 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.	↑ Increased
OTHER CORPORATE RISKS			
Failure to recruit and retain key personnel	Net Asset Value Profitability	The Remuneration Committee regularly reviews and sets individual Executive Directors remuneration packages. Annual reviews are performed to assess competency, training requirements, as well as employee satisfaction.	→ Unchanged
Cyber attacks	Net Asset Value Profitability Reputation	The Group's IT systems are protected by anti-virus software and firewalls that are regularly tested and updated. Data is periodically backed up and stored offsite.	↑ Increased
Major health & safety incidents	Profitability Reputation	The Health and Safety Committee meets regularly to ensure ongoing compliance with health and safety legislation as well as undertaking periodic risk assessments across the business.	→ Unchanged
TERRORISM			
Security threat/attack	Net Asset Value Profitability	The Group adopts appropriate security measures across the portfolio based on our experienced Property Managers risk assessment, and takes out insurance to cover losses of rent and service charge from acts of terrorism where appropriate. The Group has also developed a disaster recovery plan to ensure business continuity.	→ Unchanged

CORPORATE, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY REPORT

THE GROUP IS COMMITTED TO ITS CORPORATE, SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES; THE BOARD ACTIVELY ENCOURAGES CSER INTEGRATION INTO THE BUSINESS BY EMPLOYEES ACROSS THE GROUP

CHIEF EXECUTIVE OFFICER'S STATEMENT

The global climate change summit held in Paris during the end of 2015 (COP21) was a significant milestone in addressing worldwide environmental challenges. Europe continues to lead the way in its efforts to transition towards lower carbon economies, with record renewable generation. With no global growth of fossil fuel generation there is a clear indication that pledges made at COP21 are coming into effect.

As a business, we want to ensure that we also play our part in reducing our impact on the environment whilst developing our role within the communities in which we operate. I believe sustainability is cultural and should be integral in our business processes and I fully support our in-house sustainability team to deliver on our commitments.

In support of our sustainability programme, we implemented a number of technological innovations that have improved the way we monitor, manage and reduce unnecessary energy usage within the managed portfolio. Through the use of smart metering we now have greater visibility to make energy savings and are able to engage with our tenants at an early stage. This has resulted in a Group wide carbon emissions reduction in our managed buildings of 11.4% (2015: 7.7%), which is an excellent achievement. We continue to make improvements to the energy efficiency of our buildings and have no investment properties that have an EPC rating of D or below.

I am proud to note that this year our staff have supported more community events than before, with 27 social and charitable events raising £52,000 in the year. It is one of our Group objectives that the majority of our employees participate in a community event during 2017.

We have a busy year ahead, focusing on our energy mix across the Group as we plan to install nine photovoltaic systems and smart metering across our French and German assets.

Fredrik Widlund
Chief Executive Officer

8 March 2017

SUSTAINABILITY AT CLS

Our strategy is designed to deliver on the objectives of the Group's Sustainability Charter (the "Charter") to make our business more sustainable. We also aim to improve the working environment for all our stakeholders.

In order to implement our sustainability strategy, we have an in-house sustainability department which reports to the Board and whose task is to achieve our key objectives.

Buspace Studio – Photovoltaic array

- CLS's first installation of photovoltaic array
- 43 kW system, generating approximately 43,000 kWh pa
- 165 panels covering 278 sqm of roof space



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THE SUSTAINABILITY CHARTER

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

- to mitigate our impact on climate change by reducing our carbon footprint
- to be accountable for our performance relating to climate change by reporting regularly against measurable indicators
- to make the most effective use of our duties, powers and resources to minimise the impact of our actions on the environment, and to enhance the environment, community and economy wherever possible
- to monitor our progress by carrying out regular assessments against the key actions of the Charter

- to use our Charter to influence the behaviour of our partners, tenants, suppliers and other stakeholders, to promote the principles on which it is based
- to promote and support social and charitable events to ensure we contribute in the communities in which we invest

STAKEHOLDER INCLUSIVENESS

We define our stakeholders as anyone who occupies office space in our buildings, works with us, or for us, or invests in us. As our culture is entrepreneurial, professional, open and friendly, this allows for constructive feedback to be reviewed and implemented throughout all levels of the business ensuring we are constantly improving. We also carry out staff and customer satisfaction surveys across the business to ensure that we understand and respond to our stakeholders' views.



Spring Mews – Combined Heat and Power Plant

- CLS's largest low carbon on-site generation
- Generates approximately 376,000 kWh electricity and 205 kW heating capacity
- 43% more efficient than conventional boilers and grid generation
- Used to heat domestic hot water for 378 student rooms at Spring Mews, London



CORPORATE, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY REPORT

CONTINUED

2016 ACHIEVEMENTS



Corporate

- Continued to achieve a fully de-risked portfolio against the upcoming Minimum Energy Efficiency Standard
- Installed automatic meter reading across 100% of the UK portfolio. France and Germany will be completed in 2017
- Set-up a pan-European energy data platform to enable the management of utility costs for our tenants and ourselves



Social

- Introduced our first environmental behaviour change programme for our tenants in the UK
- Completed 27 CSR events throughout 2016 and contributed £52,000 in support
- Increased the amount actively and social events for staff to participate in across the Group



Energy & Environmental

- Achieved a carbon emission reduction across the Group of 11.4%, which is our fifth consecutive year of carbon reductions
- Increased the amount of renewable & low carbon energy generated on our sites by 32%

EMPLOYEES

Culture

Our culture is entrepreneurial, professional, open and friendly. We have employees from 15 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 £1.6 billion, and we recognise that they make CLS what it is and contribute significantly to its success.

Recruitment

Finding the right people is the key to our long-term success. Having a diverse workforce is also a source of competitive advantage. Therefore, we have developed appropriate policies and procedures which underline our commitment to equal opportunity and diversity in employment. Our recruitment and interview policy ensures that these objectives are met and fully understood by those recruiting. It seeks to ensure that no employee or applicant is treated less favourably on the grounds of gender, marital status, race, colour, nationality, 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 continued and sustained improvement in the performance of the Group.

Engagement and Wellbeing

We promote all aspects of employee engagement and promote an "open door" policy; we encourage all employees to share ideas and get involved in 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 departmental 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 gives everyone an understanding of the business, and how everyone's work contributed to the Company's performance during the period.

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. 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 page 35. 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 through a number of reward structures including salary, bonuses, a cash loyalty award for those who have been with the Group for more than 2 years and a share incentive plan.

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, remuneration, development opportunities, respect and recognition and confidence in leaders.

We were pleased to note that 83% of our employees felt that they were treated with respect; 86% felt proud to work for the Group and 87% felt that there was good cooperation and teamwork within the organisation. In order to distil the key themes arising from the survey, we set up a workshop, comprised of representatives from across the Group and facilitated by an independent external advisor, to recommend changes to the way we work. These were then presented to the Chief Executive Officer, Chief Financial Officer and Head of Group HR, who have set a timeframe for the implementation of the recommendations during 2017.

Through the survey we noticed a trend for more flexible and smarter working practices, the need to foster good interdepartmental relationships and a wish to understand the business by visiting properties within the portfolio.

During 2016 we held a Group-wide conference attended by all employees, at which we promoted the Group's culture and values, provided specific presentations on areas of the business and developed our team working skills with an emphasis on bringing together our European offices.

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. Following feedback from employees, which focussed on employee engagement within the business, we are also recommending the implementation of a share incentive plan for all employees at our 2017 Annual General Meeting.

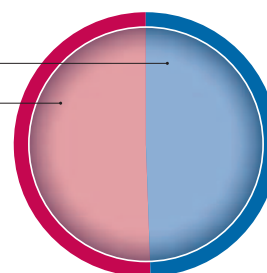
Training and Development

All employees are actively encouraged to undertake training to achieve professional qualifications and to keep up to date with developments in their specialised areas. The staff survey results showed that 81% of employees felt that we provided enough training for employees to handle their jobs, which was 16% higher than the external benchmark. We ensure that those with direct reports undertake management training on areas such as diversity, appraisals and performance. We also promote non-core training, such as foreign language skills, which, whilst not central to a particular role, will allow an employee to broaden their skills base. As part of our knowledge sharing and personal development, we have set up internal workshops at which departments will present to other departments on their specific role within the organisation, thereby developing employees' wider business knowledge and understanding of how the Group's activities inter-relate.

EMPLOYEE GENDER RATIO (at 31 December 2016 (Whole Group))

Male: 49.5%

Female: 50.5%



Total Staff is 84 people
97.2% are full time equivalent

Training and Development

45%
of staff completed professional training

125 days
of training completed

£84,000
spent on training

£2,210
Average spend per person trained

3.29 days
Average days spent training per person trained

537 hours
hours of CPD awarded

CORPORATE, SOCIAL AND ENVIRONMENTAL RESPONSIBILITY REPORT

CONTINUED

HEALTH & SAFETY

It is a primary focus of the Board that the Group manages its activities in such a manner as to ensure that the health and safety of its employees, customers, advisors, contractors and the general public is not compromised. As part of this process the Group employs specialist accredited advisers to advise on all health and safety matters. The Group also operates a Health and Safety Committee, which covers issues related to the UK portfolio and its employees. Chaired by the Company Secretary, the committee comprises Facility Managers, Property Managers, employees and advisors, and is responsible to the Chief Executive Officer. The Chief Executive Officer also attends Health and Safety Committee meetings. All regions maintain and follow local health and safety policies and report issues to the Chief Executive Officer. This reporting process has worked effectively throughout the year and has ensured ongoing compliance with health and safety legislation.

Risk assessment summary for the UK

In the UK, the Group sets health and safety objectives covering our workforce and portfolio and is monitored by the Health and Safety Committee. 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: at the annual risk assessment, 90% of all identified risks are deemed to be under control
- Document Compliance: 100% of all required health and safety site documentation is available on the H&S Management System and is not out of date for more than one month
- Accidents: ensure that the Accident Frequency Rate is below the national average.

These targets are testament to the work of our Facilities and Property Management Teams which we believe underlines the importance of active in-house management.

Health & Safety: 2016 Performance against objectives:

BUSINESS ETHICS

The Board recognises the importance of the Group's responsibilities as an ethical employer and views matters in which the Group interacts with the community both socially and economically as the responsibility of the whole Board. Following the enactment of the Bribery Act 2010, the Group implemented a suitable policy which further demonstrated its commitment to business ethics. 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 requiring any UK commercial organisation which supplies goods or services 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 any of its supply chains or its own business.

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

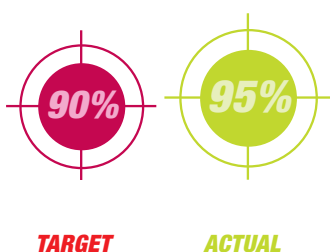
The Group upholds the highest standards of business ethics and undertook a review of its supply chain during the period. The Board is confident that as a result of the Group's management and reporting structure, there are no such practices taking place.

PROMPT PAYMENT CODE

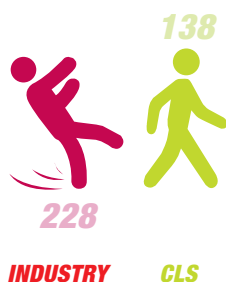
CLS is a signatory to the Prompt Payment Code ("PPC"), a voluntary scheme backed by the UK Government to set standards of best practice for payment of suppliers. The PPC requires all signatories to pay 95% of their undisputed invoices to suppliers within a 60 day period.

Since joining, the Group has made significant changes in its payment processes and is currently paying 97% of all undisputed invoices in the UK within 60 days, thus exceeding the required terms for the PPC.

RISK MANAGEMENT CONTROL RATE



ACCIDENT FREQUENCY RATE (PER 100,000 PERSONS)



CORPORATE OBJECTIVE PERFORMANCE AGAINST TARGETS

Objectives	Achievement	Change
• Introduce a Group-wide energy software platform which will be available for tenants to use	Achieved	→ Pass
• Install smart metering across all majors assets in the Group by the end of 2016	Completed 100% smart metering in the UK with Germany and France to follow in 2017	→ Partially pass
• Ensure every asset in the UK has an EPC rating no worse than F-(136) rating	Achieved	→ Pass
• Set long-term sustainability targets in line with Group strategy and wider country-level carbon roadmaps	Long-term sustainability targets continue to be developed in each country	→ Partially pass
• Promote health and wellbeing across our staff and tenants	Achieved	→ Pass
• Continue to support CSR events in the community we invest in	Achieved	→ Pass
• Carry out an annual staff survey to improve our working environment	Achieved	→ Pass
• Reduce carbon emissions and water consumption by 5% year-on-year in the managed like-for-like portfolio	Achieved	→ Pass
• Divert 100% of waste from landfill in the managed like-for-like portfolio	Achieved	→ Pass
• Recycle 70% of all UK waste collected from the managed like-for-like portfolio	At December 2016 CLS achieved 53% recycling. More actions will be taken to achieve this target in 2017	→ Ongoing

STRATEGIC REPORT

Governance

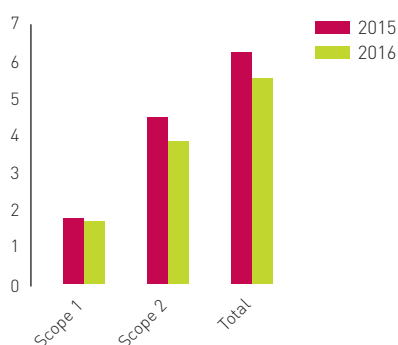
Accounts

Other Information

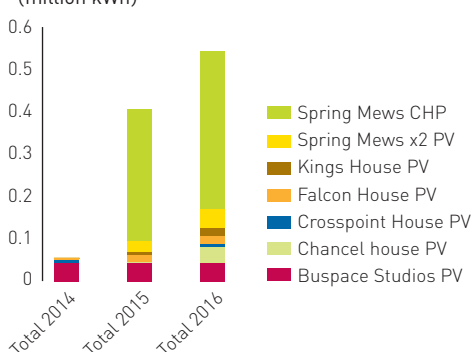
EMISSION PERFORMANCE COMPARISON: MANAGED LIKE-FOR-LIKE PORTFOLIO

	2015	2016	Year on year (Improvement)/Worsening	% Change in performance	GHG Type
Gas (tonnes/CO ₂ e)	1,766	1,695	-70	-3.99%	Scope 1
Electricity (tonnes/CO ₂ e)	4,484	3,840	-645	-14.38%	Scope 2
Total (tonnes/CO₂e)	6,250	5,535	-715	-11.44%	Scope 1&2
Total (tonnes/CO ₂ e/sqm)	0.0226	0.0200	-0.0026	-11.44%	Scope 1&2/sqm

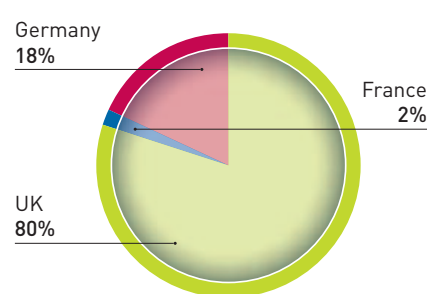
MANAGED LIKE-FOR-LIKE EMISSIONS
(000's tonnes/CO₂e)



ON-SITE RENEWABLE & LOW CARBON ELECTRICITY GENERATION
(million kWh)



BREAKDOWN OF 2016 MANAGED LIKE-FOR-LIKE EMISSIONS BY COUNTRY



CSR REPORT ONLINE (FULL DETAIL)

To download the report, visit www.clsholdings.com

DIRECTORS' REPORT

for the year ended 31 December 2016

The Directors present their annual report and the audited financial statements for the year ended 31 December 2016.

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 78.
- The Group objective, business model, strategy and KPIs are set out on pages 4 and 5.
- Important events affecting the Company are set out on pages 8 to 27.
- The principal risks and uncertainties are set out on pages 28 and 29.
- The use of financial instruments are set out on page 24, and in note 23 to the Group financial statements.
- The risk management objectives are also detailed in note 23 to the Group financial statements.

DIRECTORS

- Changes to Board composition during 2016 and subsequently are set out on page 43.
- Directors remuneration and interest in shares is set out on pages 48 to 69.
- Related party transactions are set out in note 33 to the Group financial statements.
- Biographical details of the Executive and Non-Executive Directors at 31 December 2016 are set out below.

Executive Directors

Henry Klotz, aged 72, was appointed Executive Chairman in March 2016, having previously been Executive Vice Chairman from January 2011, and Chief Executive Officer from May 2008. He joined the Group in 1999 with responsibility for the management of the Swedish operation, and was involved in the setting up of the German division and sourcing new business opportunities for the Group. He is a qualified engineer and economist.

On behalf of CLS he is Non-Executive Chairman of Catena AB, a Nordic real estate company quoted on Nasdaq Stockholm, and in which CLS holds an interest in 11.2% of the issued share capital.

Fredrik Widlund, aged 49, is the Chief Executive Officer and joined the Company in November 2014. His experience includes senior roles in business leadership, property and finance and prior to joining CLS he worked for 15 years at GE Capital including two years as Finance Director and four years as Managing Director of GE Capital Real Estate (UK), Regional CEO for GE's European leasing businesses and finally as Managing Director and Global Commercial Leader at its trade finance business, GE Capital International. Prior to his career with GE, he worked for Shell in London and Sweden. Fredrik has a degree in Economics from the University of Stockholm.

John Whiteley, aged 58, joined the Company in 2009 as Chief Financial Officer. He has over 25 years' experience in the real estate sector: he was previously Finance Officer at Doughty Hanson & Co Real Estate, and for ten years was Finance Director of Great Portland Estates plc, a company listed on the London Stock Exchange. He spent nine years with Ernst & Young, after qualifying as an accountant with Spicer & Pegler. He is a member of the Finance Committee of the British Property Federation and a Fellow of the Institute of Chartered Accountants.

Sten Mortstedt, aged 77, was Executive Chairman of the Company since its incorporation until 8 March 2016 when he stepped down as Chairman but remained an Executive Director. He is also Chairman of the Nominations Committee. He began his career in 1962 with Svenska Handelsbanken in Stockholm and within three years had formed a property investment partnership. In 1968 he was appointed Managing Director of the Mortstedt family property company, Citadellet AB, which was floated on the Stock Exchange in Stockholm in 1981. The company was sold in 1985 for a price five times higher than the introduction price and was at that time the largest property deal recorded in Scandinavia. Since 1977 he has been involved in establishing and running property interests in the UK, Sweden and France. He established CLS in 1987, and took the Company to a listing on the main market of the London Stock Exchange in 1994.

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

He runs his global interests from his residence in Switzerland.

Non-Executive Directors

Anna Seeley, aged 45, was appointed Non-Executive Vice Chairman on 8 March 2016 having rejoined the Board on 11 May 2015. She is also a member of the Nominations Committee. She is a qualified Chartered Surveyor and has worked in the property industry for over 20 years. She has held various positions within the property departments of General Electric and the BT Group and, from 2001 to 2003, was the Company's Group Property Director and Board member. For the last 8 years she has been a Director of Skansen Group Limited, a specialist office fit-out and refurbishment company. She holds a degree in property valuation and finance from City University and is the daughter of Sten Mortstedt.

Malcolm Cooper, aged 57, joined the Board in 2007 and is the Senior Independent Director, Chairman of the Audit Committee and a member of the Remuneration Committee. He is Project Director, Gas Distribution Sales at National Grid plc where he has worked for various predecessor companies since 1991. Previously he worked for Andersen Consulting. He has a first class degree in pure mathematics from Warwick University, is a qualified accountant and is a member of the Association of Corporate Treasurers. He is also a Non-Executive Director of Morgan Sindall plc.

Joseph Crawley, aged 57, joined the Board in 2008. He is Managing Director of Neat Developments Limited, a property investment and development company active in London and south-east England, and has over 25 years' experience of the central London property market. He was previously employed by CLS for a number of years and was involved in the development of the Spring Gardens site.

Elizabeth Edwards, aged 60, joined the Board in 2014 and is a member of the Audit Committee and the Nominations Committee. She is a qualified Chartered Surveyor with over 30 years' experience in the banking industry. She was most recently Head of UK Property Lending at Landesbank Berlin, having previously held senior positions in London with National Australia Bank, Berlin Hyp and Westdeutsche Immobilienbank. Prior to her banking career, she worked for PricewaterhouseCoopers as a management consultant. She is a Trustee of the Salvation Army International Trust, a Fellow of the Royal Institution of Chartered Surveyors, a member of the Association of Property Lenders, and a Past Master of the Worshipful Company of Chartered Surveyors.

Christopher Jarvis, aged 61, joined the Board in 2008 and is Chairman of the Remuneration Committee and a member of the Audit Committee. He is a Partner of Jarvis & Partners, a boutique real estate consultancy which he established in Berlin in 1994. Previously he was Managing Director of Richard Ellis Germany where he established the firm's Frankfurt and Berlin offices. His firm has acted as development partner for the HRO Group in Germany.

Thomas Lundqvist, aged 72, joined the Board in November 1990 and was Finance Director of the Company until 1995, when he became a Non-Executive Director. He was Vice Chairman from 2009 until 2011. Prior to joining CLS, he worked for the ASEA-Brown Boveri Group (ABB) and from 1983 for Svenska Finans International, part of Svenska Handelsbanken Group, where he was a board member.

Philip Mortstedt, aged 30, is the son of one of the founders of CLS, Bengt Mortstedt, and was appointed to the Board on 11 May 2015. He established an online media enterprise focused on motorsport, managing professional events for the past decade. He is also involved in the family's hotel and land developments in the Caribbean as well as in equity investments and residential property.

Lennart Sten, aged 57, joined the Board in 2014 and is a member of the Remuneration Committee and the Nominations Committee. He has 15 years' experience in the international property industry having held senior positions at GE Capital and GE Real Estate Nordic, most recently Chief Executive Officer of GE Capital Real Estate Europe, from which he stepped down in 2014. Prior to his time at GE Capital, he was a partner at Baker & McKenzie LLP, Stockholm, and an Assistant Judge in the District Court of Solna. He is a Non-Executive Director of Victoria Park AB, a company listed on Nasdaq Stockholm, and of a number of private companies, including Interogo Holding A.G, and is Chairman of the Swedish Property Federation.

As explained in the Corporate Governance Report on page 43, on 7 March 2017 Mr Bengt Mortstedt was appointed as a non-executive director and Philip Mortstedt left the Board. Consequently, Bengt Mortstedt will be subject to election and the remaining Directors will be subject to annual re-election at the Annual General Meeting in accordance with the UK Corporate Governance Code.

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

DIVIDENDS

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

The final distribution for 2015 as set out in a Circular dated 18 March 2016 for the purchase of 1 in 57 shares at 1,810 pence per share was completed on 5 May 2016. It returned £13.4 million to shareholders, equivalent to 31.8 pence per share.

The interim distribution for 2016 as set out in a Circular dated 26 August 2016 for the purchase of 1 in 100 shares at 1,750 pence per share was completed on 22 September 2016. It returned £7.2 million to shareholders, equivalent to 17.5 pence per share.

On 8 February 2017, the Company announced that it intends to make future distributions to shareholders by way of a twice yearly dividend. A resolution will be proposed at the 2017 Annual General Meeting to give the Company the relevant authority.

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2016 of 40 pence per share, which will return £16.3 million to shareholders. Subject to shareholder approval at the Annual General Meeting, the dividend will be paid on 28 April 2017 to shareholders who are on the register of members on 17 March 2017.

PURCHASE OF THE COMPANY'S SHARES

As described above, and under the relevant authority granted at the 2016 Annual General Meeting, during the year the Company made two tender offer purchases totalling 1,150,906 shares at a cost of £20.6 million. Of these, 739,396 ordinary shares were purchased on 5 May 2016 at 1,810 pence per share and 411,510 shares were purchased on 23 September 2016 at 1,750 pence per share. These shares were subsequently cancelled.

Under the relevant authority granted at the 2016 Annual General Meeting, during the year, the Company, over a period, purchased 255,099 shares at a cost of £4.1 million. These market purchases of shares took place between 13 May 2016 and 31 May 2016. There were no further purchases of the Company's own shares during the year.

A resolution will be proposed at the 2017 Annual General Meeting to give the Company authority to make market purchases of up to 4,073,957 shares.

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

SHARE CAPITAL

Changes in share capital are shown in note 24 to the Group financial statements. At 31 December 2016, and at the date of this report, the Company's issued share capital consisted of 43,877,778 ordinary shares of 25 pence each, of which 40,739,576 held voting rights and 3,138,202 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.

A resolution will be proposed at the 2017 Annual General Meeting to sub-divide each share of 25 pence into 10 new shares of 2.5 pence each.

Details of the Directors' interests in shares are shown in the Remuneration Committee Report on page 65.

DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2016

PROPERTY PORTFOLIO

A valuation of all the investment properties and properties held for sale in the Group at 31 December 2016 was carried out by Cushman and Wakefield for the UK (excluding Vauxhall Square) and for Germany, Knight Frank for Vauxhall Square and Jones Lang Lasalle for France, which produced an aggregate market value of £1,536.6 million (2015: £1,425.4 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 40 to 47 and forms part of this report.

EMPLOYEES, ENVIRONMENTAL AND SOCIAL ISSUES

The Group's policies on employment, environmental and social issues (including the information required by The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013), including charitable donations, are summarised in the Corporate, Social and Environmental Responsibility Report on pages 30 to 35. No political donations to any parties, organisations or candidates, or political expenditure were made during 2016.

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 2016, 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.

2017 ANNUAL GENERAL MEETING

The 2017 Annual General Meeting will be held on Wednesday, 26 April 2017. The notice of meeting, including explanatory notes for the resolutions to be proposed, will be posted to shareholders.

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

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

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

GOING CONCERN

The current macro-economic conditions have created a number of uncertainties as set out on pages 28 and 29. The Group's business activities, and the factors likely to affect its future development and performance, are set out in the Strategic Report on pages 2 to 27. The financial position of the Group, its liquidity position and borrowing facilities are described in the Strategic Report and in notes 18 and 21 of the Group financial statements.

The Directors regularly stress-test the business model to ensure that the Group has adequate working capital and have reviewed the current and projected financial positions of the Group, taking into account the repayment profile and covenants of the Group's loan portfolio, and making reasonable assumptions about future trading performance. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and further details of this analysis are set out in the Viability Statement on page 45. 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 9
9.8.4(2)	Publication of unaudited financial information	None
9.8.4(4)	Long-term incentive schemes with directors	None
9.8.4(5)	Director's waiver of emoluments	None
9.8.4(6)	Director's waiver of future emoluments	None
9.8.4(7)	Non pro rata allotments for cash (issuer)	None
9.8.4(8)	Non pro rata allotments for cash (major subsidiaries)	None
9.8.4(9)	Listed company is subsidiary of another company	None
9.8.4(10)	Contracts of significance with a director	None
9.8.4(11)	Contracts of significance with controlling shareholder	None
9.8.4(12)	Dividend waiver	Not applicable
9.8.4(13)	Waiver of future dividends	Not applicable
9.8.4(14)	Relationship Agreement with controlling shareholder	Page 46

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 65
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 46
9.8.6(3)	The going concern statement	Page 38
9.8.6(4)(a)	Amount of authority to purchase own shares available at year end	The Company had the authority to purchase 2,808,553 shares at year end
9.8.6(4)(b)	Off-market purchases of own shares during the year	None
9.8.6(4)(c)	Off-market purchases of own shares since year end	None
9.8.6(4)(d)	Non-pro rata sales of treasury shares during the year	None
9.8.6(5)	Compliance with the Main Principles of the UK Corporate Governance Code	Page 40
9.8.6(6)(b)	Details of non-compliance with the UK Corporate Governance Code	Pages 41 to 47
9.8.6(7)	Directors proposed for re-election: the unexpired term of any director's service contract and a statement about directors with no service contracts	Pages 36, 37 and 57

On behalf of the Board

David Fuller BA FCIS

Company Secretary

8 March 2017

CORPORATE GOVERNANCE REPORT

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

CHAIRMAN'S INTRODUCTION

The Board has overall responsibility for corporate governance and is accountable to the Company's shareholders for good governance. We are committed to achieving high standards of corporate governance which best fit the Group. Your Board recognises that through an effective structure of systems and controls which defines authority and accountability throughout the Group, risks are appropriately managed and controlled whilst still promoting entrepreneurial behaviour and ensuring a successful and innovative business. This, we believe, has been the key to our long-term success.

Corporate Governance is a key driver to the success of a listed company, but no two businesses are the same and no two boards are the same. For example, the UK Corporate Governance 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, your Board believes that it is appropriate to have an Executive Chairman because I have a valuable and in-depth knowledge of the business together with substantial experience of the European property industry. Nevertheless, there are various independence safeguards in place to ensure proper processes and controls are followed. These include the independent judgement of our Non-Executive Directors in all Board decisions, 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. Your Board believes that, with the help of my executive team, we focus on ensuring the Group succeeds in its business strategy whilst ensuring good governance.

During the year, we have implemented a number of processes which underline our governance commitment whilst recognising the needs of the business and its stakeholders. For example we have established a Nominations Committee, consisting of two independent Non-Executive Directors, our Founding Shareholder, Sten Mortstedt, and the Non-Executive Vice Chairman. Whilst we understand that this is not fully compliant with the Code's recommendation we believe that this represents our ownership structure.

In order to assist in meeting our obligations in relation to the introduction of the Market Abuse Regulations, we have established a Disclosure Committee consisting of our Executive Directors, taking advice from a number of corporate advisers.

Finally, we wanted to ensure that we understood the needs and concerns of our key assets – our employees – and undertook a staff satisfaction survey, taking into account all areas of working life. It showed us that 86% of our employees are proud to work for CLS. Nevertheless, we take on board the feedback we received and are implementing changes to embrace a work/life balance.

It continues to be my belief that an effective Board should include members who have a detailed knowledge of the Company's business and its relationships, so that there can be effective challenge and searching questions asked of the Executive Directors. We recognise that the composition of our Board is not aligned to the Code's requirement in this regard. However, from a governance perspective, I consider the balance between non-executives and "independent" non-executives to have been one of our key strengths and is underlined by the Group's performance since listing in 1994. As in previous years, I thank our long-term shareholders for sharing this view.

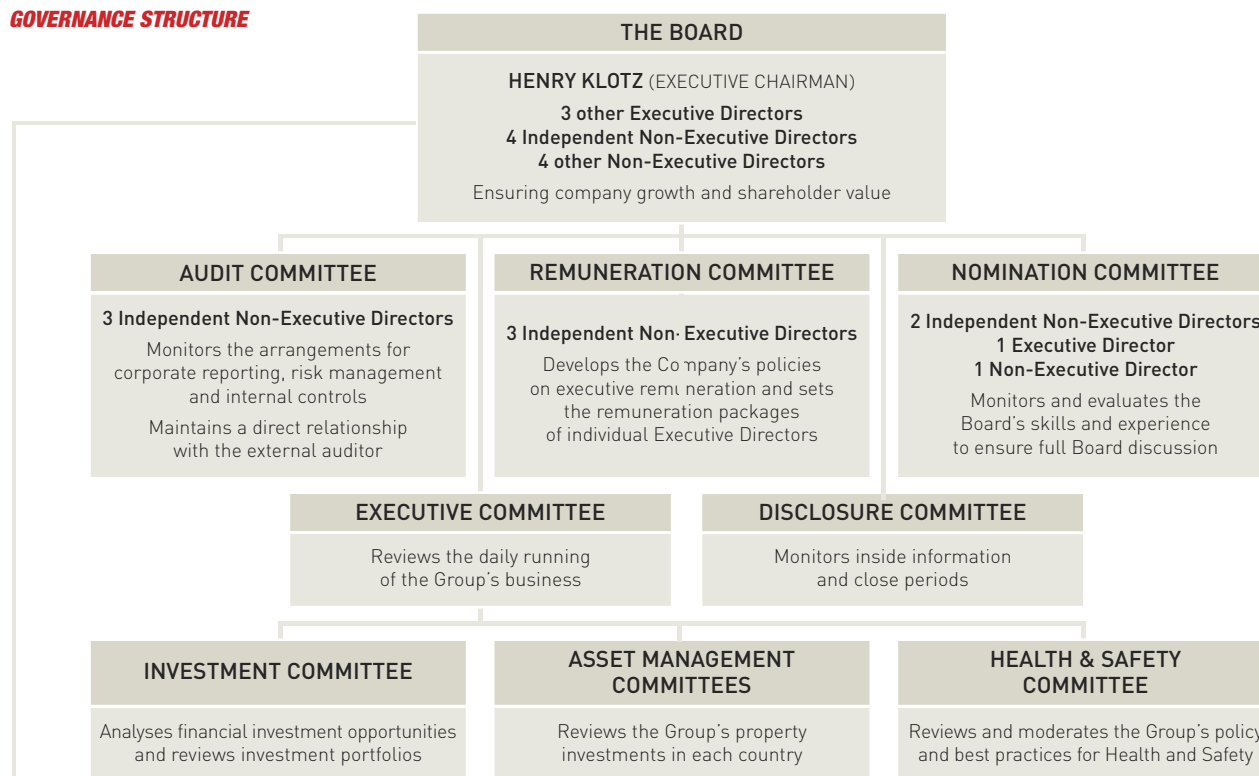
Henry Klotz
Executive Chairman

COMPLIANCE WITH THE CODE

The principal corporate governance rules which applied to the Company in the year under review were those set out in the UK Corporate Governance Code published by the Financial Reporting Council ("FRC") in April 2016 (the "Code"), the UK Financial Conduct Authority ("FCA") Listing Rules and the FCA's Disclosure Guidance and Transparency Rules.

The Board fully supports the principles of good governance as set out in the Code, which is publicly available on the FRC's website (www.frc.org.uk). The Company became a constituent of the FTSE 350 index on 22 December 2014. Save as identified and explained below, the Board considers that throughout 2016 it complied with the Main Principles and the supporting principles as set out in Section 1 of the Code.

GOVERNANCE STRUCTURE



LEADERSHIP

The Board, its composition and responsibilities 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.

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*	Providing another channel of communication for shareholders who do not wish to approach the Executive Chairman, Executive Vice Chairman or Chief Executive Officer Leads the Non-Executive Directors, and provides feedback to the Executive Chairman on his performance
NON-EXECUTIVE DIRECTORS	JOSEPH CRAWLEY ELIZABETH EDWARDS* CHRISTOPHER JARVIS* THOMAS LUNDQVIST BENGT MORTSTEDT† PHILIP MORTSTEDT† ANNA SEELEY LENNART STEN*	Providing independent oversight, objectively challenging the Executive Directors in Board discussions and decision-making

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

† Resigned on 7 March 2017

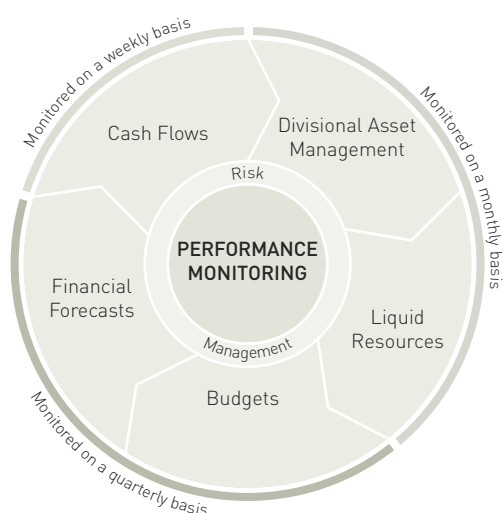
** With effect from 8 March 2016

‡ Appointed 7 March 2017

PRINCIPAL ACTIVITIES OF THE BOARD IN 2016

March	May	August	November
Key Agenda items			
Approval of the Annual Report and Accounts 2015, April tender offer and notice of AGM	Nominations Committee established	Approval of the Half-Yearly Financial Report and September tender offer	Approval of 2017 Budget and Forecasts for 2018 to 2020
Approval of going concern and viability statements		Approval of going concern statement	Review of Internal Controls and Risk Management
Report on Vauxhall Square development and strategy		Establishment of a Disclosure Committee	
		Results on the Staff Satisfaction Survey	
Reports from: Audit Committee on Annual Report and feedback from auditors Remuneration Committee on bonus plan	Group policies update	Report from the Audit Committee on the Half-Yearly Financial Report and feedback from auditors	Reports from: Non-Executive Directors' Committee providing feedback on Board Evaluation Audit Committee on the audit planning process and audit matters
Keeping the Board updated through presentations			
UK Valuers Group Treasurer on current borrowing market and trends		UK valuers Vauxhall Square Valuers Report on impact of Brexit	French valuers German valuers
Standing Agenda Items			
Executive Reports covering markets, investments, portfolio developments, financing and operational matters			
Corporate Governance, including monitoring of principal risks and uncertainties, internal controls and risk management, health and safety and investor relations			

Performance Monitoring



Conflicts of Interest

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

Meetings

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

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

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

Insurance

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

Division of Responsibilities

The responsibilities of the Executive Chairman, who is responsible for the overall strategy of the Group, the 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 specifically 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. From 1 January 2016, the Executive Vice Chairman carried out his responsibilities on a part-time basis. On 8 March 2016 the role of Executive Vice Chairman reverted to a non-executive role and a revised statement was subsequently approved.

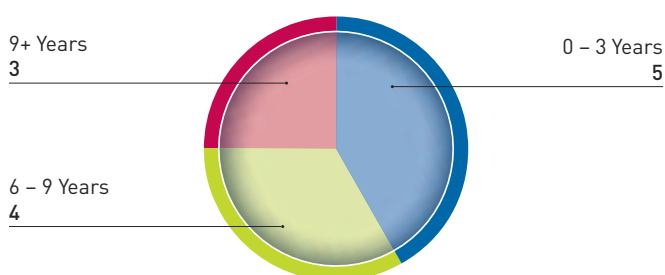
Non-Executive Directors

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

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

EFFECTIVENESS

Tenure of the Board



The Board is assisted by the Audit, Remuneration and Nominations Committees, the terms of reference for which can be obtained from the Company Secretary or our website.

Independence

Guidance to the Code recommends that for FTSE 350 companies at least half the Board, excluding the Chairman, should comprise independent Non-Executive Directors.

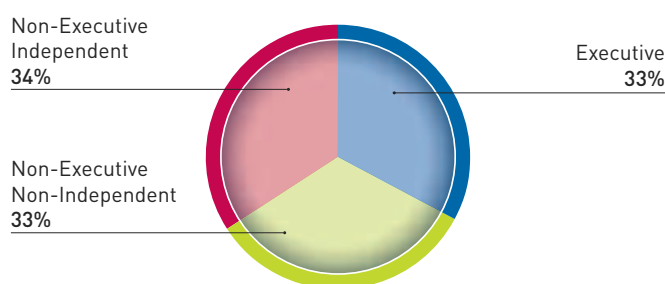
At the year end, the Board comprised four Executive Directors, four independent Non-Executive Directors and four other Non-Executive Directors. The Company was not compliant, therefore, with

provision B.1.2. However, the Board considers that having a mix of Non-Executive Directors who are either "independent" as defined by the Code, or have an in-depth knowledge of the Company, provides better oversight and governance than having predominantly independent Non-Executive Directors.

In accordance with provision B.2.3, the Board undertook a rigorous review as to whether it considered Malcolm Cooper and Christopher Jarvis to be independent, having served on the Board for more than six years. Based on Mr Cooper's current full time role with National Grid plc, and Mr Jarvis's full time role with Jarvis and Partners, together with the amount of time dedicated to their roles as a Non-Executive Director and their contributions to the Board in discussions generally, the Board were satisfied that they maintained the necessary levels of independence in addition to the Code's independence criteria.

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

Directors Independence



Appointments to the Board

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

On 7 March 2017, Mr 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 Mr Philip Mortstedt left the Board.

Nominations Committee

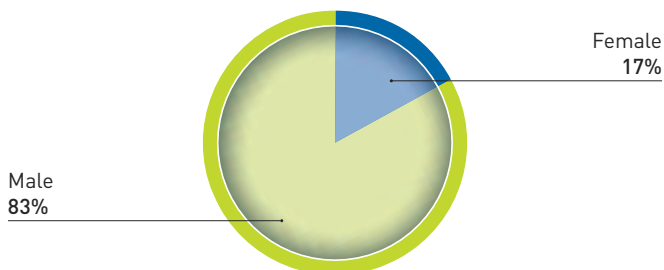
As recommended by the Code, in May 2016 the Board established a Nominations Committee to lead the process for Board appointments and make recommendations to the Board. Its members were Sten Mortstedt, Committee Chairman, Anna Seeley, Elizabeth Edwards and Lennart Sten. Whilst the Nominations Committee was not fully compliant with provision B.2.1, its composition was deemed appropriate as it reflected the Company's shareholder base and also provided a balanced independent perspective.

Following the annual board evaluation in November, and having had regard to stakeholder feedback, the Committee received the views of the Board in relation to succession planning, and its balance of skills, knowledge and experience. Since the year end the Nominations Committee met to consider the appointment of Mr Bengt Mortstedt and the departure of Mr Philip Mortstedt. The Committee believed that Bengt Mortstedt would bring a broad experience of the property industry and knowledge of the Company which would enhance the composition and balance of the Board.

Diversity

In accordance with the Company’s policy on diversity, it will continue to make changes to its composition irrespective of gender or any other form of discrimination and to appoint the best candidate to the post. It, therefore, considers that setting measurable objectives based on diversity would not be in the best interests of the Group.

Board Gender Diversity



Board Evaluation

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

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

The key themes arising from this year’s evaluation, which will form an action plan for 2017, were: to continue to review succession planning in respect of employees below Board level; to continue to improve the Board’s interaction with all employees; to continue to hold meetings with only the Non-Executive Directors and the Executive Chairman present; and to receive additional information on employee issues.

The Board notes provision B.6.2 of the Code, requiring an externally facilitated evaluation for FTSE 350 companies every three years under which the Company would not require an externally facilitated evaluation until December 2017.

Information, Support and Development

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

Directors are able to obtain independent professional advice at the Company’s expense and have access to the services of the Company Secretary. They are given appropriate training and assistance on appointment to the Board and later, if 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 Property in each of the UK, France and Germany so as to understand the portfolio. Board members also attended site visits to properties.

Re-election

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

All Directors are subject to election by shareholders at the first Annual General Meeting following their appointment. In accordance with the Code’s requirements for FTSE 350 companies, all directors must seek re-election by shareholders annually. Accordingly, all Directors will be seeking election or re-election at the forthcoming Annual General Meeting. Their details are contained in the Directors’ Report on pages 36 and 37.

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

ACCOUNTABILITY

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

The Audit Committee

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

Full details of the Committee’s work are given in the Audit Committee’s Report on page

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Risk Management and Internal Control

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

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

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

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

Internal Controls

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

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

The Audit Committee assists the Board in the discharge of its duties regarding the Group's financial reports and provides a direct link between the Board and the Company's Auditor through regular meetings. The Board has requested that the Audit Committee reviews the content of the Annual Report and Accounts and advises it on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. Following its 2016 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 27 is the Strategic Report, describing the Group's operations and the strategy which it employs to maximise returns and minimise risks.

Risks

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

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

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

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

Viability Statement

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

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

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

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

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

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

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

REMUNERATION

The Remuneration Committee

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

Full details of the Committee's work are given in the Remuneration Report on page

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RELATIONS WITH SHAREHOLDERS

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

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

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

All financial reports and press releases are also included on the Group's website at www.clsholdings.com.

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

Proxy Voting

The proxy forms for the Annual General Meeting and General Meetings which were held in 2016 included a "vote withheld" box. Details of the proxies lodged for these meetings were announced to the London Stock Exchange and are on the Company's website at www.clsholdings.com. Shareholders may also choose to register their vote by electronic proxy on the Company's website.

At the 2017 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.

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 65, as at 8 March 2017 the Company has been notified of the following interests above 3% in the Company's issued share capital:

	No. of shares	%
FIL Limited	3,557,331	8.73%
Bengt Mortstedt	2,807,255	6.89%
F&C Asset Management plc	2,124,509	5.21%
Schroder Investment Management Limited	1,796,075	4.40%

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

RELATIONSHIP AGREEMENT

In April 2016, the Company was informed that Sten Mortstedt had undertaken a reorganisation of certain companies of which he was the sole direct and beneficial owner Mr Mortstedt transferred all of his shareholdings to Creative Value Investment Group Limited ("CVIG"), which at the time of such transfer was directly held and beneficially owned by him (the "Transaction"). Immediately following the Transaction, Mr Mortstedt settled his entire shareholding in CVIG into The Sten and Karin Mortstedt Family & Charity Trust, in which Mr Mortstedt has a beneficial interest.

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

As at 31 December 2016, CVIG held 50.99% of the Company's shares in issue, and was therefore seen as a controlling shareholder under the Listing Rules.

The relationship agreement 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, Mr Mortstedt and, since 28 April 2016, CVIG has also complied.

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

A change of control of the Company may cause a number of agreements to which the Company or its active subsidiaries is party, such as commercial trading contracts, banking arrangements, property leases and licence agreements, to 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.

JOINT VENTURE AND ASSOCIATES

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

DIRECTORS' RESPONSIBILITIES

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation, and have elected to prepare the parent company financial statements in accordance with FRS101 of United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

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

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

This statement of responsibilities was approved by the Board on 8 March 2017.

On behalf of the Board

David Fuller BA FCIS

Company Secretary

8 March 2017

REMUNERATION COMMITTEE REPORT

for the year ended 31 December 2016

ANNUAL STATEMENT

Dear Shareholder,

As the Chairman of the Remuneration Committee, I am pleased to present the report of the Board covering our revised Directors' Remuneration Policy and the implementation of our existing policy for the year ended 31 December 2016.

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

- The Annual Statement by the Remuneration Committee Chairman;
- The revised Directors' Remuneration Policy; and
- The Annual Report on Remuneration setting out in more detail payments and awards made to the Directors under the existing Remuneration Policy and the link between Company performance and remuneration for the 2016 financial year.

2016 Company Performance

As set out in the Chairman's Statement, our 2016 results reflected a positive year for the Group with EPRA earnings per share and EPRA NAV rising to their highest ever levels and the vacancy rate and cost of debt fell to record lows.

2016 Remuneration Outcomes

The Company's pay structure is clear, 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 lower pay outcomes in 2016. This ensured that the 2016 remuneration outcomes fairly reflect our corporate performance.

The main remuneration outcomes are given below:

- Executive salaries will be increased by the Group employee average rate of 2.7% for 2017;
- Non-Executive fee levels will be increased by 9% for 2017, which reflects their increased responsibilities since the Company joined the FTSE 250 index, and the comparatively low level of fees currently;
- As outlined above and in more detail in the Strategic Report, the Committee determined that all but one of the Key Performance Indicators (KPIs) for 2016 had been met and that Performance Incentive Plan (PIP) plan account contributions of 76% and 73.5% of maximum to Mr Widlund and Mr Whiteley accurately reflected the performance of the Group through 2016;
- The KPI that fell short of the target was TSR at -13.8%. In line with not achieving this KPI no contribution was made to the Executive Director's PIP accounts for 2016 in respect of this element. This performance level was also below the minimum threshold performance level in respect of the forfeiture provision on deferred PIP amounts. However, the Committee has determined that it will exercise its discretion not to apply forfeiture to the deferred PIP balance after undertaking a holistic assessment of the Company's underlying financial and strategic performance for 2016 and against the backdrop of significant value creation (both absolute and relative) for shareholders since the introduction of the PIP (159% TSR growth compared with 92% for FTSE350 Real Estate Index);

- During the year, the Committee were made aware of a minor error in the calculation of the budgeted forecast Administration Cost Ratio (as % of net rental income) against which the respective 2016 targets were set. It was agreed that the 2016 KPI targets should be recalibrated and adjusted downwards on a pro-rated basis by 80 basis points. The Committee felt that the revised targets were more challenging given the information provided by the Company;
- As set out in last year's Report, meeting the KPI targets would also have triggered the release of a further 5,000 shares as part of Mr Widlund's appointment as Chief Executive Officer. On the basis that not all of the KPI targets were met, no shares were released during 2016 and this element of the award lapsed. There are no further recruitment remuneration awards for Mr Widlund; and
- The Committee determined that Henry Klotz's outstanding contribution to the Company over 2016 had not been fully recognised through his Executive Chairman fee given that he did not participate in any incentive arrangement for 2016. To recognise his exceptional contribution to the Company during 2016, the Remuneration Committee determined that Mr Klotz should receive a one-off, exceptional £160,000 cash payment equivalent to 80% of his Executive Chairman fee. This award is subject to shareholder approval at the 2017 AGM.

In our assessment, the overall remuneration payments for 2016 represent a balanced outcome. The annual report on remuneration together with this annual statement is subject to an advisory shareholder vote at the 2017 AGM.

2017 Remuneration Policy

The Remuneration Policy disclosed in this report has been revised during the year and will be put to shareholders for approval at the 2017 AGM, in line with normal timescales.

The variable element of our existing Policy is provided through the PIP which provides a combination of annual cash payouts and a deferral into Company shares. The Company has not operated a traditional UK long-term incentive plan in the past due:-

- to the cyclical nature of the business making the setting of long-term performance targets challenging;
- the desire of the Committee to use a holistic approach to performance measurement (in practice the number of measures which can be used with an LTIP are limited due to the need to disclose at grant for a three year period); and
- the Committee's objective of operating a simple incentive programme.

However, after undertaking a remuneration review the Committee believes that the inclusion of an additional element to the PIP which retains the advantages of the current Plan but is paid in long-term equity will help generate an appropriate focus by the executives on ensuring annual performance flows through to long-term sustainable performance.

As explained in the Executive Chairman's statement, the Company aims to grow the property portfolio significantly over the next five years in order to generate long-term returns to shareholders. In order to support the strategy the Committee believes that the new Remuneration Policy should retain, motivate and reward executives to deliver this strategic objective and facilitate the recruitment of key talent. This breaks down into the following:-

- in order to ensure the achievement of the Company's key strategic objectives, the executives 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 executives given the recent changes to the Board structure which means their continued retention is key for the on-going success and growth of the Company;
- the alignment of the executives with the shareholder experience 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 market competitive compared to peers in the FTSE 250 real estate sector. The Committee review of the current Policy highlighted that there was a remuneration gap to the market. Therefore, the introduction of new equity elements under the PIP helps to ensure a more competitive market positioning provided that the executive team deliver the annual performance objectives and that these lead to long-term sustainable performance;
- the requirement of the new Policy to reflect the diverse nature of roles on the Executive Board and an increased time commitment for some of those roles; and
- there are no changes to base salary, pension and benefits for the Executive Directors beyond the standard awards for all employees.

As such, we have made some changes to the previous Remuneration Policy (see below) which are primarily designed to address these issues:

- Introduction of PIP Element B which provides an annual award of shares up to 100% of salary vesting after 3 years with a further 2 year holding period. Award levels will be determined against the same annual scorecard of performance targets as Element A. The Committee believes that the advantages of this new Element B are:
 - Annual assessment of performance allowing:-
 - Incorporation of a wider range of operational and strategic objectives;
 - Assists in the management of any cyclicalities in the business.
 - Simple.
 - Retentive as the sole condition once the deferred shares have been earned over the period of deferral is continued employment.

- One of the alternative models suggested by the Executive Reward Working Group in their report.
- Supportive of corporate governance and best practice:-
 - Simplicity;
 - Deferral of a proportion of annual bonus in shares supporting the alignment of the interests of executives and shareholders;
 - The support of the build-up of a long-term locked in shareholding by executives;
 - The facilitation of malus and clawback by having a significant amount of the incentives earned deferred in shares and under the control of the Company post the determination of the bonus for a particular year.
- Increases the competitive position of the Company.
- No material change to the existing PIP which continues to provide a combination of annual cash payouts and deferral into Company shares subject to forfeiture provisions with a maximum annual contribution of 150% of salary (this is now termed Element A). The forfeiture provisions under Element A of the PIP will now be based on the Committee's holistic assessment of performance. The Committee feels that this change will provide it with the ability to ensure that pay outcomes in any year will be commensurate with long-term Company performance. The Committee believes that the advantages of Element A have been already proved and are largely the same as for Element B above;
- Increased shareholding requirement of 250% of salary for Chief Executive Officer and 150% of salary for Executive Chairman and Chief Financial Officer;
- Introduction of an all employee share plan whereby participants can benefit from 1 Matching Share for each Partnership Share purchased; and
- Clarifying the difference in policy between the founder shareholder and the other Executive Directors in the policy table to reflect the diverse nature of roles on the Executive Board and an increased time commitment for some of those roles. This clarification results in no change in remuneration level.

The Committee also undertook its annual review of the appropriateness of the Key Performance Indicators (KPIs) that form the basis of Executive Directors' bonuses under the Performance Incentive Plan (PIP) and their associated targets, which also formed part of the shareholder consultation.

The Committee received information from its advisers and brokers and considered market forecasts and shareholder responses to its consultation. We concluded that a differential in weightings of the KPIs between the CEO and CFO should be retained, that some targets needed to be reset and there should be fewer KPIs overall whilst still maintaining a good spectrum of Group performance. The Committee decided that the Return on Equity, NAV Growth and Core profit over budget KPIs should be removed to avoid duplication or the potential for short term decision making. Following shareholder feedback, the scorecard weightings were rebased to focus on TSR, with the additional relative TSR KPI measure such that there was a clear alignment between management and shareholders' interests.

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2016

The Administration Cost Ratio KPI targets for 2017 were tightened such that they were realigned with the Group budget. The EPRA NAV Growth and Absolute TSR KPIs have been marginally relaxed to take account of market conditions and forecasts. The Committee considers that they remain sufficiently challenging but attainable. The amendments to the targets and removal of three KPIs and the addition of the relative TSR KPI are set out on pages 67 and 68.

The Committee undertook a thorough and detailed consultation with our major shareholders in relation to these changes and received positive responses. We are confident that we have created a Remuneration Policy that balances the needs and expectations of management and shareholders, links directly to the Company's strategy and continues to provide the Committee with the ability to deal with the uncertainty of the real estate sector. I very much hope you will support our proposed Remuneration Policy at the 2017 AGM.

Membership

The Committee's membership remains unchanged, comprising three independent Non-Executive Directors.

The Committee met once during 2016 although it held a number of informal discussions with Executive Directors and the Sten and Karin Mortstedt Family and Charity Trust during the year.

Committee members attendance during the year ended 31 December 2016

Chris Jarvis (Chairman)	1/1
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Malcolm Cooper	1/1
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Lennart Sten	1/1
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Remuneration Committee regular attendees for part (by invitation)

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

PART 1: POLICY ON DIRECTORS REMUNERATION

THE PRINCIPLES OF OUR REMUNERATION POLICY

Competitive

Total remuneration should be competitive when compared with industry peers and companies of similar size and scale.

Performance linked

A significant part of the Executive Directors' reward is determined by the Company's success. Failure to achieve threshold levels of performance may result in both no bonus under the PIP and partial forfeiture of earned deferred elements from previous years. The fixed element of the Policy remain conservative against industry and cross-sector peers.

Shareholder aligned

A considerable part of the reward is paid in shares that have to be retained until minimum shareholding requirements have been met and in the case of Element B for 5 years from grant.

Simple and transparent

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

NEW POLICY

In accordance with the regulations, a new Policy on Directors' Remuneration (the "Policy") as set out below will operate from 1 January 2017 and be put to a binding shareholders vote and become formally effective if approved at the 2017 Annual General Meeting in April. The existing Policy, which was approved on 16 April 2014, remains operative until this time and can be found on our website at www.clsholdings.com and on pages 48 to 56 of our 2013 Annual Report.

The Company's policy on remuneration is to set overall remuneration packages at a level sufficient to attract, retain and incentivise high calibre staff with a view to enhancing long-term shareholder value. The Committee also considers the level of pay and employment conditions throughout the Group when setting Executive Directors' remuneration, consistent with the Company's general aim of seeking to reward all employees fairly according to the nature of their role, their performance and market forces.

The Committee will review the remuneration arrangements for the Executive Directors and key senior management periodically in line with the three year Policy cycle, drawing on trends made to all employees across the Group and taking into consideration the following factors:

- the business's strategy over the period;
- overall corporate performance;
- market conditions affecting the Company.

The Committee uses the following comparators for executive remuneration:

- FTSE 350 Real Estate Supersector
- U + I plc, Helical Bar plc, Hansteen plc, Workspace Group plc, St Modwens plc, Londonmetric plc, Grainger plc, Shaftsbury plc, Great Portland Estates plc, Derwent London plc. These companies are of a similar size and/or complexity to the Group, but the comparator group is kept under review as different companies enter the market or change their size or the main characteristics of their business; and
- FTSE 250
- changing practice in the international market where the Company competes for talent;
- pay conditions elsewhere in the Group;
- changing views of institutional shareholders and their representative bodies; and
- the recruitment market.

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2016

Key components of Directors' Remuneration

Element	Purpose and Link to Strategy	Operation	Opportunity	Performance Matrix
Executive Directors (excluding the Founder Shareholder)				
Base Salary	<p>Provides a base level of remuneration to support recruitment and retention of Directors with the necessary experience and expertise to deliver the Group's strategy.</p> <p>Key element of core fixed remuneration.</p>	<p>Reviewed annually and usually fixed for 12 months commencing 1 January.</p> <p>Factors taken into account include:</p> <ul style="list-style-type: none"> • remuneration practices within the Group; • the general performance of the Group; • experience and individual performance; • changes in the scale, scope or responsibilities; • salaries within the ranges paid by the companies in the comparator groups used for remuneration benchmarking (when the Committee determines a benchmarking exercise is appropriate); and • the economic environment. 	<p>Competitive in the range for the Company's comparator groups.</p> <p>The Committee intends to review the list of companies each year and may add or remove companies from the groups as it considers appropriate. Any changes to the comparator groups will be disclosed in the part of the report setting out the operation of the policy for the future year.</p> <p>In general salary rises to Executive Directors will be in line with the rise to UK based employees.</p> <p>Maximum increase of 5% of salary per annum unless there is a significant change to the role and responsibilities.</p>	<p>None, although individual's performance and contribution are taken into account.</p>
Benefits	<p>Provides a base level of remuneration to support recruitment and retention of Directors with the necessary experience and expertise to deliver the Group's strategy.</p>	<p>The key benefits provided to the Executive Directors include private medical insurance, life insurance, income protection, gym contribution and staff lunch provision.</p> <p>The Committee recognises the need to maintain suitable flexibility in the determination of benefits that ensure it is able to support the objective of attracting and retaining personnel. Accordingly, the Committee would expect to be able to adopt benefits such as relocation expenses, tax equalisation and support in meeting specific costs incurred by Directors to ensure the Company and the individuals comply with their obligations in the reporting of remuneration.</p>	<p>Market level in the range for the Company's comparator groups.</p> <p>The maximum will be set at the cost of providing the benefits described.</p>	<p>None.</p>
Pensions	<p>Provides a standard UK market level of retirement funding to enable the Company to recruit and retain Directors with the experience and expertise to deliver the Group's strategy.</p>	<p>Employer retirement funding is determined as a percentage of gross basic salary, up to a maximum limit of 10%. Where this exceeds the maximum annual pension contribution that can benefit from tax relief, any excess may be provided in the form of a salary supplement, which would not itself be pensionable or form part of salary for the purposes of determining the extent of participation in the Company's incentive arrangements.</p>	<p>Market level in the range for the Company's comparator groups.</p> <p>The maximum Company contribution is 10%. The maximum employee contribution is 5%.</p>	<p>None.</p>

Key components of Directors' Remuneration (continued)

Element	Purpose and Link to Strategy	Operation	Opportunity	Performance Matrix
All employee share plan	<p>The Company's Share Incentive Plan ("SIP") allows all employees, including Executive Directors, to share in the potential value created by the Company.</p> <p>Increase share ownership throughout the organisation.</p>	<p>In line with the legislation for this type of plan.</p>	<p>The maximum opportunity will be in line with the limits set by HMRC.</p>	<p>None.</p>
Performance Incentive Plan (the 'PIP')	<p>The PIP provides a significant incentive to the Executive Directors linked to achievement of delivering goals that are closely aligned with the Company's strategy and the creation of value for shareholders. In particular, the PIP supports the Company's objectives by:</p> <ul style="list-style-type: none"> allowing the setting of annual targets based on the businesses' strategic objectives at that time, meaning that a wider range of performance metrics can be used that are relevant and suitably stretching whilst also providing sufficient incentive linked to potential to be achievable; providing substantial deferral in shares and ongoing adjustment by requiring a threshold level of performance to be achieved during the deferral period. Amounts deferred in shares are also forfeitable on a Director's voluntary cessation of employment which provides an effective lock-in; and enables the Company to recruit top executive talent in a highly competitive market. 	<p>The PIP consists of two elements (Element A and Element B);</p> <p>A. an immediate element in cash and/or shares; and</p> <p>B. deferred share-based element subject to pre-grant annual performance assessment, which is subject to a 3 year vesting period and a further 2 year holding period.</p> <p>Market Standard malus and clawback provisions apply to the PIP (all Elements)</p> <p>Under Element A, there are forfeiture provisions if minimum thresholds are not achieved. This holistic assessment will take account of relative TSR, absolute TSR, strategic, financial and operational performance.</p> <p>The Committee has discretion to provide dividend equivalents on Element A and B shares.</p>	<p>Maximum 250% of salary (150% of salary under Element A and 100% of salary under Element B).</p> <p>At threshold 41% of the maximum is payable.</p> <p>At on target 68% of the maximum is payable.</p>	<p>The performance metrics for both elements of the PIP are set individually by the Committee and are based on a combination of measures, based on the Company's KPIs (the performance conditions for the 2016 financial year will be detailed in the Annual Remuneration Report as will the conditions for 2017 in the section on how the policy will be operated for the future year). The PIP is measured over a period of one financial year.</p> <p>In order for the Company to be successful, the Committee believes Executive Directors should be focused on the delivery of the Company's strategic and operational KPIs which is the basis on which performance conditions are selected for the PIP.</p> <p>The Committee retains discretion in exceptional circumstances to change performance measures and targets for each element and the weightings attached to performance measures part-way through a performance year if there is a significant and material event which causes the Committee to believe the original measures, weightings and targets are no longer appropriate. Discretion may also be exercised in cases where the Committee believe that the PIP outcome is not a fair and accurate reflection of business performance.</p>

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2016

Element	Purpose and link to strategy	Operation	Opportunity	Performance Matrix
Founder Shareholder				
Base Salary	As above.	As above.	As above.	As above.
Other remuneration	Provides for specific duties outside letter of appointment	Approval by the Remuneration Committee of any fees and the basis of these fees, which will be disclosed in full to shareholders.	Market rates.	None.

Non-Executive Directors (including Non-Executive Chairman and Non-Executive Vice Chairman)

Element	Purpose and Link to Strategy	Operation	Opportunity	Performance Matrix
Fees	Provides a level of fees to support recruitment and retention of Non-Executive Directors with the necessary experience to advise and assist with establishing and monitoring the Group's strategic objectives.	<p>Fees are reviewed annually and fixed for 12 months commencing 1 January. The fees are based on equivalent roles in the comparator groups used to review salaries paid to the Executive Directors. Fees are set at a competitive level to the comparator groups.</p> <p>The Board as a whole is responsible for setting the remuneration of the Non-Executive Directors.</p> <p>Non-Executive Directors are paid a base fee and additional fees for chairmanship and membership of committees and other specific work outside their role as a Non-Executive Director. The Senior Independent Director also receives an additional fee.</p>	<p>Competitive in the range for the Company's comparator groups.</p> <p>Non-Executive Directors do not participate in any variable remuneration or benefits arrangements.</p> <p>Fees related to consultancy will be agreed in advance and no higher than the market rate.</p> <p>In general the level of fee increase for the Non-Executive Directors and will be set taking account of any change in responsibility and the general rise in salaries across employees.</p> <p>The Company will pay reasonable expenses incurred by the Non-Executive Directors and may settle any tax incurred in relation to these. Other benefits include travel, accommodation and membership subscriptions related to the Company's business.</p>	None.

Notes to the Policy Table

1. Performance Incentive Plan

Currently only the Chief Executive Officer and Chief Financial Officer will participate in the PIP; the Founder Shareholder and the Executive Chairman do not participate.

The Executive Chairman Henry Klotz was previously a participant in the PIP but upon transferring from the full time role of Executive Vice Chairman to part time Executive Chairman, it was determined that he would no longer participate in the PIP. At present, it is not anticipated that he will participate in the PIP in the future.

2. Shareholding Requirement

Within five years of approval of the revised Remuneration Policy, Executive Directors are expected to hold Company shares with a value of 250% of basic salary in respect of the Chief Executive Officer and 150% of basic salary in respect of the Executive Chairman and Chief Financial Officer. The Committee takes into consideration achievement against these targets when making awards under the PIP.

3. Changes from existing Remuneration Policy

Element	Proposed Policy and operation for 2017
Base Salary	Introduction of 5% maximum increase per annum.
Performance Incentive Plan ("PIP")	<p>Policy revised to incorporate PIP Element B (where Element A has the same structure as the current PIP). Both elements are outlined below:</p> <p>Element A</p> <ul style="list-style-type: none"> • Maximum annual contribution into a Participant's Plan Account of 150% of salary; • Contributions will be earned based on the Corporate 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. <p>Element B</p> <ul style="list-style-type: none"> • 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 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. • It is proposed that the first grants under Element B will be made in 2017 based on the level of satisfaction of the Element A targets set for 2016
All Employee Share Plan	The Company is proposing to introduce a Share Incentive Plan ("SIP") to allow all employees, including Executive Directors, to share in the potential value created by the Company.
Founder Shareholder	<p>The founder shareholders' remuneration package will consist of the following elements :</p> <ul style="list-style-type: none"> • Base salary in line with the other Executive Directors; and • In certain circumstances the Company may pay additional fees for specific duties outside the letter of appointment. Any fees and the basis of these fees will be disclosed in full to shareholders.

There are no changes to the Policy in relation to Non-Executive Directors' remuneration.

Discretion

The Committee has discretion in several areas of the Policy as set out in this report. The Committee may also exercise operational and administrative discretion under relevant plan rules approved by shareholders. In addition the Committee has the discretion to amend the policy with regard to minor or administrative matters where, in the opinion of the Committee, it would be disproportionate to seek or await shareholder approval.

It is the Committee's intention that commitments made in line with its policies prior to the date of the 2017 AGM will be honoured, even if satisfaction of such commitments is made after the AGM and may be inconsistent with the above policies. Such commitments include but are not limited to any deferred balances already held in the PIP. Such commitments remain subject to the share plan rules and terms and conditions under which they were granted.

Differences in policy from the wider employee population

The Group aims to provide a remuneration package for all employees which is market competitive and operates the same core structure as for Executive Directors, with the exception of Element A of the Performance Incentive Plan. It is the Company's intention that Element B of the Performance Incentive Plan will extend to Senior Management within the Company, with the number of employees eligible to participate being approximately 12. The Company's remuneration philosophy for all management from the Executive Directors downwards is that all employees should have a significant annual element of performance-based pay with part provided in deferred shares to ensure a focus on long-term sustainable value creation and to align their experience with those of shareholders.

For all employees, the Group operates a performance-based discretionary bonus scheme and a loyalty bonus scheme based on employment longevity. The Company is also proposing to launch a Share Incentive Plan (SIP) in order to increase levels of share-ownership throughout the Company and allow employees to share in the success of the Company in a tax-efficient manner.

Additionally the Group's pension contributions to an employee's pension scheme are determined by their length of service from a minimum of 5% up to a maximum of 10%.

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2016

Approach to Recruitment Remuneration

The Committee's approach to recruitment remuneration is to pay no more than is necessary to attract candidates of the appropriate calibre and experience needed for the role. The remuneration package for any new recruit would be assessed following the same principles as for the current Executive Directors. The Committee is mindful that it wishes to avoid paying more than it considers necessary to secure the preferred candidate and is aware of guidelines and shareholder sentiment regarding one-off or enhanced short or long-term incentive payments made on recruitment and the appropriateness of any performance conditions associated with an award.

Where an existing employee is promoted to the Board, the Policy would apply from the date of promotion but there would be no retrospective application of the Policy in relation to subsisting incentive awards or remuneration arrangements. Accordingly, prevailing elements of the remuneration package for an existing employee would be honoured and form part of the ongoing remuneration of the employee. These would be disclosed to shareholders in the following year's Annual Report on Remuneration.

The Company's detailed policy when setting remuneration for the appointment of a new director is summarised in the table below:

Remuneration element	Recruitment policy
Base salary and benefits	The salary level will be set taking into account the responsibilities of the individual, experience and the salaries paid to similar roles in comparable companies. The Committee will apply the Policy set out on salaries for the current Executive Directors in the Remuneration Policy table. The Executive Director shall be eligible to receive benefits in line with the Company's benefits policy as set out in the Remuneration Policy table.
Pension	The Executive Director will be entitled to receive contributions into a pension plan or alternatively to receive a supplement in lieu of pension contributions in line with Company's pension policy as set out in the Remuneration Policy table.
PIP	The Executive Director will be eligible to participate in the PIP as set out in the Remuneration Policy table. The maximum potential opportunity under this Plan is 250% of salary.
Maximum Variable Remuneration	The maximum variable remuneration which may be granted is 250% of salary under the PIP (excluding the value of any buy-out awards).
"Buy Out" of incentives forfeited on cessation of employment	<p>The Company's policy is not to provide buy-outs as a matter of course. However, should the Committee determine that the individual circumstances of recruitment justifies the provision of a buy-out, the equivalent value of any incentives to be forfeited on cessation of a previous employment will be calculated taking into account the following:</p> <ul style="list-style-type: none">• the proportion of the performance period completed on the date of the Executive Director's cessation of employment;• the performance conditions attached to the vesting of these incentives and the likelihood of them being satisfied; and• any other terms and condition having a material effect on their value ("lapsed value"). <p>The Committee may then grant up to the equivalent value as the lapsed value, where possible, under the PIP. To the extent that it was not possible or practical to provide the buy-out within the terms of the Company's PIP, a bespoke arrangement would be used.</p>
Relocation Policies	<p>Where the new Executive Director is required to relocate from one work-base to another, the Company may provide one-off/ongoing compensation as part of the Director's relocation benefits to reflect the cost of relocation for the Executive Director in cases where they are expected to spend significant time away from their country of domicile.</p> <p>The level of the relocation package will be assessed on a case by case basis but will take into consideration any cost of living differences/housing allowance and schooling.</p>

The Company's policy when setting fees for the appointment of new Non-Executive Directors is to apply the Policy which applies to current Non-Executive Directors.

Directors' Service 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.

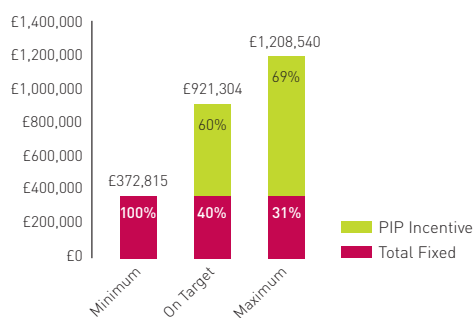
Details of the service contracts or letters of appointment of those who served as Directors during the year are as follows:

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

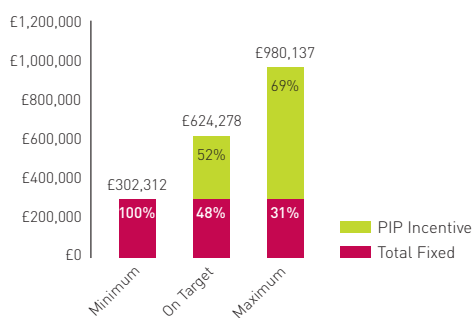
Executive Directors are not permitted to hold external directorships or offices without the prior approval of the Board. If approved, they may each retain the fees payable.

Illustration of application of Remuneration Policy

CEO



CFO



Element	Minimum	On Target	Maximum
Salary	2017 Base Salary	2017 Base Salary	2017 Base Salary
Pension and benefits	Included in Salary figure. Pension is 10% of Base Salary	Included in Salary figure. Pension is 10% of Base Salary	Included in Salary figure. Pension is 10% of Base Salary
PIP Incentive (Element A and Element B)	0%	68%	100%

As per the Policy, the Executive Chairman and Executive Director (Founder Shareholder) do not participate in the PIP incentive arrangements.

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2016

Policy on Payment for loss of office

When determining any loss of office payment for a departing director the Committee will always seek to minimise the cost to the Company whilst complying with the contractual terms and seeking to reflect the circumstances in place at the time. The Committee reserves the right to make additional payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation); or by way of settlement or compromise of any claim arising in connection with the termination of an Executive Director's office or employment.

Remuneration element	Approach	Application of Committee discretion
Salary and benefits	<p>In the event of termination by the Company, there will be no compensation for loss of office due to misconduct or normal resignation.</p> <p>In other circumstances, Executive Directors may be entitled to receive compensation for loss of office which will be a maximum of twelve months salary.</p> <p>Such payments will be equivalent to the monthly salary and benefits that the Executive Director would have received if still in employment with the Company. These will be paid over the notice period. Executive Directors will be expected to mitigate their loss within a twelve month period of their departure from the Company.</p>	The Company has discretion to make a lump sum payment in lieu.
Pension	Pension contributions or payments in lieu of pension contribution will be made during the notice period.	The Company has discretion to make a lump sum payment in lieu.
Element A of the PIP	<p>For the Year of Cessation <i>Good leavers:</i> Performance conditions will be measured at the measurement date. The Company bonus contribution will normally be pro-rated for the period worked during the financial year.</p> <p><i>Other leavers:</i> No Company bonus contribution payable for year of cessation.</p> <p>Deferred Balances in Participant's Plan Account <i>Good leavers:</i> The balance in the Participant's Plan account will be payable on cessation of employment.</p> <p><i>Other leavers:</i> The balance in the Participants' Plan Account will be forfeited on cessation of employment.</p>	<p>For the Year of Cessation <i>Discretion:</i> the Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> to determine that an Executive Director is a good leaver. It is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders; and to determine whether to pro-rate the Company bonus contribution to time. The Remuneration Committee's normal policy is that it will pro-rate for time. It is the Remuneration Committee's intention to use discretion not to pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders. <p>Deferred Balances in Participant's Plan Account <i>Discretion:</i> the Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> to determine that an Executive Director is a good leaver. It is the Remuneration Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders; to determine whether the payment of the balance of the Participant's Plan Account should be in cash or shares or a combination of both; to determine whether to pro-rate the balance of the Participant's Plan account payable on cessation. The Committee's normal policy is that it will not pro-rate. The Committee will determine whether to pro-rate based on the circumstances of the Executive Director's departure.

Remuneration element	Approach	Application of Committee discretion
Element B of the PIP	<p>For the Year of Cessation <i>Good leavers:</i> Performance conditions will be measured at the measurement date. The award will normally be pro-rated for the period worked during the financial year.</p> <p><i>Other leavers:</i> No Element B award for year of cessation.</p>	<p>For the Year of Cessation <i>Discretion:</i> the Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> to determine that an Executive Director is a good leaver. It is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders; to determine whether to pro-rate the Company award to time. The Committee's normal policy is that it will pro-rate for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders; to determine whether the Element B award will vest on the date of cessation or the original vesting date. The Committee will make its determination based amongst other factors on the reason for the cessation of employment; to determine whether to provide the Element B award in the form of cash or shares.
	<p>Subsisting Element B awards <i>Good leavers:</i> Element B awards will vest on their original vesting dates and remain subject to the sale restrictions.</p> <p><i>Other leavers:</i> Element B awards will be forfeited on cessation of employment.</p>	<p>Subsisting Element B Awards <i>Discretion:</i> the Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> to determine that an Executive Director is a good leaver. It is the Committee's intention to use this discretion only in circumstances where there is an appropriate business case which will be explained in full to shareholders; to determine whether to pro-rate the Element B award to the date of cessation. The Committee's normal policy is that it will not pro-rate. The Committee will determine whether to pro-rate based on the circumstances of the Executive Director's departure; to determine whether the Element B awards vest on the date of cessation or the original vesting date. The Committee will make its determination based amongst other factors on the reason for the cessation of employment.
Other contractual obligations	There are no other contractual provisions other than those set out above that could impact the quantum of the payment.	None.

A good leaver is a person whose cessation of employment is for one of the following reasons:-

- death;
- ill-health;
- injury or disability;
- redundancy;
- retirement;
- employing company ceasing to be a Group company;
- transfer of employment to a company which is not a Group company; and
- where the person is designated a good leaver at the discretion of the Committee (as described above).

A person who ceases employment in circumstances other than those set out above is designated an other leaver.

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2016

Change of Control

The Company's approach to payments from the PIP under a change of control is as follows:

Element	Approach	Application of Committee discretion
Element A	<p>For the Year of the Change of Control Performance conditions will be measured at the date of the change of control. The Company bonus contribution will normally be pro-rated to the date of the change of control.</p>	<p>For the Year of the Change of Control <i>Discretion:</i> the Committee has the following element of discretion:</p> <ul style="list-style-type: none"> to determine whether to pro-rate the Company bonus contribution to time. The Committee's normal policy is that it will pro-rate for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders.
	<p>Deferred Balances in Participant's Plan Account The balance in the Participant's Plan account will be payable on the change of control.</p>	<p>Deferred Balances in Participant's Plan Account <i>Discretion:</i> the Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> to determine whether the payment of the balance of the Participant's Plan Account should be in cash or shares or a combination of both; to determine whether to pro-rate the balance of the Participant's Plan account payable on change of control. The Committee's normal policy is that it will not pro-rate. The Committee will determine whether to pro-rate based on the circumstances of change of control.
Element B	<p>For the Year of the Change of Control Performance conditions will be measured at the date of the change of control. The award will normally be pro-rated to the date of the change of control.</p>	<p>For the Year of the Change of Control <i>Discretion:</i> the Committee has the following element of discretion:</p> <ul style="list-style-type: none"> to determine whether to pro-rate the Element B award to time. The Committee's normal policy is that it will pro-rate for time. It is the Committee's intention to use discretion to not pro-rate in circumstances where there is an appropriate business case which will be explained in full to shareholders.
	<p>Subsisting Element B Awards The awards will vest on the date of the change of control and the sale restrictions will fall away.</p>	<p>Subsisting Element B Awards <i>Discretion:</i> the Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> to determine whether the satisfaction of Element B awards should be in cash or shares or a combination of both; to determine whether to pro-rate Element B awards on change of control. The Committee's normal policy is that it will not pro-rate. The Committee will determine whether to pro-rate based on the circumstances of change of control.

Employment Conditions Elsewhere in the Group

The salary and benefits package provided to employees is taken into account when setting the Policy for executive remuneration. The Committee considers the general basic salary increases for the broader employee population when determining the remuneration for Executive Directors. It also considers the wider market conditions in order to ensure that employee remuneration below Board level remains competitive. The Committee has not expressly sought the views of employees and no remuneration comparison measurements were used when drawing up the Directors' Remuneration Policy. Through the Board, however, the Committee is updated as to employee views on remuneration generally.

Consideration of Shareholder Views

The Committee sought the views of shareholders on the 2017 Remuneration Policy incorporating the Performance Incentive Plan Element B and made some amendments following their responses in relation to the reduction of the number of KPIs, the addition of a relative TSR KPI and the amendment to the weightings for all scorecards to focus more heavily on Absolute and Relative TSR. In setting the Policy, the Committee is aware of the views of shareholders generally in relation to pay and aims to ensure that it is fair and reflective of market conditions and the ability to attract, retain and incentivise the best people to implement the Group's strategy. Any additional shareholder feedback is considered by the Committee and the Board as a whole.

PART 2: ANNUAL REPORT ON REMUNERATION

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2016

For the year ended 31 December 2016, the Group's existing 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 2016 financial year for each Executive Director:

2016	Salary £000	Taxable Benefits £000	Bonus ⁽⁴⁾		LTIP ⁽⁵⁾ £000	Pension £000	Other Fees £000	Total £000
			Cash £000	Deferred shares £000				
Henry Klotz ⁽¹⁾	192	23	160	–	–	2	–	377
Fredrik Widlund ⁽²⁾	354	5	186	198	81	4	–	828
John Whiteley	264	9	97	126	44	26	–	566
Sten Mortstedt ⁽³⁾	313	–	–	–	–	–	450	763

2015	Salary £000	Taxable Benefits £000	Bonus ⁽⁴⁾		LTIP ⁽⁵⁾ £000	Pension £000	Other Fees £000	Total £000
			Cash £000	Deferred shares £000				
Henry Klotz ⁽¹⁾	333	12	408	–	452	3	–	1,208
Fredrik Widlund ⁽²⁾	326	4	269	–	40	16	–	656
John Whiteley	256	7	103	–	243	26	–	635
Sten Mortstedt ⁽³⁾	359	–	–	–	–	–	425	784

- (1) Mr Klotz will receive a one-off cash bonus in respect of exceptional contribution during 2016. This payment is subject to shareholder approval at the 2017 AGM. The Remuneration Committee, on behalf of the Board, is of the opinion that Mr Klotz's contribution and time commitment has gone far beyond that expected at the time of his appointment to Executive Chairman and his agreed fee level. The one-off award level has been set such that it represents Mr Klotz's average historical award level under the PIP Element A (which over its five year life has paid out on average 82.5% of maximum). Hence, the award is commensurate with the bonus payments he has earned in recent years. Included in the Taxable Benefits column is a long service gift to the value of £9,249.
- (2) Mr Widlund received total pension contributions of £32,550 (2015: £31,000) of which £4,069 was paid into his SIPP and, in accordance with the Policy, £28,481 was paid as salary.
- (3) Companies associated with Mr Mortstedt provided consultancy services which related to specific advice which was outside the terms of Mr Mortstedt's contract of employment. The Committee has reviewed the fees for these services, and is of the opinion that the market rate for the services would have far exceeded the amount paid.
- (4) The Bonus total comprises 50% of the Element A 2016 contribution into the Director's Plan Account and the award made of deferred shares in respect of Element B (subject to shareholder approval) of the PIP (see below for details of calculations). The deferred shares do not vest until three years after the date of grant. In accordance with the Regulations, as the Element B award has not been granted at the date of this Report, 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 2016 of 1,559.9 pence.
- (5) The LTIP is the difference between the values calculated in (4) above in respect of PIP Element A and the 2016 payment (see page 63 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 24 March 2017. 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 2016 of 1,559.9 pence in accordance with the Regulations.

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

2016 PAYMENTS IN RESPECT OF THE PIP

The Remuneration Committee determined the 2016 PIP contribution and forfeiture outcomes during 2016. A summary of the 2016 KPIs and their achievement is as follows:

KPI	Maximum Forfeiture	Bonus/ Forfeiture Threshold	On Target Performance	Good Performance	Maximum Performance	2016 Achievement
Total Shareholder Return	5%	7%	12%	14%	16%	-13.8%
Effective management of the balance sheet (ROE)	5%	7%	12%	16%	20%	18.1%
Vacancy rate	10%	8%	5%	4%	3%	2.9%
Administration cost ratio (as % of Net Rental)	20.95%	18.95%	16.95%	14.95%	12.95%	14.9%
Personal Performance	2	2.5	4	4.5	5	Note 1
EPRA NAV Growth	0%	5%	7.5%	8.75%	10%	17.9%
NAV Growth	0%	5%	7.5%	8.75%	10%	18.8%
Core Profit over Budget	-10%	-5%	0%	5.00%	10%	18.9%

Note 1: 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 2016, the CEO and CFO received ratings of 4.38 and 3.82, 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.

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2016

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

KPI	Performance Breakdown (%)	
	CEO (Max Bonus Target)	CFO (Max Bonus Target)
Total Shareholder Return	30	20.0
Effective management of the balance sheet (ROE)	10	10.0
Vacancy rate	25	5.0
Administration cost ratio (as % of Net Rental)*	25	25.0
Personal Performance	15	10.0
EPRA NAV Growth	10	7.5
NAV Growth	10	7.5
Core Profit over Budget	25	15.0
Available Bonus Target as a % of salary	150	100.0

The following table sets out the calculation of the second payment under Cycle 2 of the PIP which is disclosed in the Bonus column of the Single Total Figure of Remuneration as the performance conditions are satisfied in respect of 2016:

KPI	Performance Breakdown	
	CEO £	CFO £
Total Shareholder Return growth	–	–
Effective management of balance sheet (ROE)	29,529	23,950
Vacancy rate	81,375	13,200
Administration cost ratio (as % of Net Rental)	70,938	57,535
Personal Performance Rating	42,770	20,169
EPRA NAV growth	32,550	19,800
NAV growth	32,550	19,800
Core Profit over Budget	81,375	39,600
2016 Total Bonus	371,087	194,054
Bonus as a % of Salary	114.0%	73.5%
Bonus Achieved as a % of Total Available Bonus	76.0%	73.5%

As set out in the table above, TSR performance fell short of the forfeiture threshold. In line with not achieving this KPI no contribution was made to the Executive Director's PIP accounts for 2016 in respect of this element. This performance level was also below the minimum threshold performance level in respect of the forfeiture provision on deferred PIP amounts. However, the Committee has determined that it will exercise its discretion not to apply the forfeiture to the deferred PIP balance after undertaking a holistic assessment of the Company's underlying financial and strategic performance for 2016. Since the introduction of the PIP, the FTSE 350 Real Estate Index grew by 92%, whilst the Company's TSR had been 159%, of which, through awards being capped annually, Directors had been paid for an increase of only 81%.

The following table sets out the 2016 Company contribution for each of the participants:

	CEO	CFO
Salary	325,500	264,000
Maximum Company Contribution	488,250	264,000
2016 Company Contribution	371,087	194,054
Percentage of Maximum Contribution earned	76.0%	73.5%

The following table sets out the contribution and deferred share balance for each of the participants:

	CEO	CFO
Plan Accounts		
Opening balance of Deferred Notional Shares	10,404	5,698
Value of opening balance of Deferred Notional Shares at Measurement Date	£162,292	£88,883
2016 Contribution ⁽¹⁾	£371,087	£194,054
2016 Payment	£(266,689)	£(141,469)
Value of closing balance of Deferred Notional Shares	£266,689	£141,469
Closing balance of Deferred Notional Shares ⁽²⁾	17,096	9,069

(1) The 2016 bonus performance conditions and their level of satisfaction are set out above

(2) The price used at the Measurement Date to calculate the value of shares was the mid-market value of a share for the 30 day period to 31 December 2016, which was 1,559.9 pence per share

In the context of the operation of the PIP, Deferred Notional Shares are a mechanism that allows the deferred cash element of the award to be linked to the share price. The Committee confirms that there is no intention of issuing actual shares.

PIP Element B (subject to approval of revised Policy)

The revised Remuneration Policy, proposes an award of deferred shares under PIP Element B based on the achievement of the 2016 KPIs. Should the revised Policy be approved then the following awards would be granted under Element B as soon as practically possible after the AGM. The awards are subject to the terms set out in the Policy table above. The Committee set the initial maximum Element B award below the Policy maximum of 100% of salary.

	CEO	CFO
Salary	325,500	264,000
Maximum Element B award (% of salary)	80%	65%
KPIs achievement as % of maximum	76.0%	73.5%
Face value of Element B awards to be granted (subject to approval)	197,904	126,126
Number of shares to be awarded (subject to approval)	12,686	8,085

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 award made under Element B has been based on the average market value of a share for the 30 day period to 31 December 2016 of 1,559.9 pence.

Pension Entitlements

The Executive Directors are entitled to participate in a defined contribution pension scheme of which one Director (John Whiteley) was a member at the end of the year (2015: two). Participants are required to contribute 5% of basic UK salary (2015: 5%), which is matched by a contribution from the Company of 10% (2015: 10%). The Company contributed 5% to Mr Widlund's Self Invested Pension Plan (SIPP) until March 2016, when he amended his pension to receive the full 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.

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2016

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

Non-Executive Directors do not participate in any of the Company's incentive arrangements nor do they receive any benefits.

The following table sets out the fees received for 2016:

	Base membership Fee £000		Other Committee Fees £000		Additional Fees £000		Taxable Benefits ⁽⁷⁾ £000		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Malcolm Cooper ⁽¹⁾	28	23	18	18	-	-	-	-	46	41
Joseph Crawley	28	23	-	-	-	-	-	-	28	23
Elizabeth Edwards ⁽²⁾	28	23	10	1	-	-	-	-	38	24
Christopher Jarvis ⁽³⁾	28	23	13	13	-	-	-	-	41	36
Thomas Lundqvist ⁽⁴⁾	28	23	-	-	6	6	-	-	34	29
Philip Mortstedt	28	23	-	-	-	-	-	-	28	14
Anna Seeley ⁽⁵⁾	28	14	3	-	-	-	-	-	31	14
Lennart Sten ⁽⁶⁾	28	23	8	1	-	-	-	-	36	24

- (1) Mr Cooper received the following fees: Board membership £27,500; Senior Independent Director £5,000; Audit Committee Chairmanship £8,000; and Remuneration Committee membership £5,000
- (2) Ms Edwards received the following fees: Board membership £27,500; Audit Committee membership £5,000; and, with effect from 17 May 2016, a pro-rated Nomination Committee Membership fee of £3,170
- (3) Mr Jarvis received the following fees: Board membership £27,500; Remuneration Committee Chairmanship £8,000; and Audit Committee membership £5,000
- (4) Mr Lundqvist received £6,000 in respect of certain finance-related matters and, at the Remuneration Committee's request, liaising with the Sten Mortstedt family and charity investment company on executive remuneration issues
- (5) Ms Seeley received the following fees: Board membership £27,500; and, with effect from 17 May 2016, a pro-rated Nomination Committee Membership fee of £3,170
- (6) Mr Sten received the following fees: Board membership £27,500; Remuneration Committee membership £5,000; and, with effect from 17 May 2016, a pro-rated Nomination Committee Membership fee of £3,170
- (7) 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

External appointments

Set out below are details for Executive Directors who served as Non-Executive Directors in other companies during the year ended 31 December 2016 and were allowed to retain fees for their services:

- Mr Klotz received additional fees which he retained of £17,271 (2015: £15,517) in respect of his role as Non-Executive Chairman of Catena AB and £8,635 (2015: £7,758) as Non-Executive Director of Note AB. As from 20 January 2017, Mr Klotz ceased to be a director of Note AB.

Payments to Past Directors

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

Directors' Interests in Shares

The interests of the Directors in the ordinary shares of 25p each of the Company were as at 31 December 2016:

Director	Unconditional Shares	Conditional PIP Element A Shares	Conditional PIP Element B Shares	Total
Sten Mortstedt ⁽¹⁾	20,774,174	–	–	20,774,174
Henry Klotz	55,763	–	–	55,763
Fredrik Widlund	22,749	17,096	12,686	52,531
John Whiteley	14,000	9,069	8,085	31,154
Malcolm Cooper	4,050	–	–	4,050
Joseph Crawley ⁽²⁾	229,608	–	–	229,608
Elizabeth Edwards	–	–	–	–
Christopher Jarvis	4,844	–	–	4,844
Thomas Lundqvist	76,899	–	–	76,899
Philip Mortstedt ⁽³⁾	3,566	–	–	3,566
Anna Seeley	–	–	–	–
Lennart Sten	2,850	–	–	2,850

(1) Sten Mortstedt's interest in shares is held in certain companies which are directly held and beneficially owned by Sten Mortstedt

(2) Joseph Crawley's interest in shares is as a result of his wife being a beneficiary of a trust in which the shares are held

(3) Resigned 7 March 2017

There have been no movements in interests held by directors between 31 December 2016 and the date of this report. Mr Bengt Mortstedt was appointed a director on 7 March 2017 and holds 2,807,255 shares.

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

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

Henry Klotz: 428% (2015: 306%) – shareholding requirement met

Fredrik Widlund: 107% (2015: 120%) – shareholding requirement met

John Whiteley: 81% (2015: 84%) – 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 1,804.0 pence, the lowest 1,170.5 pence, and the average was 1,531.5 pence. The closing share price on 31 December 2016 was 1,536.0 pence.

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2016

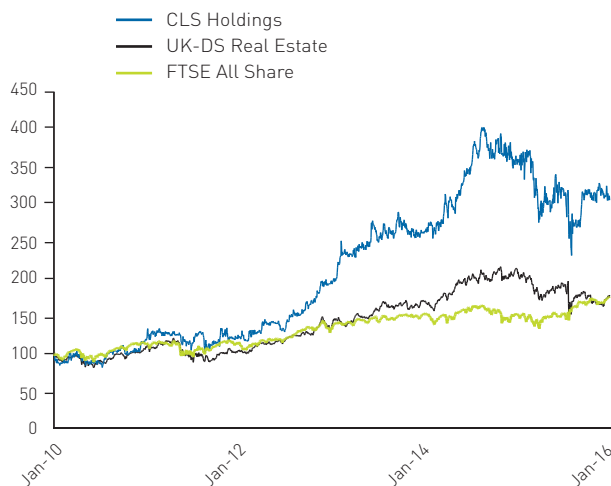
Total Returns to Shareholders 1994-2016

The Company's TSR performance since it was listed on the London Stock Exchange is set out below, and is compared to the TSR performance of the FTSE All Share Index and the UK Datastream Real Estate Index over the same period. The Committee believes that these are the most appropriate as these are the Indices and Sector in which the Company has been included since listing. In addition, to comply with the Regulations the same information has been provided for the period 2009-2016.

TOTAL RETURNS TO SHAREHOLDERS 1994-2016 (1994 = 100)



TOTAL RETURN TO SHAREHOLDERS 2010-2016 (2010 = 100)



Total Remuneration for the Chief Executive Officer

	2016	2015	2014	2013	2012	2011	2010	2009
CEO's total single figure (£000)	828	656	349	721	352	417	481	452
PIP contribution as % of maximum	76.0%	81.0%	89.0%	86.5%	83.5%	81.7%	100.0%	100.0%

The Company has not operated a share scheme other than the PIP over this period.

Percentage change in remuneration of the Chief Executive Officer

The table below shows how the percentage change in the Chief Executive Officer's salary, benefits and bonus between 2015 and 2016 compares with the percentage change in the average of each of those components of pay for employees.

	Salary			Taxable Benefits			Bonus		
	2016 £000	2015 £000	Percentage Increase	2016 £000	2015 £000	Percentage Increase	2016 £000	2015 £000	Percentage Increase
CEO	326	310	5.0%	5	4	13.6%	186	269	-30.9%
All Employees	4,058	4,488	-9.6%	182	162	12.9%	3,098	1,722	79.9%

The Group's pay review taking effect from 1 January 2016 awarded average percentage increases in wages and salaries of 3.0%. The nature and level of benefits to employees in the year ended 31 December 2016 was broadly similar to those of the previous year.

Relative importance of the spend on pay

	2016 £000	2015 £000	% Change
Remuneration paid to all employees of the Group	10,440	9,376	11%
Distributions to shareholders	23,497	19,115	23%
Group revenue ⁽¹⁾	128,500	118,900	8%

(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 intends to move a resolution to approve a new Policy at the AGM to be held on 26 April 2017 which if approved will be effective from 1 January 2017. The amended Policy can be found on pages 51 to 60 of this Annual Report and its key components are set out below:

Element	Proposed Policy and operation for 2017				
Base Salary	No change to the current Policy, other than introduction of 5% maximum increase per annum over the Policy Period. Following the annual review, salaries for the Executive Directors for 2017 are:				
	Name	2016 Salary to 7 March 2016	2016 Salary from 8 March 2016	2017 Salary	%age Change
	Henry Klotz	£99,937	£200,000	£205,400	2.7%
	Fredrik Widlund	£325,500	£325,500	£334,290	2.7%
	John Whiteley	£264,000	£264,000	£271,130	2.7%
	Sten Mortstedt	£369,600	£300,000	£308,100	2.7%
NED Fees		2016 Salary	2017 Salary	%age Change	
	Board Fee	£27,500	£30,000	9%	
	Senior Independent Director	£5,000	£5,000	0%	
	Committee Chairman	£8,000	£8,000	0%	
	Committee Membership	£5,000	£5,000	0%	
Benefits	No change to current Policy in the new Policy.				
Pension	No change to current Policy in the new Policy.				
Performance Incentive Plan ("PIP")	Policy revised to incorporate PIP Element B (where Element A has the same structure as the current PIP). Both elements are outlined below:				
	Element A				
	<ul style="list-style-type: none"> • Maximum annual contribution into a Participant's Plan Account of 150% of salary • Contributions will be earned based on the Corporate 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				
	<ul style="list-style-type: none"> • 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 • It is proposed that the first grants under Element B will be made in 2017 based on the level of satisfaction of the Element A targets set for 2016 • The initial annual deferred share awards to be set at 80% of salary for the Chief Executive Officer and 65% for the Chief Financial Officer 				

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2016

Performance Incentive Plan (“PIP”) (continued) For 2017 the KPI Targets were reassessed and agreed as follows:

Absolute TSR	Maximum forfeiture	Bonus/forfeiture threshold	On target performance	Good performance	Maximum performance
KPI					
Old Target	5%	7%	12%	14%	16%
New Target	1%	3%	12%	14%	16%

Relative TSR (NEW KPI)	Maximum forfeiture	Bonus/forfeiture threshold	On target performance	Good performance	Maximum performance
KPI					
New Target	Lower Quartile	(linear)	Median	(linear)	Upper Quartile

The comparator group is the FTSE 350 Real Estate Supersector.

Administration cost ratio	Maximum forfeiture	Bonus/forfeiture threshold	On target performance	Good performance	Maximum performance
KPI					
Old Target	20.95%	18.95%	16.95%	14.95%	12.95%
New Target	18.5%	17.5%	16.5%	15.5%	14.5%

EPRA NAV Growth	Maximum forfeiture	Bonus/forfeiture threshold	On target performance	Good performance	Maximum performance
KPI					
Old Target	0%	5%	7.5%	8.75%	10%
New Target	0%	3%	6%	7.5%	9%

The 2016 KPI's of Effective Management of the Balance Sheet (ROE); NAV Growth and Core profit over budget, were removed as KPIs.

All other performance conditions and targets remain the same as for 2016, with the exception of the operation of the forfeiture provisions as set out above.

All Employee Share Plan The Company is proposing to introduce a Share Incentive Plan (“SIP”) to allow all employees, including Executive Directors, to share in the potential value created by the Company. Matching shares will be offered at a ratio of 1 for every partnership share purchased.

Founder Shareholder The founder shareholders’ remuneration package will consist of the following elements:

- Base salary in line with the other Executive Directors; and
- In certain circumstances the Company may pay additional fees for specific duties outside the letter of appointment. Any fees and the basis of these fees will be disclosed in full to shareholders.

The following table sets out the maximum bonus which can be earned in respect of each KPI for 2017, 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
EPRA NAV Growth	30.0	20.0
Personal Performance	15.0	10.0
Vacancy Rate	22.5	10.0
Administration cost ratio (as % of Net Rental)	22.5	20.0
Available Bonus Target as a % of salary	150.0	100.0

CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

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

ADVISORS TO THE REMUNERATION COMMITTEE

During the year, the Committee sought advice from its remuneration consultants, PwC, whom the Committee appointed in relation to the Performance Incentive Plan and general matters related to remuneration, and from the Company Secretary in relation to peer group remuneration analysis. PwC is a founding member of the Remuneration Consultants' Group and has signed up to that group's Code of Conduct. The fees for the advice provided by PwC were £40,800 (2015: £10,800). The fees were fixed on the basis of agreed projects. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting each year. It is satisfied that PwC is providing independent, robust and professional advice.

Shareholder Voting

The following table represents the voting at the 2014 and 2016 Annual General Meetings:

	Directors' Remuneration Policy (2014)		Directors Remuneration Report (2016)	
	Number of votes	% of votes cast	Number of votes	% of votes cast
In Favour	32,260,368	82.4	29,269,589	87.5
Against	6,900,471	17.6	4,171,338	12.5
Total votes cast	39,160,839		33,440,927	
Votes withheld	194,020		74,104	

The Committee noted that 17.6% of votes were cast against the resolution to approve the Directors' Remuneration Policy at the AGM in April 2014. Through feedback and meetings with institutional shareholders the Committee understands that the reasons were primarily due to the benchmarking of Executive Directors' salaries, which were increased with a one-off increment so as to bring them in line with the market, and the maximum share options that could be granted. The Committee noted these comments from 2015.

On behalf of the Board

Christopher Jarvis

Chairman
Remuneration Committee

8 March 2017

AUDIT COMMITTEE REPORT

Dear Shareholder

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

Committee Membership

The Committee'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.

The Chief Executive Officer, Chief Financial Officer, certain senior management and the Company's auditor are normally invited to attend the meetings. At each meeting there is a standing agenda item facilitating the opportunity for the Company's auditor to meet without management present. The Company Secretary acts as secretary to the Committee.

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

For Board biographies see pages

→ 36-37

Committee members attendance during the year ended 31 December 2016

Malcolm Cooper (Chairman)	4/4
Chris Jarvis	4/4
Elizabeth Edwards	4/4

Audit Committee regular attendees for part (by invitation)

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

OUR PRINCIPAL ACTIVITIES IN 2016

January	March	August	November
Review of principal risks and uncertainties	Review of year end results	Review of half-year results	External Audit tender
Review of the Company's KPIs	Meeting the UK Valuers	Meeting the German Valuers	Meeting the French Valuers
		Consideration and initiation of Audit Tender process	Audit Tender decision
	Review of: <ul style="list-style-type: none"> Property valuations Significant accounting, reporting and judgemental matters including going concern Principal risks Monitoring of internal controls and risk management Reappointment of auditor at AGM Fair, balanced and understandable 	Review of: <ul style="list-style-type: none"> Property valuations Significant accounting, reporting and judgemental matters including going concern Code requirements Principal risks Monitoring of internal controls and risk management 	Review of: <ul style="list-style-type: none"> Principal risks Monitoring of internal controls and risk management KPIs Internal audit function Committee performance Terms of reference Whistleblowing Non-audit fees
	Receive Auditor's Report	Receive Auditor's Report	Receive Auditor's planning report, review the year end audit scope and materiality, and agree 2016 audit fee

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

AUDIT TENDER

The external audit was put out to tender in 2007 when the current auditor, Deloitte LLP, was appointed. The lead audit partner was changed by rotation in 2012. There are no contractual obligations to restrict the Company's choice of external auditor.

As explained in last year's report and in compliance with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, the Committee undertook a competitive tender process, which would be effective for the financial year ending 2017.

The Committee's key objectives of the audit tender process were to assess the firms' real estate experience, compare the overall competence of the teams, and understand how they made use of leading technology and analytical tools in the auditing process. The Committee also addressed their previous transition experience. Following the selection process, the tender involved initial interviews with three shortlisted professional auditing firms, including Deloitte LLP, from which two were selected to progress to the second round. The two shortlisted firms then participated in a further round of interviews with a number of key senior managers within the Group, followed by a final presentation to the Committee in November.

The Committee concluded that both shortlisted firms demonstrated a high level of competence on all audit matters. However, on balance, the Committee believed that Deloitte LLP would provide a more consistent audit approach which was a better fit with the Group's culture. In addition the Committee were impressed with their wider real estate knowledge and use of leading edge analytical technology to support the audit process.

As a result, a resolution to re-appoint Deloitte as external auditors at the 2017 Annual General Meeting will be proposed.

KEY AREAS DISCUSSED AND REVIEWED BY THE COMMITTEE

External Audit Process

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

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

AUDIT COMMITTEE REPORT CONTINUED

Viability Statement

The Committee discussed how best to assess the Group's prospects over a term which was considered appropriate. It was decided that the statement should correspond with the way in which the Group models its forecasts, being the current year plus a further three years. Further details are contained in the Corporate Governance Report on page 45.

Principal Risks

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

A key risk that the Committee discussed was the financial impact of Brexit and how the Group would mitigate its effects.

Internal Control and Risk Management

The Committee has a further standing discussion item in relation to monitoring and reviewing the Group's internal controls and risk management systems, with a continuous control testing and reporting programme throughout the organisation. Further details are contained in the Corporate Governance Report on page 45.

Going Concern

Whilst a matter for the whole Board (see page 38), the Committee reviews the Group's financial forecasts, debt maturity forecasts and associated sensitivity analysis. With supporting reviews from the external auditor, and a recommendation from management, the Committee remains of the view that the going concern risk was low. However given the concerns around Brexit, this would continue to be monitored by the Committee.

Internal Audit

Following its annual review, the Committee recommended to the Board not to establish an internal audit function, due to the existence of current controls and review systems in place and as the Company was neither of sufficient size nor complexity to warrant it. This line of reasoning was consistent with other property companies of a similar size. The Committee will continue to review this assumption annually following the Group's inclusion in the FTSE 350.

In order to seek assurance that internal controls are rigorously tested, management have set up a rolling programme to review and test the principal areas of risk, with the results reported to the Committee and subsequently reviewed by the Board. This ongoing review has not highlighted any matters of concern.

Non-Audit Fees

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

The Committee has reviewed its existing policy so as to ensure it complies with the EU Audit Regulations.

The revised 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 Company's auditor during the year were £23,738 (2015: £95,500)

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

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

Anti-Bribery and Whistleblowing

The Company has implemented an anti-bribery policy and provided training for all staff. An additional annual compliance check is undertaken for all staff. The Committee reviewed as being appropriate the Whistleblowing Policy, under which employees may report suspicion of fraud, financial irregularity, 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

8 March 2017

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

Opinion on financial statements of CLS Holdings plc

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2016 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 FRS 101 Reduced Disclosure Framework; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

Summary of our audit approach

Key risk	The key risk that we identified in the current year was the assessment of the carrying value of the investment property portfolio.
Materiality	The materiality that we used in the current year was £17.5 million based on 2% of net assets. For testing of balances that impacted EPRA adjusted profit before tax, we used a lower materiality of £2.6 million based on 5% of that measure.
Scoping	We subject all locations in which CLS operates to a full audit scope; this accounts for 100% of the Group's net assets revenue and profit before tax.
Significant changes in our approach	In the prior year we included accounting for the Group's other investments as a significant risk. We no longer consider this to be a significant risk at the investments which are not traded in an active market are no longer material. There has been no change to the basis upon which materiality is calculated or our approach is scoping the audit from the prior year.

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

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within note 2.1 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the corporate governance statement on page 45.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 45 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 28-29 that describe those risks and explain how they are being managed or mitigated;
- 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 ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation on page 45 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 confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

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

In the prior year we included accounting for the Group's other investments as a significant risk. We no longer consider this to be a significant risk as the investments that are not traded in an active market are no longer material.

VALUATION OF THE INVESTMENT PROPERTY PORTFOLIO

<p>Risk description</p>	<p>The assessment of the carrying value of the investment property portfolio, specifically the process, assumption and judgements used to derive the property valuations.</p> <p>Investment properties are held at £1,536.6m at 31 December 2016 (31 December 2015: £1,366.8m), see note 13 for full disclosure making this the most quantitatively material balance in the financial statements.</p> <p>Investment properties are held at fair value on the balance sheet. Fair value is by its nature subjective with significant judgement applied in the valuation, especially with regard to properties currently under development, of which the most significant is Vauxhall Square. The key judgements made are those relating to rental values, occupancy rates, yields and the assessment of development and completion milestones.</p> <p>Our identified risk also focusses on the accuracy and completeness of the information used by the external valuers in their valuations.</p> <p>Refer to the Audit Committee report on page 70 where this is included as a significant issue. The relevant accounting policy for the Group is presented in note 2.4 on page 83.</p>
<p>How the scope of our audit responded to the risk</p>	<p>We assessed management's process for reviewing the valuations of the property portfolio.</p> <p>We have utilised the expertise of a real estate specialist and chartered surveyor for our challenge of the investment property valuations. 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. For the judgements made on the valuation of Vauxhall Square, we paid particular attention to the costs of construction and contingencies.</p> <p>As part of our meeting with the external valuers we assessed their competence, independence and integrity.</p> <p>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.</p> <p>Finally, we performed audit procedures to assess, on a sample basis, the integrity of information provided to the valuer relating to rental income ensuring that it was consistent with the leases.</p> <p>Our work on the valuation of the investment property portfolio was led by the Group audit team, supplemented by specific procedures by component auditors</p>
<p>Key observations</p>	<p>We concluded that the assumptions applied by the external valuers in arriving at the fair value of the Group's property portfolio, including development assets, were appropriate.</p>

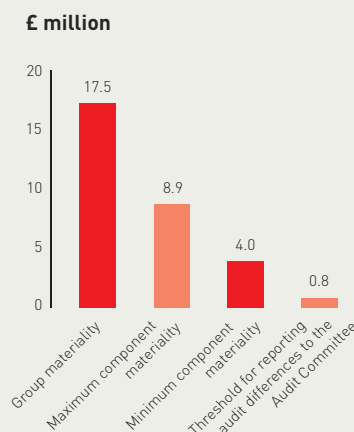
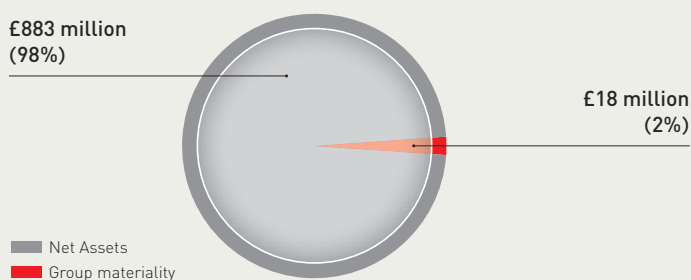
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Our application of materiality

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

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

Group materiality	We determined materiality for the Group to be £17.5 million (2015: £15.4 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 £2.7m (2015: £2.2m) 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.
Basis for determining materiality	We have determined materiality for the Group based on 2% of net assets (2015: 2%). For testing of balances that impact EPRA adjusted profit before tax, a basis of 5% of that measure (2015: 5%) 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 £875,000 (2015: £307,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements. We have reassessed our threshold for reporting audit differences to the Audit Committee to 5% of materiality (2015: 2% of materiality).

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% (2015: 100%) of the Group's net assets, and 100% (2015: 100%) of revenue and profit before tax. All business units were subject to a full scope audit. 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 £8.9 million to £4.0 million (2015: £10.8 million to £6.1 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 risk above has been led by the Group audit team, supplemented by specific procedures by the component auditors. The reporting from all component auditors has been reviewed by the Group team and, where necessary, component auditors carried out further testing at our request.

At the Group level we tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information.

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 teams in Germany and Sweden and have plans to visit the team in France in the next twelve months.

There has been no significant change in our scoping compared to the prior year.

Opinion on other matters prescribed by the Companies Act 2006

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

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006;
- 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and 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 arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

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

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

We confirm that we have not identified any such inconsistencies or misleading statements.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed.

Respective responsibilities of Directors and Auditor

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

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

Scope of the audit of the financial statements

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

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

Chartered Accountants and Statutory Auditor
London, United Kingdom

8 March 2017

GROUP INCOME STATEMENT

for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Continuing operations			
Group revenue		128.5	118.9
Net rental income	4	107.1	99.0
Administration expenses		(21.3)	(19.5)
Other expenses		(14.0)	(13.8)
Group revenue less costs		71.8	65.7
Net movements on revaluation of investment properties	13	36.1	98.0
Profit on sale of investment properties		9.1	4.3
Gain on sale of corporate bonds and other financial instruments		3.2	0.7
Operating profit		120.2	168.7
Finance income	8	13.6	10.0
Finance costs	9	(32.7)	(27.5)
Share of loss of associates after tax	15	(1.0)	-
Profit before tax		100.1	151.2
Taxation	10	(1.8)	(19.1)
Profit for the year	6	98.3	132.1
Attributable to:			
Owners of the Company		97.8	129.9
Non-controlling interests		0.5	2.2
		98.3	132.1
Earnings per share from continuing operations (expressed in pence per share)			
Basic	11	236.3	305.7

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Profit for the year		98.3	132.1
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Foreign exchange differences		33.1	(8.7)
Items that may be reclassified to profit or loss			
Fair value gains/(losses) on corporate bonds and other financial investments	16	7.7	(0.2)
Fair value losses taken to net gain on sale of corporate bonds and other financial investments	16	1.3	-
Revaluation of property, plant and equipment	14	2.6	2.9
Deferred tax on net fair value (gains)/losses	20	(3.8)	0.5
Total items that may be reclassified to profit or loss		7.8	3.2
Total comprehensive income for the year		139.2	126.6
Total comprehensive income attributable to:			
Owners of the Company		138.3	126.0
Non-controlling interests		0.9	0.6
		139.2	126.6

The notes on pages 82 to 108 are an integral part of these Group financial statements.

GROUP BALANCE SHEET

at 31 December 2016

	Notes	2016 £m	2015 £m
Non-current assets			
Investment properties	13	1,536.6	1,366.8
Property, plant and equipment	14	106.4	78.9
Goodwill and intangibles		1.2	1.1
Investments in associates	15	0.2	1.5
Other financial investments	16	116.4	121.0
Deferred tax	20	3.1	3.3
		1,763.9	1,572.6
Current assets			
Trade and other receivables	17	59.9	13.5
Properties held for sale		-	58.6
Derivative financial instruments	22	0.5	0.5
Cash and cash equivalents	18	99.0	100.7
		159.4	173.3
Total assets		1,923.3	1,745.9
Current liabilities			
Trade and other payables	19	(50.5)	(54.2)
Current tax		(9.9)	(7.7)
Borrowings	21	(125.8)	(220.3)
		(186.2)	(282.2)
Non-current liabilities			
Deferred tax	20	(120.7)	(114.7)
Borrowings	21	(724.1)	(575.2)
Derivative financial instruments	22	(9.8)	(5.8)
		(854.6)	(695.7)
Total liabilities		(1,040.8)	(977.9)
Net assets		882.5	768.0
Equity			
Share capital	24	11.0	11.3
Share premium	26	83.1	83.0
Other reserves	27	125.9	85.1
Retained earnings		656.4	583.4
Equity attributable to owners of the Company		876.4	762.8
Non-controlling interests		6.1	5.2
Total equity		882.5	768.0

The financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 8 March 2017 and were signed on its behalf by:

Mr E H Klotz
Executive Chairman

The notes on pages 82 to 108 are an integral part of these Group financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	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 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

	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 2015:							
Total comprehensive income for the year	-	-	(3.9)	129.9	126.0	0.6	126.6
Issue of share capital	-	0.1	-	-	0.1	-	0.1
Purchase of own shares	(0.2)	-	0.2	(16.1)	(16.1)	-	(16.1)
Expenses thereof	-	-	-	(0.1)	(0.1)	-	(0.1)
Total changes arising in 2015	(0.2)	0.1	(3.7)	113.7	109.9	0.6	110.5
At 1 January 2015	11.5	82.9	88.8	469.7	652.9	4.6	657.5
At 31 December 2015	11.3	83.0	85.1	583.4	762.8	5.2	768.0

The notes on pages 82 to 108 are an integral part of these Group financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2016

	Notes	2016 £m	2015 £m
Cash flows from operating activities			
Cash generated from operations	28	62.0	72.1
Interest received		5.8	6.9
Interest paid		(20.5)	(22.9)
Income tax paid		(7.2)	(7.2)
Net cash inflow from operating activities		40.1	48.9
Cash flows from investing activities			
Purchase of investment properties		(45.7)	(81.4)
Capital expenditure on investment properties		(20.9)	(16.6)
Proceeds from sale of investment properties		39.4	34.8
Purchases of property, plant and equipment		(20.9)	(9.3)
Purchase of corporate bonds		(35.9)	(40.9)
Proceeds from sale of corporate bonds		54.3	28.5
Purchase of equity investments		(1.1)	(6.2)
Proceeds from sale of equity investments		7.4	0.5
Dividends received from equity investments		1.4	1.0
Distributions received from associate undertakings		0.3	-
Costs on foreign currency transactions		(1.5)	(0.1)
Net cash outflow from investing activities		(23.2)	(89.7)
Cash flows from financing activities			
Purchase of own shares		(24.8)	(16.2)
New loans		200.2	301.6
Issue costs of new loans		(1.5)	(2.8)
Repayment of loans		(199.6)	(236.2)
Net cash (outflow)/inflow from financing activities		(25.7)	46.4
Cash flow element of net (decrease)/increase in cash and cash equivalents			
Foreign exchange gain/(loss)		7.1	(5.1)
Net (decrease)/increase in cash and cash equivalents		(1.7)	0.5
Cash and cash equivalents at the beginning of the year		100.7	100.2
Cash and cash equivalents at the end of the year	18	99.0	100.7

The notes on pages 82 to 108 are an integral part of these Group financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

31 December 2016

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 40 and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations, and the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

New standards and interpretations

In the current year, the Group has adopted the following amendment for the first time which has not had a material impact on the results for the year:

- Annual improvements to IFRSs: 2011-2013 cycle

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

- IFRS 9 Financial Instruments (2009, 2010 and 2014)
- IFRS 15 Revenue from Contracts with Customers
- IFRS 16 Leases
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)
- Disclosure Initiative (Amendments to IAS 7)
- Classification and measurement of share-based payment transactions (Amendments to IFRS 2)
- Annual Improvements to IFRSs: 2010-2012 Cycle
- Annual Improvements to IFRSs: 2012-2014 Cycle

These pronouncements, when applied either will result in changes to presentation and disclosure, or are not expected to have a material impact on the financial statements. In respect of IFRS 15, the Group's contracts with customers are all within the scope of IAS 17.

2.2 Business Combinations

(i) Subsidiary undertakings

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

(ii) Associates

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

(iii) Goodwill

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

2.3 Foreign currency

(i) Foreign currency transactions

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

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

(ii) Consolidation of foreign entities

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

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

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

2.4 Investment properties

Investment properties are those properties held for long-term rental yields or for capital appreciation or both. Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties comprise costs of a capital nature; in the case of investment properties under development, these include capitalised interest and certain staff costs directly attributable to the management of the development. Capitalised interest is calculated at the rate on associated borrowings applied to direct expenditure between the date of gaining planning consent and the date of practical completion. The acquisition of an investment property is recognised when the risks and rewards of ownership have been transferred to the Group, typically on unconditional exchange of contracts or when legal title passes. 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 SIGNIFICANT ACCOUNTING POLICIES CONTINUED**2.5 Property, plant and equipment**

Property, plant and equipment is carried at fair value, based on market value as determined by professional external valuers at the balance sheet date, except for fixtures and fittings which are stated at historical cost less accumulated depreciation and any recognised impairment loss.

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

Fixtures and fittings	4 – 5 years
Freehold property	6 years
Hotel	20 years
Holiday cottages and cabins	20 – 30 years

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

2.6 Financial instruments**(i) Derivative financial instruments**

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

(ii) Available-for-sale investments

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

(iii) Cash and cash equivalents

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

(iv) Trade and other receivables and payables

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

(v) Borrowings

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

2.7 Revenue**(i) Rental income**

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

(ii) Service charge income

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

2.8 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 2016 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. The valuers also make reference to market evidence of transaction prices for similar properties.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2016

4 SEGMENT INFORMATION

The Group has two operating segments – 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 segment on a geographical basis due to its size and geographical diversity. Consequently, the Group's principal operating segments are:

Investment Property – London
 Rest of United Kingdom
 Germany
 France
 Sweden

Other Investments

There are no transactions between the operating segments.

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

	Investment Property					Other Investments £m	Total £m
	London £m	Rest of UK £m	Germany £m	France £m	Sweden £m		
Rental income	43.4	11.5	20.4	14.7	1.3	–	91.3
Other property-related income	2.0	1.7	–	0.9	–	16.8	21.4
Service charge income	6.3	–	4.6	4.8	0.1	–	15.8
Service charges and similar expenses	(9.9)	–	(5.6)	(5.4)	(0.5)	–	(21.4)
Net rental income	41.8	13.2	19.4	15.0	0.9	16.8	107.1
Administration expenses	(5.6)	(0.1)	(1.4)	(1.8)	(0.2)	(7.2)	(16.3)
Other expenses	(4.6)	(0.6)	(1.4)	(0.8)	–	(6.6)	(14.0)
Group revenue less costs	31.6	12.5	16.6	12.4	0.7	3.0	76.8
Net movements on revaluation of investment properties	18.3	(6.2)	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)	54.7	6.3	29.0	22.9	6.1	6.2	125.2
Finance income	–	–	–	0.1	1.4	12.1	13.6
Finance costs	(20.2)	(3.0)	(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	34.5	3.3	25.9	20.8	7.4	13.2	105.1
Central administration expenses							(5.0)
Profit before tax							100.1

The Group's results for the year ended 31 December 2015 by operating segment were as follows:

	Investment Property					Other Investments £m	Total £m
	London £m	Rest of UK £m	Germany £m	France £m	Sweden £m		
Rental income	37.8	13.0	16.2	13.8	4.5	–	85.3
Other property-related income	0.8	0.2	–	0.1	0.4	17.5	19.0
Service charge income	6.5	–	3.3	4.5	0.3	–	14.6
Service charges and similar expenses	(9.7)	–	(3.5)	(4.7)	(2.0)	–	(19.9)
Net rental income	35.4	13.2	16.0	13.7	3.2	17.5	99.0
Administration expenses	(4.2)	(0.1)	(1.4)	(1.4)	(0.4)	(6.0)	(13.5)
Other expenses	(4.3)	(0.4)	(1.1)	(0.7)	–	(7.3)	(13.8)
Group revenue less costs	26.9	12.7	13.5	11.6	2.8	4.2	71.7
Net movements on revaluation of investment properties	62.3	8.7	19.5	6.7	0.8	–	98.0
Profit/(loss) on sale of investment property	3.2	1.5	(0.4)	–	–	–	4.3
Gain on sale of corporate bonds	–	–	–	–	–	0.7	0.7
Segment operating profit/(loss)	92.4	22.9	32.6	18.3	3.6	4.9	174.7
Finance income	–	–	–	–	–	10.0	10.0
Finance costs	(17.0)	(3.2)	(2.5)	(2.3)	(0.5)	(2.0)	(27.5)
Segment profit/(loss) before tax	75.4	19.7	30.1	16.0	3.1	12.9	157.2
Central administration expenses							(6.0)
Profit before tax							151.2

Other segment information:

	Assets		Liabilities		Capital expenditure	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Investment Property						
London	851.5	824.2	493.1	458.5	20.2	53.7
Rest of UK	97.4	102.5	74.5	79.9	–	0.3
Germany	368.4	263.3	206.5	162.7	42.0	19.1
France	263.8	227.1	184.2	172.7	4.4	2.2
Sweden	42.8	50.3	3.4	35.0	–	0.6
Other Investments	299.4	278.5	79.1	69.1	20.6	12.0
	1,923.3	1,745.9	1,040.8	977.9	87.2	87.9

Included within the assets of other investments are investments in associates of £0.2 million (2015: £1.5 million).

The majority of the assets in Sweden at 31 December 2016 was an amount due on the disposal of an investment property.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2016

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:

	2016 £m	2015 £m
Administration expenses of the operating segments	16.3	13.5
Central administration expenses	5.0	6.0
Total administration expenses of the Group	21.3	19.5
Less: administration expenses of Other Investments	(7.2)	(6.0)
Property-related and central administration expenses	14.1	13.5
Net rental income	107.1	99.0
Less: net rental income of First Camp	(12.5)	(14.0)
Net rental income of Investment Properties	94.6	85.0
Administration cost ratio	14.9%	15.9%

6 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2016 £m	2015 £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	0.2
The audit of the Company's subsidiaries pursuant to legislation	0.1	0.1
Depreciation of property, plant and equipment (note 14)	1.1	1.3
Employee benefits expense (note 7)	14.0	12.7

7 EMPLOYEE BENEFITS EXPENSE

	2016 £m	2015 £m
Wages and salaries	10.5	9.6
Social security costs	1.9	1.9
Pension costs – defined contribution plans	0.6	0.5
Other employee-related expenses	1.0	0.7
	14.0	12.7

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 48 to 69.

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

	2016				2015			
	Property number	Other operations number	First Camp number	Total number	Property number	Other operations number	First Camp number	Total number
Male	43	1	52	96	43	1	45	89
Female	44	0	44	88	45	–	40	85
	87	1	96	184	88	1	85	174

8 FINANCE INCOME

	2016 £m	2015 £m
Interest income	7.4	7.2
Other finance income	1.4	1.0
Foreign exchange variances	4.8	1.8
	13.6	10.0

9 FINANCE COSTS

	2016 £m	2015 £m
Interest expense		
Bank loans	15.2	13.3
Debenture loan	2.8	3.0
Zero coupon note	0.8	1.1
Secured notes	2.9	3.1
Unsecured bonds	3.8	4.5
Amortisation of loan issue costs	1.5	2.0
Total interest costs	27.0	27.0
Less interest capitalised on development projects	(0.7)	(0.4)
	26.3	26.6
Loss on partial redemption of zero coupon note	2.4	1.2
Movement in fair value of derivative financial instruments		
Interest rate swaps: transactions not qualifying as hedges	4.0	(0.4)
Interest rate caps: transactions not qualifying as hedges	-	0.1
	32.7	27.5

10 TAXATION

	2016 £m	2015 £m
Current tax charge	8.9	5.6
Deferred tax (credit)/charge (note 20)	(7.1)	13.5
	1.8	19.1

A deferred tax charge of £3.8 million (2015: credit of £0.5 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:

	2016 £m	2015 £m
Profit before tax	100.1	151.2
Tax calculated at domestic tax rates applicable to profits in the respective countries	22.2	31.9
Expenses not deductible for tax purposes	1.5	0.1
Tax effect of fair value movements on investments	(1.0)	(0.6)
Change in tax basis of United Kingdom properties, including indexation uplift	(3.1)	(6.6)
Non-taxable income	(0.3)	(0.4)
Change in tax rate	(10.3)	(5.0)
Deferred tax on losses not recognised	0.5	(0.6)
Tax effect of losses in associates and joint ventures	0.2	-
Tax liability released on disposals	(6.6)	-
Adjustment in respect of prior periods	(1.3)	-
Other deferred tax adjustments	-	0.3
Tax charge for the year	1.8	19.1

The weighted average applicable tax rate of 22.2% (2015: 21.1%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated.

The tax rate in France fell from 33.3% to 28.0% and in the UK from 18.0% to 17.0%, the collective effect of which was a reduction of the tax charge in 2016 of £10.3 million.

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11 EARNINGS PER SHARE

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

Earnings	2016 £m	2015 £m
Profit for the year attributable to owners of the Company	97.8	129.9
Net movements on revaluation of investment properties	(36.1)	(98.0)
Other gains and losses	-	(2.9)
Profit on sale of investment properties, net of tax	(6.8)	(4.3)
Gain on sale of corporate bonds	(3.2)	(0.7)
Change in fair value of derivative financial instruments	5.4	(0.3)
Impairment of carrying value of associates	1.0	-
Deferred tax relating to the above adjustments	(7.2)	12.3
EPRA earnings	50.9	36.0
Weighted average number of ordinary shares	2016 Number	2015 Number
Weighted average number of ordinary shares in circulation	41,379,855	42,494,950
Earnings per Share	2016 Pence	2015 Pence
Basic	236.3	305.7
EPRA	123.0	84.7

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	2016 £m	2015 £m
Basic net assets attributable to owners of the Company	876.4	762.8
Adjustment to increase fixed rate debt to fair value, net of tax	(28.3)	(27.7)
Goodwill as a result of deferred tax	(1.1)	(1.1)
EPRA triple net assets	847.0	734.0
Deferred tax on property and other non-current assets, net of minority interest	115.8	110.9
Fair value of derivative financial instruments	9.3	5.3
Adjustment to decrease fixed rate debt to book value, net of tax	28.3	27.7
EPRA net assets	1,000.4	877.9
Number of ordinary shares	2016 Number	2015 Number
Number of ordinary shares in circulation	40,739,576	42,140,581
Net Assets Per Share	2016 Pence	2015 Pence
Basic	2,151	1,810
EPRA	2,456	2,083
EPRA triple net	2,079	1,742

13 INVESTMENT PROPERTIES

	London £m	Rest of UK £m	Germany £m	France £m	Total £m
At 1 January 2016	800.1	91.7	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	18.3	(6.2)	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 from properties held for sale	-	9.2	-	-	9.2
At 31 December 2016	826.6	94.7	356.9	258.4	1,536.6

	London £m	Rest of UK £m	Germany £m	France £m	Sweden £m	Total £m
At 1 January 2015	705.0	97.6	235.5	225.1	46.9	1,310.1
Acquisitions	39.3	-	18.5	-	-	57.8
Capital expenditure	14.2	0.3	0.6	2.2	0.6	17.9
Disposals	(21.6)	(5.8)	(3.1)	-	-	(30.5)
Net movement on revaluation of investment properties	62.3	8.7	19.5	6.7	0.8	98.0
Rent-free period debtor adjustments	0.9	0.1	-	0.4	(0.1)	1.3
Exchange rate variances	-	-	(11.6)	(11.5)	(0.9)	(24.0)
Transfer to properties held for sale	-	(9.2)	-	(7.3)	(42.1)	(58.6)
Transfer to property, plant and equipment	-	-	-	-	(5.2)	(5.2)
At 31 December 2015	800.1	91.7	259.4	215.6	-	1,366.8

The investment properties (and the hotel, landholding and owner-occupied property detailed in note 14) were revalued at 31 December 2016 to their fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by external, professionally qualified valuers as follows:

London: Cushman and Wakefield; Knight Frank

Rest of UK: Cushman and Wakefield

Germany: Cushman and Wakefield

France: Jones Lang LaSalle

Sweden: L Fällström AB

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 £48.1 million (2015: £38.7 million).

Interest capitalised within capital expenditure in the year amounted to £0.7 million (2015: £0.4 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 (2015: £nil).

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14 PROPERTY, PLANT AND EQUIPMENT

	Hotel £m	Land and buildings £m	Owner- occupied property £m	Fixtures and fittings £m	Total £m
Cost or valuation					
At 1 January 2015	21.3	32.1	4.1	4.5	62.0
Additions	–	12.0	–	0.2	12.2
Acquired during the year					
Transfer from investment properties	–	5.2	–	–	5.2
Exchange rate variances	–	(0.5)	–	–	(0.5)
Revaluation	5.4	(4.4)	1.9	–	2.9
At 31 December 2015	26.7	44.4	6.0	4.7	81.8
Additions	–	20.6	–	0.2	20.8
Exchange rate variances	–	5.2	–	–	5.2
Revaluation	0.4	2.3	(0.1)	–	2.6
At 31 December 2016	27.1	72.5	5.9	4.9	110.4
Comprising:					
At cost	–	–	–	4.9	4.9
At valuation 31 December 2016	27.1	72.5	5.9	–	105.5
	27.1	72.5	5.9	4.9	110.4
Accumulated depreciation and impairment					
At 1 January 2015	–	–	(0.2)	(1.4)	(1.6)
Depreciation charge	(0.2)	(0.4)	–	(0.7)	(1.3)
At 31 December 2015	(0.2)	(0.4)	(0.2)	(2.1)	(2.9)
Depreciation charge	(0.2)	(0.4)	–	(0.5)	(1.1)
At 31 December 2016	(0.4)	(0.8)	(0.2)	(2.6)	(4.0)
Net book value					
At 31 December 2016	26.7	71.7	5.7	2.3	106.4
At 31 December 2015	26.5	44.0	5.8	2.6	78.9

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, as detailed in note 13.

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

15 INVESTMENTS IN ASSOCIATES

	Net assets £m	Goodwill £m	Impairment £m	Total £m
At 1 January 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
	Net assets £m	Goodwill £m	Impairment £m	Total £m
At 1 January 2015	6.2	1.3	(6.0)	1.5
Share of loss of associates after tax	(5.2)	–	5.2	–
Exchange rate differences	(0.4)	–	0.4	–
At 31 December 2015	0.6	1.3	(0.4)	1.5

16 OTHER FINANCIAL INVESTMENTS

	Investment type	Destination of Investment	2016 £m	2015 £m
Available-for-sale financial investments carried at fair value	Listed corporate bonds	UK	10.9	24.0
		Eurozone	9.8	4.2
		Other	44.4	45.2
			65.1	73.4
	Listed equity securities	UK	-	0.3
		Sweden	50.8	42.8
	Unlisted investments	Sweden	0.5	4.5
			116.4	121.0

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

	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods* £m	Total £m
At 1 January 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
	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods* £m	Total £m
At 1 January 2015	34.8	61.8	3.3	99.9
Additions	4.4	40.9	1.8	47.1
Disposals	-	(25.6)	(0.5)	(26.1)
Fair value movements recognised in reserves on available-for-sale assets	4.6	(4.8)	-	(0.2)
Exchange rate variations	(0.7)	1.1	(0.1)	0.3
At 31 December 2015	43.1	73.4	4.5	121.0

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

Corporate Bond Portfolio

At 31 December 2016

Sector	Banking	Insurance	Travel and Tourism	Telecoms and IT	Energy and Resources	Other	Total
Value	£22.4m	£1.8m	£10.8m	£13.1m	£15.2m	£1.8m	£65.1m
Running yield	7.6%	6.4%	7.5%	7.6%	8.9%	6.5%	7.8%
Issuers	RBS HSBC Lloyds Investec Barclays Unicredit Santander Allied Irish Credit Agricole Bank of Ireland Deutsche Bank Societe Generale	PGH Capital Brit Insurance	SAS Hertz Stena British Airways Air France-KLM	Dell Seagate Millicom Centurylink Telecom Italia Western Digital	Enel Seadrill Transocean ArcelorMittal Freeport-McMoRan	Stora Enso	

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

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17 TRADE AND OTHER RECEIVABLES

	2016 £m	2015 £m
Current		
Trade receivables	3.8	5.8
Prepayments	2.3	2.3
Accrued income	3.4	1.8
Other debtors	50.4	3.6
	59.9	13.5

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 (2015: none). No trade and other receivables were interest-bearing.

Included within other debtors is £0.2 million (2015: £1.0 million) due after more than one year, and £42.1 million (2015: £nil) due on the disposal of an investment property.

18 CASH AND CASH EQUIVALENTS

	2016 £m	2015 £m
Cash at bank and in hand	99.0	100.7

At 31 December 2016, Group cash at bank and in hand included £12.5 million (2015: £11.0 million) which was restricted by a third-party charge.

19 TRADE AND OTHER PAYABLES

	2016 £m	2015 £m
Current		
Trade payables	3.4	6.4
Social security and other taxes	8.2	6.7
Other payables	11.1	10.7
Accruals	13.9	15.8
Deferred income	13.9	14.6
	50.5	54.2

20 DEFERRED TAX

	2016 £m	2015 £m
Deferred tax assets:		
– after more than 12 months	(3.1)	(3.3)
Deferred tax liabilities:		
– after more than 12 months	120.7	114.7
	117.6	111.4

The movement in deferred tax was as follows:

	2016 £m	2015 £m
At 1 January	111.4	101.1
(Credited)/charged in arriving at profit after tax	(7.1)	13.5
Charged/(credited) to other comprehensive income	3.8	(0.5)
Exchange rate variances	9.5	(2.7)
At 31 December	117.6	111.4

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 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)

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

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

Deferred tax has been calculated at a weighted average across the Group of 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 2016 the Group did not recognise deferred tax assets of £6.7 million (2015: £5.6 million) in respect of losses amounting to £26.5 million (2015: £22.7 million) which can be carried forward against future taxable income or gains. The majority of deferred tax assets recognised within the "other" category relate either to deferred tax on swaps with a negative book value or to corporate bonds carried at below cost. Losses recognised as deferred tax assets can be carried forward without restriction.

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31 December 2016

21 BORROWINGS

	At 31 December 2016			At 31 December 2015		
	Current £m	Non-current £m	Total borrowings £m	Current £m	Non-current £m	Total borrowings £m
Bank loans	119.8	573.2	693.0	190.5	409.8	600.3
Debenture loans	2.0	23.4	25.4	1.8	25.5	27.3
Zero coupon note	–	–	–	–	8.4	8.4
Unsecured bonds	(0.1)	64.7	64.6	23.9	64.6	88.5
Secured notes	4.1	62.8	66.9	4.1	66.9	71.0
	125.8	724.1	849.9	220.3	575.2	795.5

Arrangement fees of £4.5 million (2015: £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 6.9%, including margin (2015: 1.4% and 6.9%) and at floating rates of typically LIBOR, EURIBOR or STIBOR, plus a margin. Floating rate margins range between 0.8% and 3.8% (2015: 0.8% and 3.8%). All bank loans are secured by legal charges over the respective properties, and in most cases a floating charge over the remainder of the assets held in the company which owns the property. In addition, the share capital of some of the subsidiaries within the Group has been charged.

Debenture loans

The debenture loans represent amortising bonds which are repayable in equal quarterly instalments of £1.2 million (2015: £1.2 million) with final repayment due in January 2025. Each instalment is apportioned between principal and interest on a reducing balance basis. Interest is charged at an annual fixed rate of 10.8%, including margin. The debentures are secured by a legal charge over a property and securitisation of its rental income.

Zero coupon note

The zero coupon note accrued interest at an annual rate of 11.2%, including margin. It was unsecured and was redeemable as a balloon repayment of principal and interest of £21.8 million in aggregate in February 2025. The element of the zero coupon note still held by third parties was bought back in 2016; £9.0 million (2015: £4.0 million) of the zero coupon note was bought back in the year at a cost of £12.0 million (2015: £5.2 million).

Unsecured bonds

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

On 15 April 2011, the Group issued SEK 300 million unsecured bonds. The bonds attract a floating rate coupon of 3.75% over six months' STIBOR and were repaid in 2016. The bonds were listed on Nasdaq Stockholm on 5 July 2011.

Secured notes

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

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

	Bank loans £m	Debenture loans £m	Zero coupon note £m	Unsecured bonds £m	Secured notes £m	Total £m
At 31 December 2016						
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
Unamortised issue costs	696.6 (3.6)	25.4 -	- -	65.0 (0.4)	67.4 (0.5)	854.4 (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
At 31 December 2015						
Within one year or on demand	191.5	1.8	-	24.1	4.2	221.6
More than one but not more than two years	57.1	2.0	-	-	4.2	63.3
More than two but not more than five years	186.2	7.6	-	65.0	12.5	271.3
More than five years	168.8	15.9	8.4	-	50.7	243.8
Unamortised issue costs	603.6 (3.3)	27.3 -	8.4 -	89.1 (0.6)	71.6 (0.6)	800.0 (4.5)
Borrowings	600.3	27.3	8.4	88.5	71.0	795.5
Less amount due for settlement within 12 months	(190.5)	(1.8)	-	(23.9)	(4.1)	(220.3)
Amounts due for settlement after 12 months	409.8	25.5	8.4	64.6	66.9	575.2

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

	At 31 December 2016		At 31 December 2015	
	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years	Weighted average fixed rate of financial liabilities %	Weighted average period for which rate is fixed Years
Sterling	5.6	5.1	5.8	6.2
Euro	1.3	5.7	1.8	6.0

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

	At 31 December 2016			At 31 December 2015		
	% 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	10	4.1	1.0	20	3.3	0.7
Euro	11	3.8	1.9	65	3.4	0.9

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31 December 2016

21 BORROWINGS CONTINUED

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

	At 31 December 2016			At 31 December 2015		
	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	182.7	296.3	479.0	247.2	198.8	446.0
Euro	92.8	223.8	316.6	60.5	207.0	267.5
Swedish Krona	14.6	39.7	54.3	–	75.0	75.0
Other	–	–	–	–	7.0	7.0
	290.1	559.8	849.9	307.7	487.8	795.5

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

	Carrying amounts		Fair values	
	2016 £m	2015 £m	2016 £m	2015 £m
Current borrowings	125.8	220.3	125.8	220.4
Non-current borrowings	724.1	575.2	748.2	609.6
	849.9	795.5	874.0	830.0

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 £4.5 million (2015: £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.

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

	2016 £m	2015 £m
Floating rate: – expiring within one year	45.8	39.7

22 DERIVATIVE FINANCIAL INSTRUMENTS

	2016 Assets £m	2016 Liabilities £m	2015 Assets £m	2015 Liabilities £m
Non-current				
Interest rate swaps	–	(9.8)	–	(5.8)
Current				
Forward foreign exchange contracts	0.5	–	0.5	–
	0.5	(9.8)	0.5	(5.8)

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 2016 was £158.4 million (2015: £135.7 million). The average period to maturity of these interest rate swaps was 4.9 years (2015: 6.1 years).

Forward foreign exchange contracts

The Group uses forward foreign exchange contracts from time to time to add certainty to, and to minimise the impact of foreign exchange movements on, committed cash flows. At 31 December 2016 the Group had £18.4 million of outstanding net foreign exchange contracts (2015: £20.0 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.

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:

	2016 £m	2015 £m
Debt	854.4	800.0
Liquid resources	(164.1)	(174.1)
Net debt	690.3	625.9
Equity	882.5	768.0
Net debt to equity ratio	78%	81%

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.

23 FINANCIAL INSTRUMENTS CONTINUED

Externally imposed capital requirement

At 31 December 2016 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 (2015: £89.1 million). The Group was also restricted from making distributions to shareholders if to do so would reduce net assets below £250 million, imposed by unsecured bonds of £65.0 million (2015: £65.0 million). Additionally, the Group was subject to externally imposed capital requirements to the extent that debt covenants may require Group companies to maintain ratios such as debt to equity (or similar) below certain levels.

Risk management objectives

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

- market risk
- credit risk
- liquidity risk

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

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

(a) Market risk

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

(i) Interest rate risk

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

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

Scenario	2016 Income statement £m	2015 Income statement £m
Cash +50 basis points	0.5	0.5
Variable borrowings (including caps) +50 basis points	(2.8)	(2.4)
Cash -50 basis points	(0.5)	(0.5)
Variable borrowings (including caps) -50 basis points	1.5	1.0

(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	2016	2016	2015	2015
	Net assets £m	Profit before tax £m	Net assets £m	Profit before tax £m
1% increase in value of sterling against the euro	(2.0)	(0.4)	(2.2)	(0.4)
1% increase in value of sterling against the Swedish krona	(0.4)	(0.1)	(0.3)	(0.1)
1% fall in value of sterling against the euro	2.0	0.4	2.2	0.4
1% fall in value of sterling against the Swedish krona	0.4	0.1	0.3	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.

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	2016	2015
	Other Comprehensive Income £m	Other Comprehensive Income £m
10% fall in value	(11.6)	(11.7)
10% increase in value	11.6	11.7

(b) Credit risk

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

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

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

23 FINANCIAL INSTRUMENTS CONTINUED

At 31 December 2016 the Group held £116.4 million (2015: £121.0 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	2016 £m	2015 £m
Investment grade	6.8	9.4
Non-investment grade	43.7	56.6
Not rated	65.9	55.0
Total	116.4	121.0

(c) Liquidity risk

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

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

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

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

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

At 31 December 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[†]	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	-	-	-
At 31 December 2015				
Non-derivative financial liabilities:				
Borrowings	221.6	63.3	271.3	243.8
Interest payments on borrowings[†]	27.1	27.0	30.4	33.9
Trade and other payables	54.2	-	-	-
Forward foreign exchange contracts:				
Cash flow hedges				
- Outflow	(20.0)	-	-	-
- Inflow	20.0	-	-	-

[†] 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 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

	Number			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2015	42,924,061	2,903,103	45,827,164	10.8	0.7	11.5
Issued	15,000	(15,000)	-	-	-	-
Cancelled following tender offers	(798,480)	-	(798,480)	(0.2)	-	(0.2)
At 31 December 2015	42,140,581	2,888,103	45,028,684	10.6	0.7	11.3

The Directors are proposing a share sub-division of each of the existing ordinary shares of 25 pence each into 10 new ordinary shares of 2.5 pence each. Subject to shareholder approval at the annual general meeting to be held on 26 April 2017, the share sub-division will take place following the payment of the final dividend.

25 DISTRIBUTIONS TO SHAREHOLDERS

A tender offer by way of a Circular dated 18 March 2016 for the purchase of 1 in 57 shares at 1,810 pence per share was completed in April. It returned £13.4 million to shareholders, equivalent to 31.8 pence per share.

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 share was completed in September. It returned £7.2 million to shareholders, equivalent to 17.5 pence per share.

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2016 of 40 pence per share, bringing the total distribution in respect of 2016 to 57.5 pence per share. The final dividend will return £16.3 million to shareholders. Subject to shareholder approval at the annual general meeting to be held on 26 April 2017, the dividend will be paid on 28 April 2017 to shareholders who are on the register of members on 17 March 2017.

Between 13 May 2016 and 31 May 2016, the Company bought 255,099 shares in the market at an average of 1,595 pence per share.

26 SHARE PREMIUM

	2016 £m	2015 £m
At 1 January	83.0	82.9
Ordinary shares issued from treasury shares	0.1	0.1
At 31 December	83.1	83.0

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2016

27 OTHER RESERVES

	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

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

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

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

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

28 CASH GENERATED FROM OPERATIONS

	2016 £m	2015 £m
Operating profit	120.2	168.7
Adjustments for:		
Net movements on revaluation of investment properties	(36.1)	(98.0)
Depreciation and amortisation	1.1	1.3
Profit on sale of investment property	(9.1)	(4.3)
Gain on sale of corporate bonds	(3.2)	(0.7)
Non-cash rental income	(2.4)	(1.3)
Share-based payment expense	0.1	0.2
Other gains and losses	–	(2.9)
Changes in working capital:		
Increase in receivables	(2.7)	(2.5)
(Decrease)/increase in payables	(5.9)	11.6
Cash generated from operations	62.0	72.1

29 CONTINGENCIES

At 31 December 2016 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:

	2016 £m	2015 £m
Operating lease commitments – where the Group is lessor		
Within one year	84.9	83.2
More than one but not more than five years	268.5	253.7
More than five years	193.1	202.5
	546.5	539.4

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 2016 the Group had contracted capital expenditure of £9.3 million (2015: £4.7 million). At the balance sheet date, the Group had conditionally exchanged contracts to acquire an investment property for £31.4 million (2015: £6.1 million). There were no authorised financial commitments which were yet to be contracted with third parties (2015: none).

31 SUBSIDIARIES

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

United Kingdom

Registered Office: 86 Bondway, London SW8 1SF

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

United Kingdom

Registered Office: 15 Atholl Crescent, Edinburgh EH3 8HA

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2016

31 SUBSIDIARIES CONTINUED

France

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

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

Germany

Registered Office: Brodschangen 4, D-20457 Hamburg

CLS Germany Management GmbH
Jarrestrasse Immobilien GmbH

Luxembourg

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

Adlershofer Sàrl	CLS Palisade Sàrl	Haydn Sàrl	Salisbury Hill Sàrl
Albertina Sàrl	CLS Tangentis Sàrl	Hermalux Sàrl	Satimood Sàrl
Cavernet Sàrl	Freepost Sàrl	Kapellen Sàrl	Schönbrunn Sàrl
Chronotron Sàrl	Frohösestrasse Sàrl	Lipizzaner Sàrl	St Stephan Sàrl
CLS Investments Sàrl	Garivet Sàrl	Naropere Sàrl	Zillertal Sàrl
CLS Luxembourg Sàrl	Grossglockner 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
CLS Management BV	Mission Marchand BV	Portapert Properties UK BV	Stockport Investments BV
Forum d'Aubigny BV	Parc Avenue du Park BV	Rasstaf BV	

Jersey

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

Hawkswell Limited

British Virgin Islands

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

Pantheon Securities Limited[†]

[†] In liquidation

Sweden

Registered Office: Skönabäck 122, 274 91 Skurup

Auriolen AB
Förvaltnings AB Klio
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 Luleå AB	First Camp Upplands-Bro AB
Brf Kolmården	First Camp Bråviken AB	First Camp Malmö AB	Solvik Camping och Stugby AB
Brf Möllen	First Camp Gunnarsö AB	First Camp Mölle AB	Stugbyn Gunnarsö AB
Brf Solcamp	First Camp Holding Karradal AB	First Camp Sverige AB	Svalans Stugförmedling AB
Brf Solgläntan (96.7%)	First Camp Karlstad AB	First Camp Torekov AB	
Brf Umeå Stugor	First Camp Kärradal AB	First Camp Tylösand AB	
Brf Wermelandia stugor	First Camp Kungshamn AB	First Camp Umeå AB	

32 ASSOCIATES

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

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

* Liquidated

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2016

33 RELATED PARTY TRANSACTIONS

Associates and Joint Ventures

At 31 December 2016, the Group had a convertible loan of SEK 5.0 million (2015: SEK 5.0 million), due from Nyheter24 Media Network AB, an associate company. Until 1 May 2015, this loan was interest free, and thereafter attracted Swedish base rate plus 2%. At any date until 31 May 2017, the Group is permitted to convert the loan into shares in Nyheter24 Media Network AB at SEK 40.5 each.

Transactions with Directors

Distributions totalling £11,023,983 (2015: £9,235,402) were made through tender offer buy-backs in the year in respect of ordinary shares held by the Company's Directors.

During the year, a company owned by Sten Mortstedt rented office space to a Group company, Vänerparken Investment AB ("Vänerparken"), at a cost of SEK 400,000 (2015: 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 (2015: £nil).

Skansen Group Limited, a company in which Anna Seeley and Thomas Lundqvist are Directors, rented office space from a Group company, Vauxhall Square Limited, at an arm's length rent of £46,530 per annum (2015: £46,530) plus annual service charge of £19,452 (2015: £21,650). No balances were outstanding at the balance sheet date. On 29 September 2016 the lease with Skansen expired and they vacated.

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 48 to 69. Directors fees of £450,000 (2015: £425,000) were paid to a company owned by Sten Mortstedt.

	2016 £000	2015 £000
Short-term employee benefits	2,377	2,421
Post-employment benefits	32	45
Other long-term benefits	125	736
	2,534	3,202

COMPANY BALANCE SHEET

at 31 December 2016

	Notes	2016 £m	2015 £m
Fixed assets			
Investment in subsidiary undertakings	6	354.5	256.5
Current assets			
Trade and other receivables	7	5.5	116.1
Cash and cash equivalents		0.1	0.1
Total assets		360.1	372.7
Current liabilities			
Trade and other payables	8	(21.4)	(4.4)
Borrowings	9	(18.1)	(23.9)
Non-current liabilities			
Borrowings	9	(64.7)	(64.6)
Total liabilities		(104.2)	(92.9)
Net assets		255.9	279.8
Equity			
Share capital	10	11.0	11.3
Share premium	11	83.1	83.0
Other reserves	12	27.3	27.0
Profit and loss account	12	134.5	158.5
Shareholders' funds		255.9	279.8

The Company reported a profit for the financial year ended 31 December 2016 of £0.8 million (2015: £99.1 million).

These financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 8 March 2017 and were signed on its behalf by:

Mr E H Klotz
Executive Chairman

COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2016

	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
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
	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Arising in 2015:						
Profit for the year	12	-	-	-	99.1	99.1
Issue of share capital	11	-	0.1	-	-	0.1
Purchase of own shares	12	(0.2)	-	0.2	(16.1)	(16.1)
Expenses thereof	12	-	-	-	(0.1)	(0.1)
Total changes arising in 2015		(0.2)	0.1	0.2	82.9	83.0
At 1 January 2015		11.5	82.9	26.8	75.6	196.8
At 31 December 2015		11.3	83.0	27.0	158.5	279.8

The notes on pages 110 to 113 are an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

31 December 2016

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 38.

3.2 Investments in subsidiaries

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

3.3 Pension costs

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

3.4 Share capital

Ordinary shares are classified as equity.

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

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

3.5 Foreign currencies

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

4 PROFIT FOR THE FINANCIAL YEAR

As permitted by s408 Companies Act 2006, the Company's profit and loss account has not been presented in these financial statements. The Company's retained profit for the financial year was £0.8 million (2015: £99.1 million).

Audit fees for the Company were £0.1 million (2015: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Committee Report on pages 48 to 69.

5 DISTRIBUTIONS TO SHAREHOLDERS

A tender offer by way of a Circular dated 18 March 2016 for the purchase of 1 in 57 shares at 1,810 pence per share was completed in April. It returned £13.4 million to shareholders, equivalent to 31.8 pence per share.

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 share was completed in September. It returned £7.2 million to shareholders, equivalent to 17.5 pence per share.

The Directors are proposing a final dividend in respect of the financial year ended 31 December 2016 of 40 pence per share, bringing the total distribution in respect of 2016 to 57.5 pence per share. The final dividend will return £16.3 million to shareholders. Subject to shareholder approval at the annual general meeting to be held on 26 April 2017, the dividend will be paid on 28 April 2017 to shareholders who are on the register of members on 17 March 2017.

Between 13 May 2016 and 31 May 2016, the Company bought 255,099 shares in the market at an average of 1,595 pence per share.

6 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2016 £m	2015 £m
At 1 January	256.5	185.6
Additions	99.2	83.0
Impairment	(1.2)	(12.1)
At 31 December	354.5	256.5

7 TRADE AND OTHER RECEIVABLES

	2016 £m	2015 £m
Current		
Amounts owed by subsidiary undertakings	2.2	116.0
Prepayments and accrued income	0.1	0.1
Other debtors	3.2	-
	5.5	116.1

8 TRADE AND OTHER PAYABLES

	2016 £m	2015 £m
Current		
Trade payables	0.1	0.2
Amounts owed to subsidiary undertakings	17.5	1.4
Accruals	3.7	2.5
Social security and other taxes	0.1	0.3
	21.4	4.4

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

31 December 2016

9 BORROWINGS

	Current £m	Non-current £m	Total borrowings £m
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
At 31 December 2015			
Unsecured bonds	24.1	65.0	89.1
Arrangement fees	(0.2)	(0.4)	(0.6)
	23.9	64.6	88.5

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

On 15 April 2011, the Group issued SEK 300 million unsecured bonds. The bonds attract a floating rate coupon of 3.75% over six months' STIBOR and were repaid in 2016. The bonds were listed on Nasdaq Stockholm on 5 July 2011.

10 SHARE CAPITAL

	Number			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 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
	Number			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2015	42,924,061	2,903,103	45,827,164	10.8	0.7	11.5
Issued	15,000	(15,000)	-	-	-	-
Cancelled following tender offers	(798,480)	-	(798,480)	(0.2)	-	(0.2)
At 31 December 2015	42,140,581	2,888,103	45,028,684	10.6	0.7	11.3

The Directors are proposing a share sub-division of each of the existing ordinary shares of 25 pence each into 10 new ordinary shares of 2.5 pence each. Subject to shareholder approval at the annual general meeting to be held on 26 April 2017, the share sub-division will take place following the payment of the final dividend.

11 SHARE PREMIUM

	2016 £m	2015 £m
At 1 January	83.0	82.9
Ordinary shares issued from treasury shares	0.1	0.1
At 31 December	83.1	83.0

12 PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

	Other reserves			Profit and loss account £m
	Capital redemption reserve £m	Other £m	Total £m	
At 1 January 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

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

13 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2016 £m	2015 £m
At 1 January	279.8	196.8
Profit for the year	0.8	99.1
Issue of share capital	0.1	0.1
Purchase of own shares	(24.8)	(16.2)
At 31 December	255.9	279.8

14 CONTINGENCIES

At 31 December 2016 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 2016, the Company had no contracted capital expenditure (2015: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2015: £nil).

FIVE YEAR FINANCIAL SUMMARY

31 December 2016

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Group revenue	128.5	118.9	99.6	91.2	80.2
Net rental income	107.1	99.0	82.2	73.1	62.9
Administration expenses	(21.3)	(19.5)	(13.6)	(12.4)	(10.5)
Other expenses	(14.0)	(13.8)	(4.9)	(3.5)	(2.9)
Group revenue less costs	71.8	65.7	63.7	57.2	49.5
Net movements on revaluation of investment properties	36.1	98.0	186.0	(0.2)	16.2
Profit on sale of investment properties	9.1	4.3	8.7	4.5	-
Gain/(loss) on sale of corporate bonds and other financial investments	3.2	0.7	-	14.1	(0.4)
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	120.2	168.7	259.8	92.3	65.3
Finance income	13.6	10.0	7.7	7.6	10.6
Finance costs	(32.7)	(27.5)	(28.1)	(23.7)	(25.6)
Share of (loss)/profit of associates after tax	(1.0)	-	(2.6)	(4.8)	5.8
Profit before tax	100.1	151.2	236.8	71.4	56.1
Taxation	(1.8)	(19.1)	(42.0)	(8.2)	(9.4)
Profit for the year	98.3	132.1	194.8	63.2	46.7
Distributions paid and proposed	23.5	19.1	15.9	15.0	13.2
Net Assets Employed					
Non-current assets	1,763.9	1,572.6	1,477.8	1,257.0	1,110.5
Current assets	159.4	173.3	111.0	142.8	115.2
	1,923.3	1,745.9	1,588.8	1,399.8	1,225.7
Current liabilities	(186.2)	(282.2)	(269.6)	(121.3)	(172.2)
Non-current liabilities	(854.6)	(695.7)	(661.7)	(797.6)	(636.4)
Net assets	882.5	768.0	657.5	480.9	417.1
Ratios	2016	2015	2014	2013	2012
Net assets per share (pence)	2,151	1,810	1,521	1,094	963
EPRA net assets per share (pence)	2,456	2,083	1,774	1,268	1,154
Earnings per share (pence)	236.3	305.7	449.0	146.9	106.0
EPRA earnings per share (pence)	123.0	84.7	77.4	66.2	65.3
Net gearing (%)	78.8	82.0	89.4	125.0	111.6
Adjusted net gearing (%)	69.0	71.3	76.7	107.8	92.7
Interest cover (times)	3.36	3.19	3.34	3.18	3.49

GLOSSARY OF TERMS

ADJUSTED NET ASSETS OR ADJUSTED SHAREHOLDERS' FUNDS

Net assets excluding the fair value of financial derivatives, deferred tax on revaluations, and goodwill arising as a result of deferred tax

ADJUSTED NET GEARING

Net debt expressed as a percentage of adjusted net assets

ADJUSTED SOLIDITY

Adjusted net assets expressed as a percentage of adjusted total assets

ADJUSTED TOTAL ASSETS

Total assets excluding deferred tax assets

ADMINISTRATION COST RATIO

Recurring administration expenses of the Investment Property operating segment expressed as a percentage of net rental income

BALANCE SHEET LOAN TO VALUE

Net debt expressed as a percentage of total assets less cash and short-term deposits

CONTRACTED RENT

Annual contracted rental income after any rent-free periods have expired

CORE PROFIT

Profit before tax and before net movements on revaluation of investment properties, profit on sale of investment properties, subsidiaries and corporate bonds, impairment of intangible assets and goodwill, non-recurring costs, change in fair value of derivatives and foreign exchange variances

DILUTED EARNINGS PER SHARE

Profit after tax divided by the diluted weighted average number of ordinary shares

DILUTED NET ASSETS

Equity shareholders' funds increased by the potential proceeds from issuing those shares issuable under employee share schemes

DILUTED NET ASSETS PER SHARE OR DILUTED NET ASSET VALUE

Diluted net assets divided by the diluted number of ordinary shares

DILUTED NUMBER OF ORDINARY SHARES

Number of ordinary shares in circulation at the balance sheet date adjusted to include the effect of potential dilutive shares issuable under employee share schemes

DILUTED WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES

Weighted average number of ordinary shares in issue during the period adjusted to include the effect of potential weighted average dilutive shares issuable under employee share schemes

EARNINGS PER SHARE

Profit after tax divided by the weighted average number of ordinary shares in issue in the period

EPRA

European Public Real Estate Association

EPRA EARNINGS PER SHARE

Profit after tax, but excluding net gains or losses from fair value adjustments on investment properties, profits or losses on disposal of investment properties and other non-current investment interests, impairment of goodwill and intangible assets, movements in fair value of derivative financial instruments and their related current and deferred tax

EPRA NET ASSETS

Diluted net assets excluding the fair value of financial derivatives, deferred tax on revaluations, and goodwill arising as a result of deferred tax

EPRA NET ASSETS PER SHARE

EPRA net assets divided by the diluted number of ordinary shares

EPRA NET INITIAL YIELD

Annual passing rent less net service charge costs on investment properties expressed as a percentage of the investment property valuation after adding purchasers' costs

EPRA TOPPED UP NET INITIAL YIELD

Annual net rents on investment properties expressed as a percentage of the investment property valuation after adding purchasers' costs

EPRA TRIPLE NET ASSETS

EPRA net assets adjusted to reflect the fair value of debt and derivatives and to include the fair value of deferred tax on property revaluations

EPRA TRIPLE NET ASSETS PER SHARE

EPRA triple net assets divided by the diluted number of ordinary shares

ESTIMATED RENTAL VALUE (ERV)

The market rental value of lettable space as estimated by the Group's valuers

INTEREST COVER

The aggregate of group revenue less costs, divided by the aggregate of interest expense and amortisation of loan issue costs, less interest income

LIQUID RESOURCES

Cash and short-term deposits and listed corporate bonds

NET ASSETS PER SHARE OR NET ASSET VALUE (NAV)

Equity shareholders' funds divided by the number of ordinary shares in circulation at the balance sheet date

NET DEBT

Total borrowings less liquid resources

NET GEARING

Net debt expressed as a percentage of net assets

NET INITIAL YIELD

Annual net rents on investment properties expressed as a percentage of the investment property valuation

NET RENT

Contracted rent less net service charge costs

OCCUPANCY RATE

Contracted rent expressed as a percentage of the aggregate of contracted rent and the ERV of vacant space

OVER-RENTED

The amount by which ERV falls short of the aggregate of passing rent

PASSING RENT

Contracted rent before any rent-free periods have expired

PROPERTY LOAN TO VALUE

Property borrowings expressed as a percentage of the market value of the property portfolio

RENT ROLL

Contracted rent

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.

SOLIDITY

Equity shareholders' funds expressed as a percentage of total assets

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

DIRECTORS, OFFICERS AND ADVISERS

Directors

Henry Klotz	(Executive Chairman)
Fredrik Widlund	(Chief Executive Officer)
John Whiteley	(Chief Financial Officer)
Sten Mortstedt	(Executive Director)
Malcolm Cooper ‡ * †	(Non-Executive Director)
Joseph Crawley	(Non-Executive Director)
Elizabeth Edwards †	(Non-Executive Director)
Christopher Jarvis * †	(Non-Executive Director)
Thomas Lundqvist	(Non-Executive Director)
Bengt Mortstedt	(Non-Executive Director)
Anna Seeley	(Non-Executive Director)
Lennart Sten *	(Non-Executive Director)

* member of Remuneration Committee

† member of Audit Committee

‡ Senior Independent Director

Company Secretary

David Fuller BA, FCIS

Registered Office

86 Bondway
London SW8 1SF

Registered Number

2714781

Registrars and Transfer Office

Computershare Investor Services Plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

Shareholder Helpline: 0870 889 3286

CLS Holdings plc on line:

www.clsholdings.com

email:

enquiries@clsholdings.com

Clearing Bank

Royal Bank of Scotland Plc
24 Grosvenor Place
London SW1X 7HP

Financial Advisers

Elm Square Advisers Limited
10 Queen's Elm Square
London SW3 6ED

Stockbrokers

Liberum Capital
Ropemaker Place, Level 12
25 Ropemaker Street
London EC2Y 9LY

Panmure Gordon (UK) Limited

One New Change
London EC4M 9AF

Registered Auditor

Deloitte LLP
Chartered Accountants
2 New Street Square
London EC4A 3BZ

Financial and Corporate Public Relations

Smithfield Consultants Limited
10 Aldersgate Street
London EC1A 4HJ

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Printed by Boss Print Ltd

www.clsholdings.com

CLS Holdings plc

86 Bondway
London
SW8 1SF

Tel: +44 (0)20 7582 7766
Fax: +44 (0)20 7735 2779
email: enquiries@clsholdings.com

