



Taking advantage of Opportunities



CLS Holdings plc
Annual Report & Accounts

2013



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WHO WE ARE

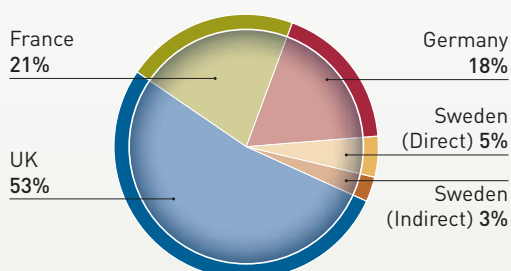
CLS HOLDINGS IS A PROPERTY INVESTMENT COMPANY WHICH HAS BEEN LISTED ON THE LONDON STOCK EXCHANGE SINCE 1994. THE COMPANY HAS A PROPERTY PORTFOLIO IN THE UK, FRANCE, GERMANY AND SWEDEN VALUED AT £1.1BN

- Shareholders' funds of £481 million
- EPRA net assets of £557 million
- £1,133 million of office properties across the UK, France, Germany and Sweden
- Top UK property company shareholder return performance in the last 6 years
- Strong alignment of interest with shareholders: management owns 53%
- Substantial cash and liquid resources available for new investment
- Cautiously entrepreneurial approach to future opportunities

A high net initial yield against
low cost of debt...

Generating Cash

PROPERTY INVESTMENTS BY VALUE



HOW WE OPERATE

Our Goal is to create Long-Term... *Shareholder Value*

WE AIM TO ACHIEVE OUR GOAL BY:

- PURSUING AN OPPORTUNISTIC INVESTMENT STRATEGY
- FOCUSING ON CASH RETURNS
- OPERATING IN DIVERSE LOCATIONS
- UTILISING DIVERSIFIED SOURCES OF FINANCE
- MAINTAINING A BROAD CUSTOMER BASE
- MINIMISING VACANT SPACE
- IMPOSING STRICT COST CONTROL
- RETAINING A HIGH LEVEL OF LIQUID RESOURCES

“ This has been an important year: we have acquired £165 million of property at an attractive yield of 11.6%, progressed our developments, raised innovative finance and equity, increased profits and delivered significant returns for shareholders. ”

KEY PERFORMANCE INDICATORS

• Total Shareholder Return

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

Achievement – 2008-2013: 324.3%, or 27.2% p.a. compound

• Effective management of balance sheet

Aim – to sell assets with limited growth potential and invest in high yielding alternatives

Achievement – 2013: Sales of £26.9 million at a net initial yield of 3.3%

– 2013: acquisitions of £165.3 million at a net initial yield of 11.6%

• Administration cost ratio

Aim – to maintain administration costs below 15.0% of net rental income

Achievement – 2013: 16.3%

– 2012: 15.9%

– 2011: 15.4%

• Occupancy rate

Aim – to maintain an occupancy level of over 95.0%

Achievement – 2013: 95.6%

– 2012: 96.2%

– 2011: 96.1%

Another year of... *Continued Growth*

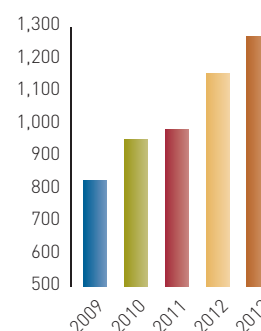
FINANCIAL HIGHLIGHTS

- **EPRA net assets per share: up 9.9%** to 1,268.4 pence (2012: 1,154.4 pence)
- **EPRA net assets: up 10.7%** to £557.5 million (2012: £503.4 million)
- **EPRA earnings per share: up 1.4%** to 66.2 pence (2012: 65.3 pence)
- **Net assets per share: up 13.6%** to 1,094.1 pence (2012: 963.1 pence)
- **Net assets: up 15.3%** to £480.9 million (2012: £417.1 million)
- **Earnings per share: up 38.6%** to 146.9 pence (2012: 106.0 pence)
- **Profit before tax: up 27.3%** to £71.4 million (2012: £56.1 million)
- **Profit after tax: up 35.3%** to £63.2 million (2012: £46.7 million)
- **Distributions to shareholders: up 13.5% like-for-like in the year, with a proposed £10.0 million** (April 2013: £8.6 million) by way of tender offer buy-back: 1 in 66 at 1,495 pence, equivalent to 22.65 pence per share
- **Low weighted average cost of debt: 3.64%** (2012: 3.67%)
- **Interest cover 3.2 times** (2012: 3.5 times)
- **Adjusted gearing 107.8%** (2012: 92.7%)
- **Adjusted solidity: 39.9%** (2012: 41.1%)

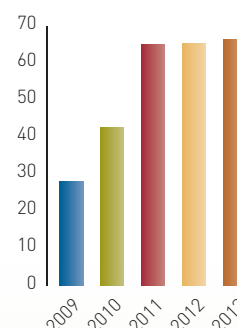
OTHER KEY DATA

- **Total Shareholder Return ("TSR") in 2013: 80.3%**
- **Top performer in UK listed property sector TSR over 6 years: 324.3%**
- **Portfolio value: £1,132.9 million** (2012: £934.5 million)
- **Loan to value of property loans: 56.3%** (2012: 58.8%)
- **Issue of £80 million 4.17% secured notes**
- **Proportion of Government occupiers: 50.2%**
- **Occupancy rate: 95.6%**
- **Indexation applies to 60.4% of contracted rent**
- **Liquid resources: £199.2 million**

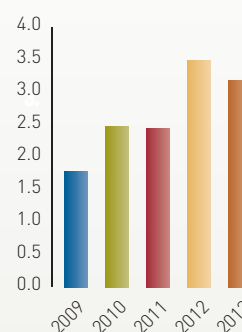
EPRA NET ASSETS PER SHARE
(pence)



EPRA EARNINGS PER SHARE
(pence)



INTEREST COVER
(times)



A good time to be...

Investing in Property

OVERVIEW This has been an important year of substantial further progress for the Group across a number of areas: we have acquired over £165 million of property at an attractive blended net initial yield of 11.6%, progressed the development opportunities, raised innovative finance and equity, increased profits and delivered significant total returns for shareholders.

The total shareholder return for the year was 80.3% and the return since 2008 has been 27.2% per annum compound, meaning that CLS has been the top performing listed real estate share over this period.

The profit before tax was £71.4 million, an increase of 27.3% (2012: £56.1 million) and EPRA net assets per share increased by 9.9% to 1,268.4 pence per share (2012: 1,154.4 pence). EPRA earnings per share were 66.2 pence per share (2012: 65.3 pence). These results have been achieved against a variable economic backdrop across Western Europe. The UK economy is accelerating at a pace which has surprised many commentators, a positive trend which we acted on during 2013. The Eurozone is seeing only modest growth overall, with some economies clearly performing much better than others.

The acquisitions during the year have significantly strengthened the core fundamentals of the Group: they have materially increased annual cash generation, and increased to 50% the rental income derived from governments. We now have over 460 customers across four countries, and enjoy a broad range of financing sources from over 20 banks and institutions, as well as the capital markets. The balance sheet is strong, with high levels of cash and liquid resources.

INVESTMENT PROPERTY PORTFOLIO According to external valuations, the value of the investment property portfolio has grown to £1,132.9 million (2012: £934.5 million), in part due to the £157.4 million spent during the year on income-producing acquisitions, £24.4 million on development expenditure and £10.4 million of refurbishment expenditure on sustainability, efficiency and upgrading the quality of our buildings. These figures are net of £7.9 million of purchase costs on the acquisitions, which are not reflected in the year end value. Disposals of two properties for £26.9 million were made during the year, at an uplift to book value of £6.3 million.

The significant level of acquisitions reflects our strategy of buying into the economic upturn and we continue to seek more purchases. In total 42 properties were acquired for £165.3 million at a blended net initial yield of 11.6%. The Neo portfolio, comprising 34 properties and 99% occupied by government bodies, was acquired as a receivership sale. There are many encouraging asset management opportunities emerging both from this acquisition, and from the others made in the year.

The overall rental yield on the Group's core investment portfolio is 7.0%, whereas the cost of debt remains very low at 3.64%. This spread of 336 basis points is amongst the highest in the listed property sector and remains a key component of the cash generative nature of the Group's profits.

Rental income fell by 1.1% in the year on a like-for-like basis as space was taken back for refurbishment pending re-letting. Following the acquisitions, however, the contracted rent roll at the year end had grown by 25.3% to £85.6 million (2012: £68.3 million). Of this income, 72% comes from governments and major corporations and 60% is index-linked. On a like-for-like basis, the value of the UK portfolio showed growth of 1.9%, including further uplift on the development properties. While Germany was broadly unchanged in local currency terms, values in France and Sweden reduced by 3.6% and 2.3% respectively, resulting in an unchanged valuation overall.

In-house property management is a key strength of the Group across all our regions, enabling us to respond faster and more proactively to the needs of our customers. The new acquisitions have been quickly and seamlessly integrated into this structure, with relatively few additional personnel required to be recruited. The benefits of this structure were evident during the Neo acquisition, as we experienced very positive customer references from an existing government occupier to a prospective one about the Group as a property owner.

The vacancy rate across the Group remains low at 4.4%, less than half the benchmark across European cities for our type of property. The weighted average lease length for the investment portfolio is 7.0 years, and 5.8 years to first break. Letting markets are good in the UK, where vacancy is just 2.4% and where there are clear signs of rental growth now emerging in suburban London; there are also interesting opportunities to convert offices to residential which we are actively exploring. Letting conditions are also healthy in Germany, where business confidence appears robust and occupiers are investing and expanding. This is evidenced by the vacancy rate in our German portfolio, which has reduced significantly from 7.4% to 3.5% in twelve months. There are also signs of rental growth in buoyant markets, such as Berlin, and we would like to acquire more buildings in Germany, which currently represents 18% of our property portfolio.

“ Acquisitions during the year have significantly strengthened the core fundamentals of the Group. ”

Whilst the German economy continues to improve with record high employment, solid export demand and signs of improving domestic consumption levels, the French economy is clearly struggling. As France represents 21% of our total portfolio, this has adversely affected the vacancy levels and the valuations of our portfolio. Letting activity in France has fallen by 25% compared to 2012, and new construction starts have slowed as immediate supply has increased by 9% in the Paris region. With political leadership and courage, we believe France will recover and our refurbished offices will be well placed to re-let into the upturn. In Sweden, the economy is expected to accelerate in 2014 driven by improving exports, further reduced interest rates and the strong position of banks for new lending. All this bodes well for commercial property in Sweden.

The development programme in London has made good progress in the year. The 3,423 sqm office redevelopment (and eight new residential apartments) at Clifford's Inn, Fetter Lane, EC4 is on course for completion in Q3 2014 and terms have already been agreed for a pre-let of the entire office space. The anticipated rent roll for the offices and residential is £1.4 million. At Spring Mews, SE11, the student and hotel scheme is also moving rapidly to a completion in Q3 2014; terms have been agreed with a London university to let 210 of the 378 student rooms for a 10 year period at a rent in line with our forecasts. In addition, Intercontinental Hotel Group has signed a franchise agreement for a Staybridge branded suite hotel of 93 rooms, to be run by specialist franchise operator, Cycas Hospitality. These agreements enable the Group to benefit from the continued growth that is anticipated in the Vauxhall area, rather than lock into long-term fixed rental income.

Good progress is being made with the Vauxhall Square, SW8, development where we have signed the Section 106 planning agreement and have full planning consent for a 143,000 sqm mixed-use scheme centred on 410 residential apartments, with offices, two hotels, a cinema, retail, restaurants, and student housing. The Vauxhall Nine Elms regeneration area goes from strength to strength, with construction well under way on the various residential sites and on the new US Embassy. The Dutch Embassy is coming to the area and the Chinese group, Wanda, acquired the One Nine Elms site,

adjacent to Vauxhall Square, for a 200m tall scheme of apartments with a five-star hotel. All this activity is very supportive for the values in the area and our site is at the heart of the tall building zone. The first construction on the development is expected to begin in 2015 on the student site as we have recently signed an agreement with a student housing operator, which will build and manage the 359 student room building, meaning there will be no Group cash required for this building. The terms of this agreement are confidential and it is conditional on certain technical matters being discharged, which we expect to happen over the next 12 months. This transaction highlights that individual elements of the scheme can be organised and financed in a variety of ways. There is considerable interest from hoteliers for the two four-star hotels and vacant possession for the main site is due at the end of 2016.

In Sweden, Catena AB, in which the Group owned a 29.9% stake, made a significant portfolio acquisition of 43 properties valued at SEK 3.85 billion (£360 million) by issuing new shares with a value of SEK1.15 billion (£112 million) and taking on the related debt. This was a very positive transaction for Catena, materially strengthening the earnings profile. As a consequence, the Catena share price rose 14% immediately after the acquisition, and gradually improved a further 3% by the end of the year. The transaction diluted the Group's shareholding to 13.8%, meaning it is now accounted for at the market value of Catena's shares as an available-for-sale asset, and no longer as an associate.

RESULTS Profit after tax grew by 35.3% to £63.2 million (2012: £46.7 million) and shareholders' funds rose by 15% to £480.9 million, after distributions to shareholders of £13.6 million and £19.0 million net proceeds of a share placing.

EPRA net assets per share have risen by 9.9% to 1,268.4 pence (2012: 1,154.4 pence), and net assets per share by 13.6% to 1,094.1 pence (2012: 963.1 pence). The balance sheet is strong, with cash and liquid resources of £199.2 million, and we have substantial undrawn credit facilities.

Recurring interest cover is high at 3.2 times, as the Group continues to enjoy a very low weighted average cost of debt of just 3.64% (2012: 3.67%), one of the lowest in the listed property sector. Net debt as a percentage of property loan to value was 56.3% (2012: 58.8%).

FINANCING The Group continues its clear strategy of having a wide variety of financing from banks and other debt providers, and of ring-fencing debt against individual properties where appropriate. We are pleased to have secured loans from two new lenders in 2013, a German Sparkasse bank and a UK insurance company. Diversity of financing is important to reduce risk and we enjoy active lending relationships with 26 debt sources. We also signed a £45 million revolving credit facility with a UK clearing bank in November, and there are positive signs of such banks more actively lending again.

Interest rates have remained very low, with further reductions in the Eurozone. We expect this will remain the case for an extended period, and, as a consequence, 71% of our debt is at floating rates, with 41% being protected against rising interest rates through interest rate caps.

The Group's corporate bond portfolio has continued to be a valuable part of the cash flow and liquid resources strategy. The portfolio performed well during the year, delivering a total return of £9.3 million, or 10.8% on capital. To fund the Neo acquisition, the portfolio was sold almost in its entirety in August over a few working days, which proved the high level of liquidity in the bonds held. At the year end the portfolio had been replenished from cash balances; it consisted of 21 bonds valued at £69.4 million with a running yield of 7.8% on market value, and a weighted average duration of 10.6 years. The portfolio size has thereafter been further increased, currently representing a market value of £98.3 million.

On 8 November 2013, the Group successfully placed 1.6 million treasury shares with institutional investors at £12.15 per share, raising net proceeds of £19.0 million. This placing was substantially oversubscribed and executed at an insignificant discount to the prevailing share price – credible signs of confidence in the Group. The placing further strengthens the balance sheet and supports our continued growth ambitions.

PROPERTY VALUATIONS According to external valuations, the value of the Group's investment property portfolio was £1,132.9 million at the year end. During the year the Group disposed of two properties for £26.9 million, a price which exceeded their 2012 external valuations by 60%. Such recurrent and material differences between external property valuations and actual transaction prices lead me to question whether our external valuations are currently consistently underestimating the actual values of our UK properties.

BOARD CHANGES On 14 February 2014, Richard Tice stepped down as Chief Executive Officer at his request after almost four years with CLS, but he remains as a non-executive director. The Board is grateful for the valuable contribution that Richard has made to the Group's continuing success and the strong management team that he has built. Henry Klotz, Executive Vice Chairman, who has been with the Group since 1999 and was Chief Executive Officer from 2008 to 2010, became Acting Chief Executive Officer pending a new permanent appointment being made; the search for a replacement is well under way. John Whiteley, Chief Financial Officer, assumes responsibility for investor relations. The Group's Executive Management Committee now comprises the three executive directors together with Simon Wigzell, who has been promoted to Head of Group Property.

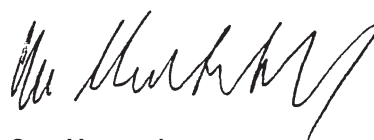
SUSTAINABILITY During the year we continued to implement important energy saving initiatives which are benefiting our customers and reducing overall energy consumption. We are aiming to achieve an SKA gold sustainability rating for the refurbishment works at our Hounslow building, installed a photovoltaic array on another building in London, and installed two 165 metre deep bore holes into the aquifer as part of the ground source based energy system at Spring Mews. More details of these activities will be given in the Corporate Social Responsibility section of the Annual Report.

It is clear that occupiers welcome these value adding initiatives and we remain focused on this important area, led by our full-time Sustainability Manager.

DISTRIBUTIONS TO SHAREHOLDERS In 2013, the Group distributed through tender offer buy-backs £8.6 million in April, equivalent to 19.80 pence per share, and £5.0 million in September, or 11.72 pence per share. Similarly, the Board proposes a tender offer buy-back of 1 in 66 shares at 1,495 pence per share in April 2014, to distribute £10.0 million to shareholders, equivalent to 22.65 pence per share, an increase of 14.4% over that of a year ago. This will bring total distributions for the year to £15.0 million, an annual like-for-like increase of 13.5%. A circular setting out the details will be sent to shareholders with the Annual Report and Accounts.

OUTLOOK The economic situation appears to be gradually improving, particularly in the UK, where rental growth is returning. Even though the Eurozone is still showing only modest growth and business confidence levels remain variable, it is fair to say that the outlook for the rest of Europe has also improved.

Against this background, the Group is well positioned to continue to deliver for shareholders. Interest rates are likely to stay very low for an extended period, and now is a good time to buy property, with a selective investment approach. The Group has substantial resources to respond to any attractive opportunities which may emerge, and our highly cash-generative operation and opportunistic investment strategy enable us to face the future with confidence.



Sten Mortstedt
Executive Chairman

4 March 2014



CORPORATE OBJECTIVE, BUSINESS MODEL AND STRATEGY

A proven and consistent...

Strategy

CORPORATE OBJECTIVE

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

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

KPI

BUSINESS MODEL

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

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

We operate in diverse locations

We utilise diversified sources of finance to reduce risk

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

We maintain low vacancy rates

We maintain strict cost control

We retain high levels of liquid resources

STRATEGY

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

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

Our investment strategy is opportunistic, its approach cautiously entrepreneurial

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

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

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

We have 64 loans from a range of lenders, including 22 banks, 2 public bonds and other financial institutions

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

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

During periods of low, benign interest rates, debt is hedged using caps and allowed to float; at 31 December 2013, 71% of debt was at floating rates

We avoid a heavy reliance on any one customer or business sector, and actively seek rent indexation; we have some 469 customers; 50.2% of rental income is derived from government occupiers, and a further 22.1% from major corporations; the weighted average unexpired lease term is 7.0 years; 60.4% of rental income is subject to indexation

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

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

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

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

“ A business built on cash generation, low vacancy rates and strict cost control to create long-term value for shareholders. ”

PERFORMANCE AGAINST CORPORATE OBJECTIVE

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

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

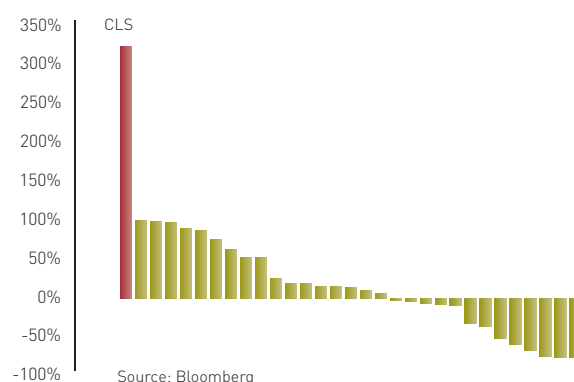
In 2008/09 whilst virtually all UK listed property companies were having to conduct rights issues, CLS returned cash to shareholders.

Accordingly, in the six years from 1 January 2008, CLS has provided a total shareholder return of 324.3%, or 27.2% per annum compound, representing the best performance amongst its peer group.

PERFORMANCE AGAINST OTHER KPIS

See page 2.

TSR OF UK LISTED PROPERTY COMPANIES 6 YEARS TO 31 DECEMBER 2013 (%)



Taking advantage... *of Opportunities*

The main activity of the Group is investment in commercial real estate across four European regions: the United Kingdom, France, Germany and Sweden. There is a particular focus on providing well-managed, cost-effective offices and property for cost-conscious occupiers in key European countries.

The Group's total property interests have increased to £1,169.3 million at 31 December 2013, comprising the wholly-owned investment portfolio valued at £1,132.9 million, a 13.8% interest in Swedish listed property company Catena AB valued at £32.6 million, and a £3.8 million interest in 44.2% of Cood Investments AB.

PROPERTIES

OVERVIEW At 31 December 2013, the directly held property portfolio was independently valued at £1,132.9 million (31 December 2012: £934.5 million). This increase of £198.4 million primarily comprised £200.1 million of new acquisitions and development expenditure, and a £9.3 million uplift from exchange rate variances, less disposals of £11.3 million. In local currencies, overall the portfolio did not change in value on a like-for-like basis. Purchase costs in the year totalling £7.9 million were not reflected in the subsequent valuation. In local currencies, the UK portfolio increased in value by 1.9%, Germany was broadly unchanged, and France and Sweden fell by 3.6% and 2.3%, respectively.

The £165.3 million of acquisitions (93% in the UK) over the year represented a clear strategy, expressed in the Half-Yearly Financial Report, that the Group was buying into the upturn. Subsequent economic data in the UK has appeared to support this view. 69% of the acquisitions in the UK were outside the M25, which reflected a forward-looking view that regional pricing was very attractive for the type of property and occupier that the Group knows so well. Whilst the contracted rent fell over the year by 1.1% on a like-for-like basis, the annualised rent rose in the year by 25.3% following the high yielding acquisitions in the year. The weighted average yield of 11.6% after costs reflected the fact that almost all of the purchases were from vendors with a need to sell. The overall yield on the investment property portfolio (excluding developments) at 31 December 2013 was 7.0% on value, with a low average rent of £165 per sqm. The average capital value was also low at just £2,072 per sqm, which was very close to replacement cost; this means that the land element of our investments in key European cities was minimal and highlights how successful the Group can be in attracting occupiers with cost-effective rents.



“ £165.3 million of acquisitions represented a clear strategy of buying into the upturn. ”

The quality of the Group's rental income is strong, with 50% being paid by government occupiers and 22% from major corporations, and 60% of our rents are subject to indexation. The weighted average lease length at 31 December 2013 was 7.0 years, or 5.8 years to first break. Over the next three years, just 28% of the current rental income expires and the current open market rental values are broadly in line with those expiring rental levels.

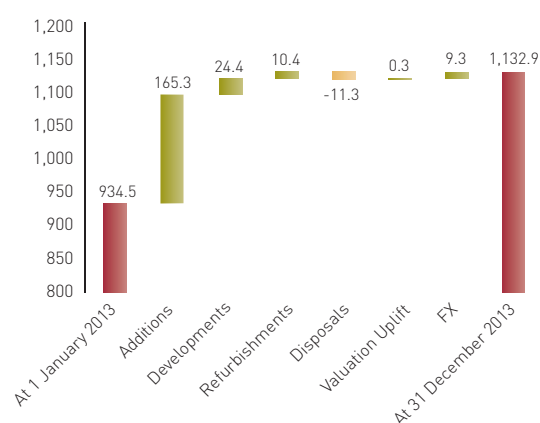
The overall vacancy rate remains very low at just 4.4%; this is testament to the benefit of very active in-house asset and property management, and to maintaining strong links with our occupiers to ensure we understand and respond to their needs.

The benefits of the Group's geographical diversification are reinforced as different economies move at different speeds. There are real signs of open market rental growth emerging in the London suburban markets for the first time in over six years; this supports our consistently held view of the beneficial impact to the Group of the lack of new supply in most of our markets.

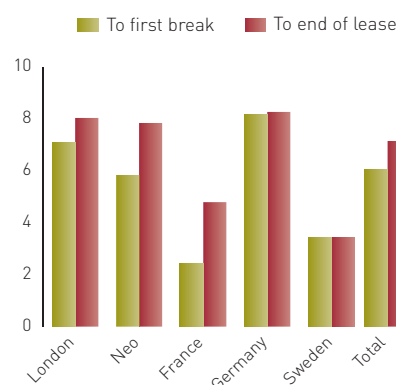
Debt is noticeably more available, at more attractive terms than was the case 12 months ago, particularly in the UK. There is a wider variety of providers of differing types of debt, which is good for the market. During the year we borrowed money from two new lenders to the Group, one in each of Germany and the UK.

The Group maintains its strong commitment to sustainability, which has benefited both occupiers and the Group alike. The Corporate, Social and Environmental Responsibility Statement on page 26 provides more detail.

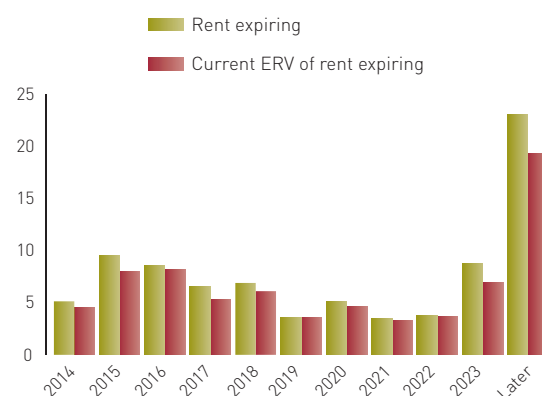
MOVEMENT IN INVESTMENT PROPERTIES 2013 (£ million)



AVERAGE UNEXPIRED LEASE TERM (Years)



EFFECT OF RENT EXPIRIES (£ million)



UK

	London	Neo	Total
• Value	£497.9 million	£119.9 million	£617.8 million
• Group's property interests	43%	10%	53%
• No. of properties	31	34	65
• Lettable space	142,974 sqm	106,670 sqm	249,644 sqm
• Net rental yield on book value	6.1%	12.6%	7.5%
• EPRA net initial yield	5.8%	11.9%	7.1%
• Vacancy rate	3.2%	0.9%	2.4%
• Valuation uplift	3.1%	-3.2%	1.9%
• Government and major corporates	77%	100%	85%
• Average unexpired lease length	8.0 years	7.9 years	8.0 years
• To first break	7.1 years	5.9 years	6.7 years

UK economic indicators showed considerable improvement in the second half of 2013 and into 2014, with GDP growing, unemployment falling and inflation reducing below the Government's 2% target for the first time since 2009. These macro factors, together with property specifics such as the lack of new construction and an increasing potential for office-to-residential conversion in the South East, have led to a significant increase in demand relative to the supply of suburban London offices. As a result, rental growth in the London portfolio is now a tangible reality in 2014. This bodes well for high yielding real estate in an environment of low interest rates underpinned by the Bank of England's new forward guidance.

Against this background, the Group has been buying actively into the UK recovery, with total acquisitions of £153.2 million (including purchase costs) yielding 11.8% across a total of 41 buildings. This comprised £29.5 million in aggregate of individual purchases in London at an average yield of 9.9% and the Group's largest ever acquisition, the Neo portfolio, in September for £123.7 million, yielding 12.23% net of purchase costs. The average rent of £148 per sqm and capital value of £1,254 per sqm for these acquisitions are interesting as they show room for growth and, as a further option, provide attractive alternative use values. In making these acquisitions, the Group deliberately targeted shorter leases as this led to much higher yields. With the Group's long track record of keeping vacancy rates low, these purchases are expected to generate high levels of cash flow.

The Neo portfolio of 34 buildings across the UK is 99% occupied by 14 government departments, with a wide range of lease lengths and occupational needs. It provides numerous opportunities which play to the Group's strengths, to work with these departments over the long term, and to explore asset management initiatives and alternative use scenarios.

The vacancy rate for the UK remains very low at just 2.4% (excluding development stock). During 2013, 8,822 sqm became vacant and we let or renewed leases on 8,257 sqm. We have demonstrated single digit rental growth over the second half of the year at buildings such as Great West House, Brentford and Cambridge House, Hammersmith and we expect this to continue; it is over six years since this level of growth was evident in suburban London.

The appetite from new investors to London for certain types of buildings and locations seems insatiable, and in December the Group took the opportunity to sell Ingram House, John Adam Street, WC2, a 1,308 sqm office and residential building, for £13.2 million, equating to a capital value before refurbishment costs of over £10,000 per sqm, and some 54% above last year's valuation. This freed up capital for redeployment in refurbishment opportunities elsewhere in the portfolio, such as a number of potential office-to-residential conversion schemes currently under consideration, the application for the first of which under the new Permitted Development rules is under way for one of the properties we acquired in 2013. This new government legislation is to be welcomed as a real potential contributor to reducing the housing shortage in the South East, and we would support the extension of this scheme beyond the May 2016 expiry.

Also during the year we sold our one-third interest in Fielden House, adjacent to the Shard, for a price 66% above its value at 31 December 2012, producing a gain on disposal of £1.8 million.

The development programme in London has continued to make strong progress over the year:

- Spring Mews, Vauxhall SE11, a 20,800 sqm mixed-use scheme comprising a 378 bed student accommodation building, and a 93 bedroom suite hotel, together with retail and office space. Construction is well advanced, with topping out due later this month and completion set for Q3 2014. Terms have been agreed with a university for 210 of the student rooms under a ten-year nominations agreement with minimum rental uplifts linked to inflation. The other 168 rooms will be let direct by our specialist student marketing and operating manager, Fresh Student Living. Construction of the balance of 22 student rooms within the original 400 consented will be built in a later phase. For the hotel, a franchise agreement has been signed with Intercontinental Hotel Group (IHG) for a Staybridge branded suite hotel, to be run by specialist franchise operator Cycas Hospitality. This is a very exciting new hotel concept which is proving very successful in Stratford, East London, and the Group will benefit from the considerable expertise of the franchise team. The 245 sqm of retail and 1,000 sqm of offices within the scheme will be let upon completion. The estimated rental value per annum of the whole development when complete and running is over £5.5 million per annum.
- Clifford's Inn, EC4, a 3,423 sqm office redevelopment with eight new residential apartments. This is progressing towards a Q3 2014 completion, and terms have been agreed for a pre-let of the entire office space to a strong professional services firm. The apartments will be let or sold upon completion, the construction cost is some £10 million and the anticipated rent roll is over £1.4 million per annum.
- Vauxhall Square, SW8, a 143,000 sqm mixed-use development scheme including 410 private apartments in two 50 storey towers, 110 affordable homes, 22,732 sqm of offices, 3,119 sqm of shops and restaurants, a 278 room hotel and a 123 bedroom suite hotel, 359 student rooms, a 50 room hostel for the homeless and a multi-screen cinema. Activity continues to grow in Vauxhall/Nine Elms, a regeneration area now characterized by the proliferation of cranes on the sites under construction, including the new US Embassy. During the year the Dutch Embassy committed to the area and a Chinese investor, Wanda, acquired One Nine Elms, adjacent to Vauxhall Square and is shortly to begin demolition of the Market Towers building. All this activity bodes well for Vauxhall Square.

TOP 10 CUSTOMERS

UK

• National Crime Agency	Government
• Secretary of State	Government
• Trillium	Government
• Cap Gemini	Major Corporation
• BAE Systems	Major Corporation

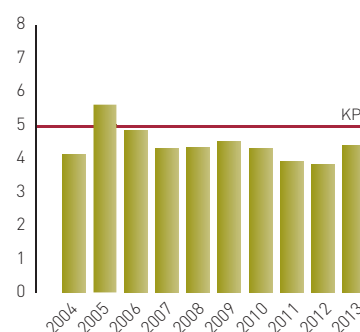
GERMANY

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

SWEDEN

• Västra Götaland County Council	Government
• Vänersborg Kommun	Government

VACANCY RATE HISTORY (%)



Following the signing of the s.106 planning agreement in July, progress has been made in shortlisting the right potential 4-star hoteliers for the 2 hotels on the scheme and design work is under way to address their needs. Following considerable interest from student housing operators, an agreement has been signed with one such specialist to build and manage the 359 student room building adjacent to the main Vauxhall Square site. Whilst the commercial terms of this agreement are confidential, it is conditional on a number of technical matters, which we expect to discharge within the next twelve months to enable construction of this first phase of Vauxhall Square to start in 2015, without the need for any Group cash to be invested.

The development sites generated a like-for-like increase in value in the year of £7.5 million or 7.6%, the additions to the London portfolio rose in value by £0.2 million after acquisition costs of £1.5 million, or by 6.0% before such costs, and the rest of the London investment portfolio increased by 2.1%. The Neo portfolio rose in value by £1.3 million, or 1.1%, in the first four months of our ownership, before acquisition costs of £5.1 million, being principally stamp duty land tax of £4.7 million.

FRANCE

• Value	£240.6 million
• Group's property interests	21%
• No. of properties	26
• Lettable space	96,437 sqm
• Net rental yield on book value	7.0%
• EPRA net initial yield	6.6%
• Vacancy rate	10.6%
• Valuation fall	-3.6%
• Government and major corporates	58%
• Average unexpired lease length	4.8 years
• To first break	2.5 years

The French economy has continued to suffer adversely from indecisive, variable policy-making under the Hollande presidency, high rates of tax, and a persistently low growth environment in the Eurozone; GDP was barely above zero for 2013. At the end of 2013, purchaser manager survey data for France was worse than for the Eurozone as a whole, and it may be that an improvement elsewhere will have a positive effect on France. With a rate of unemployment of 10.8% – approximately double that of Germany – reform may soon be needed in French labour market regulations to encourage employers to hire new staff.

This continued economic weakness adversely affected the French property market, where letting activity in 2013 fell by 25% from that of 2012. Different economies move at different times and this is one of the benefits of the Group's diversity across four countries. Two years ago, France had the Group's lowest vacancy rate at less than 3%, and with a rolling refurbishment programme, we will be well-placed to relet space again into the upturn.

The French portfolio valuation has fallen by 3.6% in the year in local currency, or by 1.5% in sterling. The underlying portfolio of 24 properties fell in value by 0.8%, but, as presaged earlier in the year, the vacancy rate has risen to 10.6% which reflects a couple of large expiries from space for which the refurbishment work is almost complete, and reflects the broader economic climate. During the year, occupiers vacated from 17,047 sqm, and we let or renewed 11,471 sqm. On the completion of the refurbishment of the Inside building at Reuil Malmaison, over 2,800 sqm will be available to let in this one building in 2014.

Whilst the quantity of space on which planning permission has been granted in central Paris has peaked at 1,835,000 sqm, less than 20% of these schemes are expected to be launched. The Group's most central office property in Paris, 1,800 sqm directly opposite the Banque de France, will be available for a refurbishment in late 2014 and this presents an opportunity to explore the potential to change the use to a boutique hotel, to ensure we maximise the value.

The volume of investment market transactions in Ile de France reduced by 9% in the year, but there is still strong demand from domestic investors for prime property.

GERMANY

• Value	£214.4 million
• Group's property interests	18%
• No. of properties	17
• Lettable space	152,315 sqm
• Net rental yield on book value	7.3%
• EPRA net initial yield	6.9%
• Vacancy rate	3.5%
• Valuation fall	-0.2%
• Government and major corporates	45%
• Average unexpired lease length	8.3 years
• To first break	8.2 years

The German economy remains stable; whilst producing GDP growth of just 0.4% in 2013, this probably masks an underlying strength, with over 2% growth forecast for 2014. The low interest rate environment, and some economic recovery in other Eurozone states, should boost exports for Germany. In December 2013, business and consumer sentiment rose to highs not seen for many years, domestic demand has remained strong from the traditionally thrifty local consumer and employment levels continue to be at record highs of over 41 million.

Property investment volumes have risen by over 5% in the year. Lettings in the big six cities have fallen by 6% but in our portfolio we have experienced considerable success, reducing the vacancy rate in the year from 7.4% to 3.5%. Lettings and renewals have totalled 6,772 sqm whilst only 829 sqm was vacated by occupiers. In particular we have let 2,065 sqm at the Maximilian Forum building in Munich and 510 sqm at Bismarckstrasse, Berlin. There is an encouraging trend of enquiries and expansion plans from existing and potential occupiers.

In June the Group completed the purchase for €13.1 million of a 7,135 sqm fully let office building located in the heart of Freiburg in south west Germany consisting of 5,127 sqm of offices, 1,247 sqm of retail, archives and 112 car spaces. The net initial yield of 8.75% after costs was derived from rent of €1.23 million from occupiers such as KPMG, Commerzbank and a local government department. Debt was secured from a regional Sparkasse bank.

It is clear that amongst our markets debt is most available and competitively priced in Germany, and the Group would very much like to acquire more property in this region.



SWEDEN

Directly Owned

• Value	£60.1 million
• Group's property interests	5%
• No. of properties	1
• Lettable space	45,354 sqm
• Net rental yield on book value	8.9%
• EPRA net initial yield	8.4%
• Vacancy rate	1.7%
• Valuation fall	-2.3%
• Government and major corporates	97%
• Average unexpired lease length	3.4 years
• To first break	3.4 years

Indirectly Owned

• Value in Catena	£32.6 million
• Group's property interests	2%
• Interest in Catena	13.8%
• Value in Cood Investments	£3.8 million
• Group's property interests	1%
• Interest in Cood Investments	44.2%

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

Whilst the Swedish economy has seen modest growth in 2013 of 1.5%, partially due to the slowdown in exports to other EU countries, consensus forecasts are for growth in 2014 to accelerate to 2.4%, assisted by the reduction in the bank rate in December 2013 to 0.75%. Inflation is below 1% and unemployment steady at 7.9%. The banks are in a strong position to lend to the corporate and consumer sectors.

At the 45,354 sqm office complex, Vänerparken, near Gothenburg, negotiations have progressed according to plan with the main local government occupiers on lease renewals in 2015. The financing of the property was renewed for a further 2-year term at a competitive interest rate margin.

During the second half of the year, an associate, Catena AB, financed a significant corporate acquisition of a large portfolio of 43 properties, valued at SEK 3.845 billion, by issuing new shares in Catena with a value of SEK 1.145 billion (£112 million) and taking on the related debt secured on the portfolio. This resulted in a dilution of the CLS stake from 29.9% to 13.8%. In accordance with IFRS, Catena then ceased to be an associate of CLS and is now accounted for as an available-for-sale investment. The fair value gain on reclassification as an investment was £14.9 million, or 23.6 pence per share in EPRA net asset value.

In 2013, the Group paid £0.3 million to increase its shareholding in its associate, Cood Investments AB, to 44.2%, and £2.3 million to acquire 23,200 8% Convertible Loan Notes issued by Cood. The Notes are convertible at the option of the noteholder between 1 January 2014 and 31 May 2015, into 23,200 preference shares and, if exercised, would give the Group a majority of the equity voting rights of Cood Investments.

RESULTS FOR THE YEAR

HEADLINES Profit after tax of £63.2 million (2012: £46.7 million) generated EPRA earnings per share of 66.2 pence (2012: 65.3 pence), and basic earnings per share of 146.9 pence (2012: 106.0 pence). Gross property assets at 31 December 2013 were £1,132.9 million (2012: £934.5 million), EPRA net assets per share were 9.9% higher at 1,268.4 pence (2012: 1,154.4 pence), and basic net assets per share rose by 13.6% to 1,094.1 pence (2012: 963.1 pence).

Approximately 50% of the Group's business is conducted in the reporting currency of sterling, around 45% in euros, and the balance is in Swedish kronor. Compared to last year, profits benefited as the euro was 4.7% stronger and the krona 5.3% stronger against sterling than in 2012. Likewise, at 31 December 2013 the euro was 2.3% stronger against sterling than twelve months previously, increasing the sterling equivalent value of net assets.

Exchange rates to the £

	EUR	SEK
At 31 December 2011	1.1987	10.7088
2012 average rate	1.2332	10.7326
At 31 December 2012	1.2317	10.5677
2013 average rate	1.1779	10.1926
At 31 December 2013	1.2041	10.6562

STATEMENT OF COMPREHENSIVE INCOME At £76.0 million, rental income in 2013 was £9.9 million higher than in 2012, largely through the impact of acquisitions, which added £7.5 million, the strength of the euro and krona, which increased rent by £1.9 million, and indexation which contributed £1.2 million; the net effect of expiries exceeding lettings reduced rental income by £0.6 million, and disposals reduced it by £0.1 million. As other property-related income and net service charge expenses were in line with last year, net rental income of £73.1 million was 16.2% higher than last year (2012: £62.9 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 2013, retaining key staff into the economic upturn whilst expanding staff levels for the development programme and property purchases, drove the increase in administration expenses of the property segment of the Group to £11.9 million (2012: £10.0 million). As a proportion of net rental income, the administration cost ratio increased to 16.3% (2012: 15.9%), but with contracted rental income at 31 December 2013 of £85.6 million being £9.6 million higher than rental income in 2013, the administration cost ratio is expected to fall below our KPI target of 15.0% in 2014.

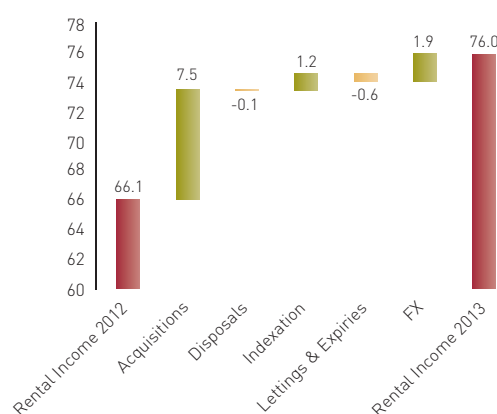
The disposal of Ingram House, WC2 realised a gain of £4.5 million after costs over its valuation at 31 December 2012 of £8.6 million, and the disposal of a one-third share in a joint venture which owned Fielden House, SE1 generated a gain of £1.8 million.

The corporate bond portfolio was sold in August to raise cash with which to acquire the Neo portfolio in early September. The historical cost profit recognised on the disposal of the bonds was £12.1 million and comprised the majority of the £14.1 million gain on sale of corporate bonds and other financial investments in 2013. The process of selling the corporate bonds proved their liquidity, as it took place over a few days in August without moving prices.

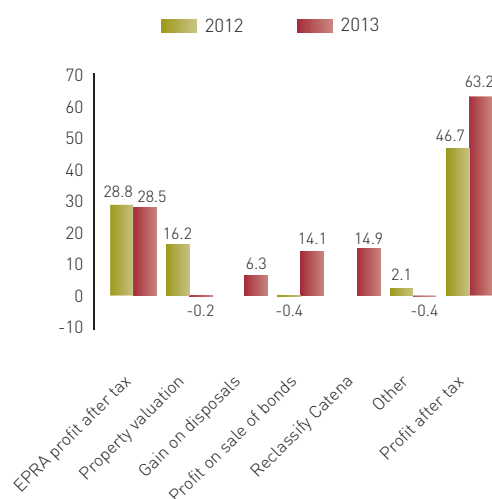
The net deficit on revaluation of investment properties in the year was £0.2 million in local currencies (2012: surplus of £16.2 million), but in sterling was a surplus of £9.1 million (2012: £5.1 million), after writing off £7.9 million (2012: £0.7 million) of acquisition costs, predominantly on the Neo portfolio.

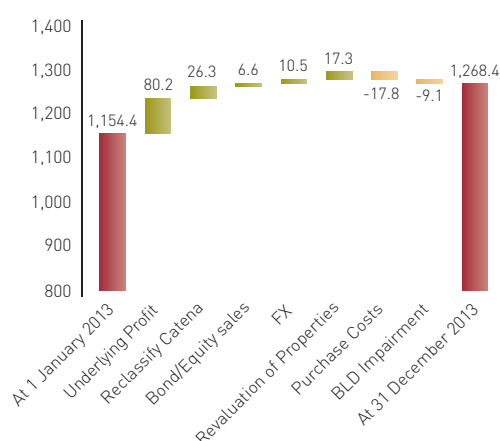
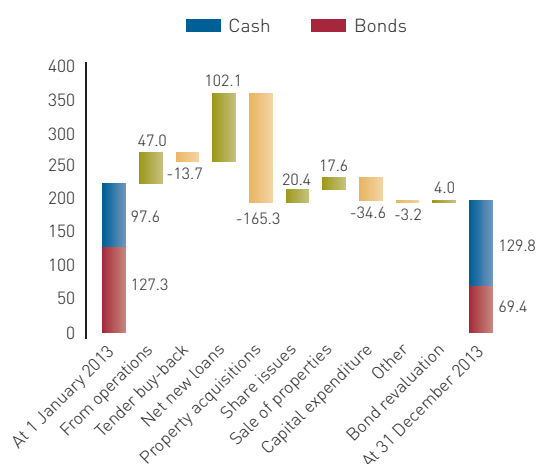
The reclassification of the investment in Catena AB to an available-for-sale financial investment generated a fair value gain of £14.9 million, as its share price was at a significant premium to the book value at which it had previously been recorded as an associate.

MOVEMENT IN RENTAL INCOME 2012 v 2013 (£ million)



PROFIT AFTER TAX (£ million)



MOVEMENT IN EPRA NAV 2013
(Pence per share)

MOVEMENT IN LIQUID RESOURCES 2013
(£ million)


Finance income of £7.6 million (2012: £10.6 million) comprised predominantly interest income of £6.3 million (2012: £9.1 million) from corporate bonds, and fell in the year following the temporary sale of the portfolio. After the Neo portfolio was refinanced with an £80 million medium-term loan in December, the corporate bond portfolio began to be restored. At 31 December 2013, it had a value of £69.4 million, and remained an important cash management tool of the Group, earning a return on capital of 10.8% in the year.

Finance costs of £23.7 million (2012: £25.6 million) were lower than last year due to non-cash items: favourable movements in the fair value of derivatives of £3.3 million (2012: adverse £1.5 million) reduced finance costs by £4.8 million, although this was mitigated by £1.8 million of foreign exchange variances reflecting sterling's relative weakness to the euro and krona. The underlying interest cost, excluding these valuation movements, rose to £26.1 million (2012: £24.2 million). A full year of interest on the £65 million retail bond issued in September 2012 added £2.3 million to gross interest costs in 2013, and the secured notes issued in December 2013 added £0.3 million. These loans also contributed to the increase of £0.8 million in loan issue costs amortised in the year. However, 71% of our debt is at floating rates to take advantage of the low interest rate environment, and the falls in Libor and its European equivalents were the major contributors to the reduction in the cost of bank loans by £1.5 million compared to 2012.

The majority of the share of loss of associates of £4.8 million (2012: profit of £5.8 million) was a provision of £4.0 million for the impairment of the carrying value of Bulgarian Land Development Plc, reflecting the difficult conditions likely to prevail in the Bulgarian residential holiday market.

Once again this year the tax charge of 11.5% was significantly below the weighted average rate of the countries in which we do business (23.1%), primarily due to indexation allowances available on United Kingdom properties.

DISTRIBUTIONS TO SHAREHOLDERS In April 2013, £8.6 million was distributed to shareholders by means of a tender offer buy-back of 1 in 49 shares at 970 pence per share. In September, a further £5.0 million was distributed by means of a tender offer buy-back of 1 in 116 shares at 1,360 pence per share, and a proposed tender offer buy-back of 1 in 66 shares at 1,495 pence per share to return £10.0 million will be put to shareholders at the Annual General Meeting in April 2014. This represents a 14.4% uplift in distribution per share over the equivalent distribution last year.

EPRA NET ASSET VALUE At 31 December 2013, EPRA net assets per share (a diluted measure which highlights the fair value of the business on a long-term basis) were 1,268.4 pence (2012: 1,154.4 pence), a rise of 9.9%, or 113.7 pence per share.

The main reason for the increase was profit after tax which added 80.1 pence. The reclassification of Catena AB added 26.3 pence, gains on the disposal of financial assets such as corporate bonds a further 6.6 pence, and exchange rate variances provided 10.4 pence per share. The fair value movement on investment properties added a further 17.3 pence, which was more than cancelled by investment property acquisition costs of 17.9 pence per share, and the write down of the carrying value of BLD reduced EPRA net assets per share by 9.1 pence.

CASH FLOW, NET DEBT AND GEARING At 31 December 2013, the Group's cash balances of £129.8 million were £32.2 million higher than twelve months previously. Cash from operations and interest receivable added £47.0 million, of which £13.7 million was distributed to shareholders. Net new loans of £102.1 million were taken out to finance in part the £165.3 million of property acquisitions, at around 60% loan-to-value. Share issues raised £20.4 million and proceeds from property disposals a further £17.6 million, whilst capital expenditure on developments and refurbishments absorbed £34.6 million. The net sale of corporate bonds added £62.3 million, and sundry other income absorbed cash of £3.2 million.

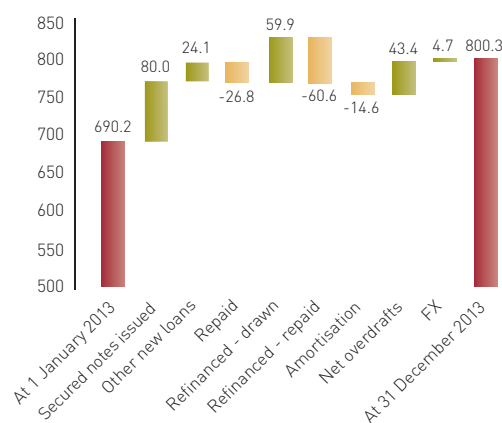
Gross debt rose by £110.1 million to £800.3 million largely through the £80.0 million secured notes issued to finance Neo, and the net increase in short-term borrowings. New bank loans of £24.1 million were taken out for the other acquisitions, whilst loans of £26.8 million were repaid, mainly on disposals. Bank loans of £59.9 million were refinanced at their approximate repayment values and £14.6 million of amortisation was paid on borrowings in the year. At 31 December 2013 the weighted average unexpired term of the Group's debt was 4.2 years.

Balance sheet loan to value (net debt to gross assets less cash) remained stable at 52.8% (2012: 52.5%), and the weighted average loan-to-value on borrowings against properties was a comfortable 56.3% (2012: 58.8%). Adjusted solidity was 39.9% (2012: 41.1%).

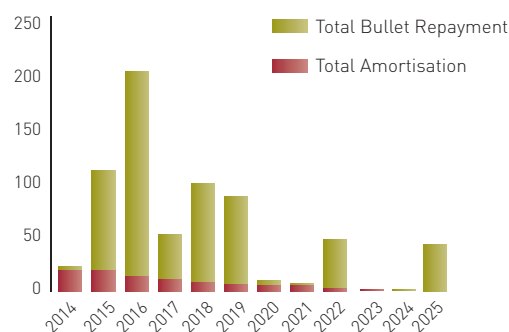
The weighted average cost of debt at 31 December 2013 was 3.64%, marginally lower than 3.67% twelve months earlier and it remains one of the lowest in the property sector. The fall was primarily caused by the effect of a fall in short-term interest rates more than compensating for the £80 million loan taken out at 4.17% to finance the Neo portfolio. The cost of new bank financing has fallen in the past few months, particularly in the UK, but remains more expensive than when existing loans were taken out, so refinancing them as they fall due will probably gradually increase the average cost of debt of the Group.

In 2013, our low cost of debt led to recurring interest cover of a comfortable 3.2 times (2012: 3.5 times).

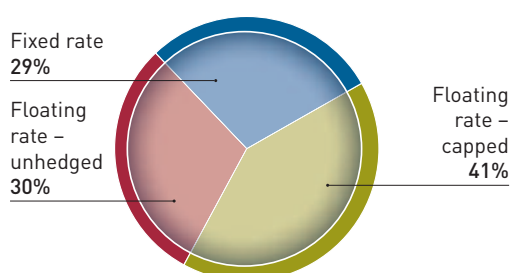
MOVEMENT IN GROSS DEBT 2013
(£ million)



DEBT PROFILE AT 31 DECEMBER 2013
(£ million)



DEBT HEDGING



FINANCING STRATEGY The Group's strategy is to hold its investment properties predominantly in single-purpose vehicles financed primarily by non-recourse bank debt in the currency used to purchase the asset. In this way credit and liquidity risk can most easily be managed, around 75% of the Group's exposure to foreign currency is naturally hedged, and the most efficient use can be made of the Group's assets. Bank debt ordinarily attracts covenants on loan-to-value and on interest and debt service cover. None of the Group's debt was in breach of covenants at 31 December 2013. The Group had 59 loans across the portfolio from 22 banks, plus a debenture, a zero-coupon loan, secured notes and two unsecured bonds. None of the loans at 31 December 2013 had been securitised by any lender, and the Group had no exposure to the CMBS market.

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. The Board believes that interest rates are likely to remain low longer than the forward interest curve would imply, and, therefore, its policy is to allow a majority of debt to remain subject to floating rates. To mitigate the risk of interest rates increasing more sharply than the Board expects, the Group enters into interest rate caps. At 31 December 2013, 29% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 41% were subject to caps and 30% 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 2013 they were a net liability of £5.2 million (2012: £8.4 million).



SHARE CAPITAL At 1 January 2013, there were 48,108,979 shares in issue, of which 4,803,103 were held as treasury shares. Shares were cancelled during the year under the distribution policy of tender offer buy-backs: in April, 883,793 shares were cancelled in exchange for £8.6 million distributed to shareholders, and in September, 368,293 shares were cancelled in exchange for a distribution of £5.0 million.

In May 2013, 300,000 shares were issued from treasury shares on the exercise of share options, which raised £1.4 million, and, in November, 1,600,000 shares were issued from treasury shares, raising £19.0 million net of costs.

Consequently, at 31 December 2013, 43,953,790 shares were listed on the London Stock Exchange, and 2,903,103 shares remained held in Treasury.

In April 2014, the Directors intend to put to the Annual General Meeting of the Company a proposal to issue a tender offer to buy-back 1 in 66 shares at 1,495 pence per share. If approved by shareholders this could lead to the purchase and cancellation of 665,966 shares, and a distribution to shareholders of £10.0 million.

TOTAL RETURNS TO SHAREHOLDERS

In addition to the distributions and share cancellations associated with the tender offer buy-backs, shareholders benefited from a rise in the share price in the year from 765 pence on 31 December 2012 to 1,379 pence at 31 December 2013. Accordingly, the total shareholder return in 2013 was 80.3%. In the six years to 31 December 2013, our total shareholder return of 324.3%, which represented a compound annual return of 27.2%, was the best performance in the listed real estate sector.

Since the Company listed on the London Stock Exchange, it has outperformed the FTSE Real Estate and FTSE All Share indices, as set out in the graph opposite. The graph includes dividend payments made by other companies; since 1998, CLS had not made dividend payments to shareholders, but instead has made capital distributions through tender offer buy-backs, none of which has been accounted for in the graph.

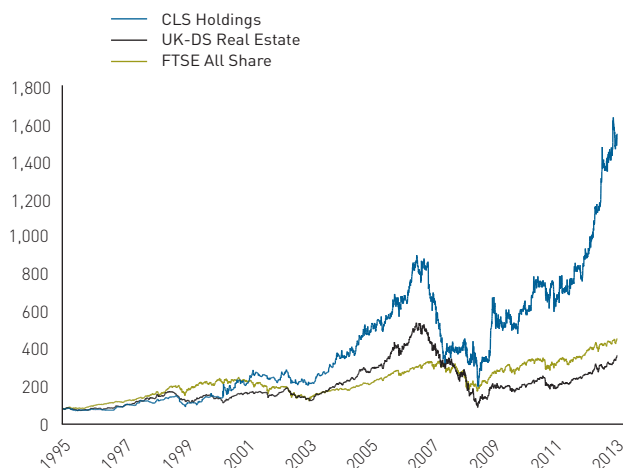
KEY PERFORMANCE INDICATORS

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

SHARE PRICE MOVEMENT 2013



TOTAL RETURNS TO SHAREHOLDERS 1994-2013



Substantial Investment in...

UK Property

OUR STRATEGY IS TO BUY INTO THE ECONOMIC UPTURN. In 2013, we invested £123.7 million in acquiring the Neo portfolio, the largest individual acquisition the Group has ever made, and a further £29.5 million in seven properties individually acquired across south and west London.



The Neo Portfolio

34 buildings across the UK, 99% occupied by 14 Government departments

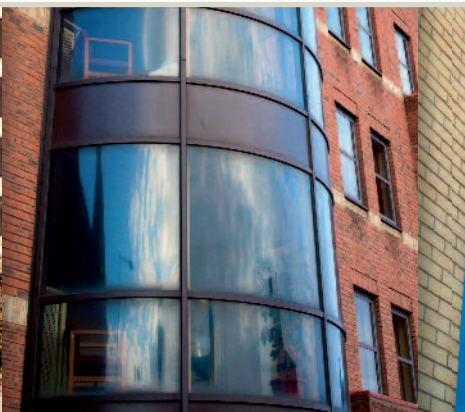
The Neo portfolio was acquired in September 2013 for £118.6 million plus costs and at a net initial yield of 12.23%. It contains 14 Government departments, and provides numerous opportunities which play to the Group's strengths, to work with these departments over the long term, and to explore asset management initiatives and alternative use scenarios. Occupiers include: Job Centres, HMRC, North Wales Police Authority, West Midlands Police Authority, the Environment Agency, Welsh Natural Resources Agency, DVLA, General Register Office for Scotland, Courts of Justice, Learning Skills Council, Immigration Service, Northampton Central Courts Administration, Child Support Agency, and Health & Safety Executive.

• The Neo Portfolio •

£123.7m

106,670 sqm

Net initial yield of 12.23%



“ 69% of the acquisitions in the UK were outside the M25, reflecting a forward-looking view that regional pricing was very attractive. ”



Acquisitions in London

7 properties individually acquired for £29.5 million in aggregate

These purchases continued a consistent strategy to acquire properties within the M25 for prices at or below build cost. This means that we were buying for free the land on which they stand. Some were bought with the possibility to convert them to residential as a profitable alternative to their existing use. All were bought from vendors who needed to sell.

The seven properties were bought off a net initial yield of 9.9%, they comprise an aggregate of 15,251 sqm, generate £3.0 million p.a. and have a weighted average unexpired lease term of 6.2 years.

They are located in Kennington, Vauxhall, Bromley, Sunbury-on-Thames, Chertsey, Staines and Harrow.

• London Acquisitions •

£29.5m

15,251 sqm

Net initial yield of 9.9%



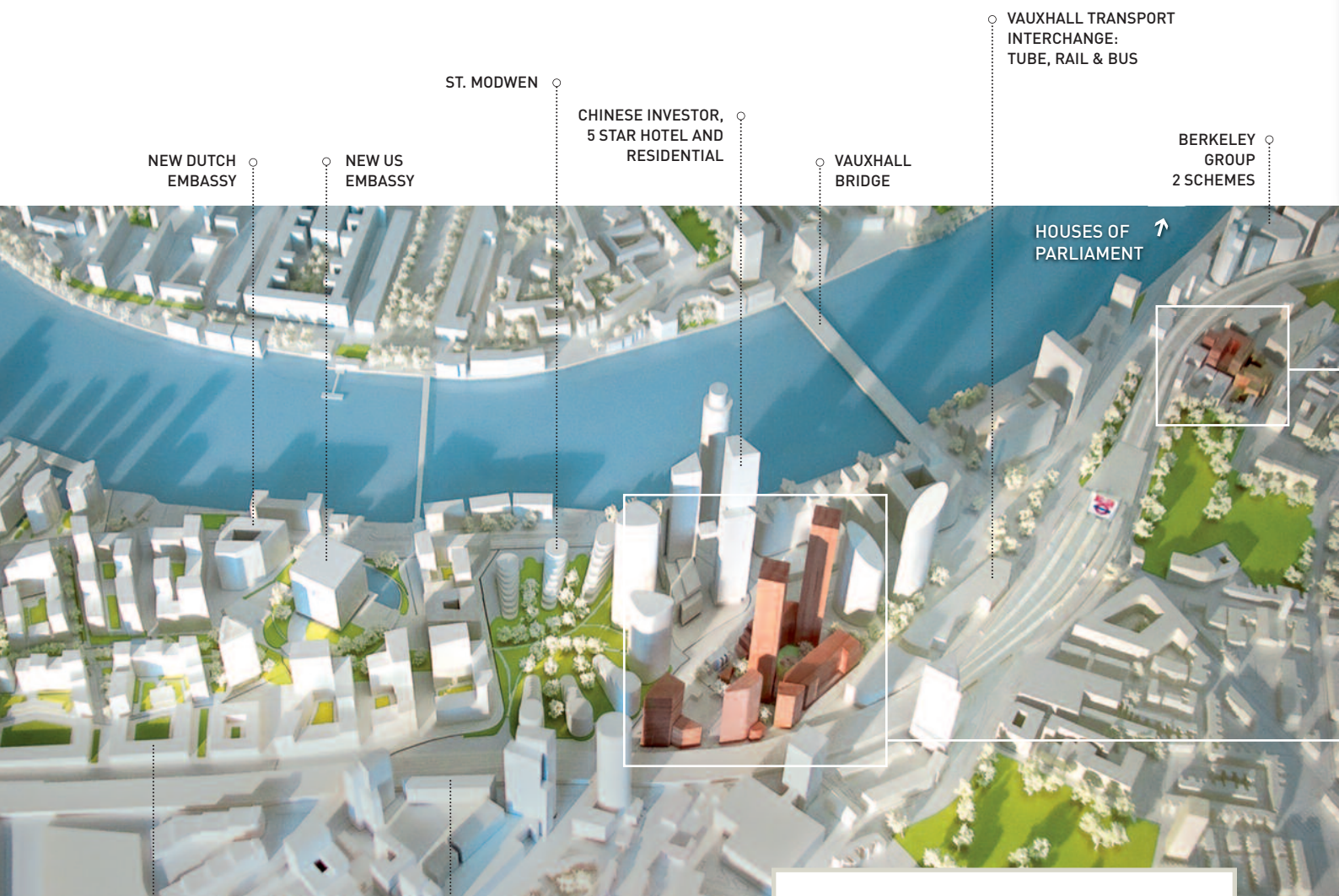
UK PROPERTIES ACQUIRED 2013:

NEO PORTFOLIO: Acton – Armstrong Road • Basildon – Great Oaks House • Bromley – Unicorn House • Hayes – The Grange • Bridgewater – Hanover House • Cardiff – 29 Newport Road • Cardiff – Rivers House • Chippenham – Cyppa Court • Plymouth – Brooklands Office Campus • Southampton – St Cross House • Swansea – Unit 5, Sandringham Park • Bedford – Chailey House • Birmingham – Aqueous 2 • Northampton – St Katherine’s House • Norwich – Blackburn House • Peterborough – Clifton House / 126 & 128 Park Road • Wolverhampton – Temple House • St Asaph – Netcom House • Billingham – Theatre Buildings • Birkenhead – Great Western House • Bradford – Centenary Court • Bradford – Phoenix House • Chester – Chantry House • Manchester – 1009 Oldham Road • Redcar – Portland House • Rotherham – Bradmarsh Business Park • Salford Quays – Units 1&2, Dallas Court • St Helens – Gregson House • Aberdeen – Atholl House • Aberdeen – Lord Cullen House • Dundee – Lindsay House • Dundee – Sidlaw House • Edinburgh – Ladywell House • Paisley – High Street •

ACQUISITIONS IN LONDON: SE11 – 405 Kennington Road • SW8 – 131/137 Wandsworth Road • Bromley – King’s House • Chertsey – Melita House • Harrow – Hygeia • Staines – 62 London Road • Sunbury-on-Thames – Benwell House •

Based in Vauxhall...

Investing in Vauxhall



NEW DUTCH
EMBASSY

NEW US
EMBASSY

ST. MODWEN

CHINESE INVESTOR,
5 STAR HOTEL AND
RESIDENTIAL

VAUXHALL
BRIDGE

VAUXHALL TRANSPORT
INTERCHANGE:
TUBE, RAIL & BUS

BERKELEY
GROUP
2 SCHEMES

HOUSES OF
PARLIAMENT

POSSIBLE CHINESE
EMBASSY

BARRATT/SAINSBURY'S

• Vauxhall Square, SW8 •

£500m

143,000 sqm

Development options under review

REGENERATION PLAN
VAUXHALL
LONDON

Spring Mews, London SE11

A 20,800 sqm mixed-use development scheme

Planning consent was gained in May 2012 for a 400 bed student accommodation building, and a 93 bedroom suite hotel, together with a 591 sqm community centre and café, 468 sqm of offices and a 245 sqm convenience store. The existing buildings were demolished in late 2012 and construction is well advanced, with topping out due in March 2014 and completion set for Q3 2014. Terms have been agreed with a university for 210 of the student rooms under a ten-year nominations agreement with minimum rental uplifts linked to inflation. The other 168 rooms will be let direct by our

specialist student marketing and operating manager, Fresh Student Living. Construction of the balance of 22 student rooms within the original 400 consented will be built in a later phase. For the hotel, a franchise agreement has been signed with Intercontinental Hotel Group (IHG) for a Staybridge branded suite hotel, to be run by specialist franchise operator Cycas Hospitality. The retail and office space within the scheme will be let upon completion. The estimated rental value per annum of the whole development when complete and running is over £5.5 million per annum.

• Spring Mews, SE11 •

£55m

20,800 sqm
Under construction



Vauxhall Square, London SW8

A 143,000 sqm mixed-use development scheme

In late 2012, planning consent was gained, subject to finalising a s106 agreement, for a 143,000 sqm mixed-use development scheme including 410 private apartments in two 50 storey towers, 110 affordable homes, 22,732 sqm of offices, 3,119 sqm of shops and restaurants, a 278 room hotel and a 123 bedroom suite hotel, 359 student rooms, a 50 room hostel for the homeless and a multi-screen cinema. The cost of the scheme is expected to be in excess of £500 million.

In 2013, the s106 agreement was signed, and progress has been made in shortlisting the right potential 4-star hoteliers for the two hotels on the scheme, with design work under way to address their needs. Also, an agreement was entered into with a specialist student housing operator to build and manage the 359 student room building adjacent to the main Vauxhall Square site. Whilst the commercial terms of this agreement are confidential, it is conditional on a number of technical matters, which we expect to discharge within the next twelve months to enable construction of this first phase of Vauxhall Square to start in 2015, without the need for any Group cash to be invested.

Activity continues to grow in Vauxhall/Nine Elms, a regeneration area now characterized by the proliferation of cranes on the sites under construction, including the new US Embassy. In 2012, Central Government committed funding for the extension of the Northern Line, Malaysian investors acquired Battersea Power Station and sold over 800 apartments within two weeks of launch, and residential schemes at Riverlight and by Ballymore sold over 350 apartments and 500 apartments, respectively, some two years ahead of completion. In 2013, the Dutch Embassy committed to the area and a Chinese investor, Wanda, acquired One Nine Elms, alongside Vauxhall Square, on which it intends to build luxury apartments and a five-star hotel. All this activity bodes well for Vauxhall Square, which sits adjacent to the transport interchange on the gateway into Vauxhall/Nine Elms.

A Focus on... *Sustainability*

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

RESPONSIBILITY

The Group aims to ensure that it is compliant with all legislation, including environmental legislation, in those countries in which it operates.

SUSTAINABILITY

The Group seeks to promote sustainability through the business and via its Green Charter. To achieve this, we have assessed our key impacts, which are in the following areas:

Corporate – responsibility to customers, shareholders, employees and the wider economy

Social – welfare of neighbours, the local community, occupiers, contractors and staff

Environmental – commercial buildings in the UK are responsible for approximately 20% of the nation's greenhouse gas emissions

The Board acknowledges the Group's actions impact on society and the environment, and seeks either to both minimise and mitigate their effect, or to harness them in order to effect positive change in keeping with the Group's Green Charter. In order to achieve this, the Group employs a dedicated full-time Sustainability Manager who is an Associate of the Institute of Environmental Management and Assessment.

SUSTAINABILITY GREEN CHARTER

The Group seeks to promote sustainability by effecting continuous improvement through the influence it can have on the environment, the local community, the economy and its key stakeholders. In 2011 the Group adopted its Green Charter, under which it undertakes:

- to mitigate our impact on climate change by reducing our carbon footprint
- to be accountable for our performance relating to climate change by communicating our successes and reporting performance regularly against measurable indicators
- to make the most effective use of the duties, powers and resources available to minimise the impact of the Group and its customers 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 Green Charter
- to use our Green Charter to influence the behaviour of our partners, occupiers, suppliers and other stakeholders, to promote and further the principles on which it is based

Great West House, Brentford

- A new energy efficient water heater has been installed for the building, as well as a new building management system and inverter controlled "soft start" and modulating pumps for the heating and water distribution system
- The drive to upgrade lighting throughout all areas of the building has continued with tenants being won over and installing low maintenance LEDs in their own areas. Floor by floor installation of thermal secondary glazing has also continued with a further five floors being upgraded in 2013, and a greater number anticipated in 2014
- Three floors have been fitted with an efficient and responsive "chilled beam" air conditioning system served by the Group's first energy efficient, oil-free centrifugal chiller with magnetic bearings; the refit of a fourth floor next year will complete this project
- Charlton House Catering, which has taken on the management and operation of the on-site restaurant, is an active proponent of the ISO 14001 Environmental Standard and keen supporter of the Marine Stewardship Council; polystyrene packaging has been replaced by biodegradable and recyclable card containers; food waste has also been reduced by careful consideration and management of the daily menu
- A covered and illuminated bicycle rack has been erected to increase and improve the facilities for cyclists

The new SKA Gold standard reception.



Falcon House, Hounslow

- Half of Falcon House has been refitted with the aim of achieving an SKA Gold sustainability standard
- Measures required by the SKA scheme to ensure a minimum environmental impact include: LED lighting; an enhanced site waste management plan; careful selection of environmentally friendly and ethically sourced materials; sub metering; a detailed building user guide; and seasonal commissioning
- Our experience is that a high quality, efficient, and environmentally friendly fit-out can be achieved and verified at almost no additional cost. Going forward the aim is to roll out the same SKA Gold standard for all office refits in the UK portfolio
- Phase two of the Falcon House modernisation will include a new energy efficient, oil-free centrifugal chiller with magnetic bearings and a roof mounted photovoltaic array

Key Performance Drivers

In order to measure and assess our success effectively against our Green Charter we have identified the following Key Performance Drivers on which we report annually. For 2014, these comprise:

- Corporate
 - Disclosure of the Group's environmental performance to the GREB sustainability benchmarking scheme, with a goal to improve upon that performance in the subsequent year
 - Increase our interaction with occupiers by a variety of means to aid them improve efficiency and reduce their impact on the environment
- Social
 - Continue to improve our reputation and value to local stakeholders through community engagement
 - Increase and broaden our support for young people aspiring for a career relating to the built environment
- Environmental
 - Further reduction in paper use throughout the business by 10% compared to 2013
 - Further reduction of CO₂ emissions by the UK portfolio of 5%
 - Use of the SKA framework and assessment scheme for fit-outs

“ We acknowledge the Group's actions impact on society and the environment, and seek to minimise or harness their impact through our Green Charter. ”



A newly fitted-out area including secondary glazing and chilled beams with integrated PIR controlled LED lighting.

2013 ACHIEVEMENTS

In 2013 we have made significant progress against our corporate, social and environmental goals, and we have accomplished the following:

Corporate

- Completed the 2013 GRESB sustainability benchmarking survey; the Group was assessed as ranking 94th out of an undisclosed peer group of 292 competitors
- Ensured compliance with the new Strategic Report regulations and Remuneration regulations with the aim of meeting best practice

Social

- Continued to host meetings of the local Vauxhall One Business Improvement District
- The Vauxhall Gardens Community Centre requested to stay permanently in the temporary accommodation provided by CLS whilst a new centre was built; the Group has assisted with the fees and administration for this change of use as well as providing money for a newsletter
- Provided experience and research project opportunities to six young people ranging from a school leaver to a post-graduate student
- Raised our total charitable contributions for the year to £10,124 (2012: £9,955) by direct contributions and events including a Christmas Jumper Day, a Macmillan "Jeans for Genes" day, a bake sale, and the Property Triathlon and the Land Aid Fun Run
- Hosted an abseiling charity event on behalf of MacIntyre, a charity providing learning, support and care for children and adults with learning disabilities; participants abseiled 198 ft down Westminster Tower opposite the Houses of Parliament; Richard Tice, Group CEO personally raised a total of £4,135

Environmental

- A refurbishment of 1,300 sqm at Falcon House aiming to achieve an SKA Gold sustainability standard
- Overall energy usage is down by 9.7%, a like-for-like reduction of 14% from 2012
- The Group master lease template has been reviewed and updated to include more provisions for improving energy efficiency
- Efforts to minimise paper use in the Group's head office have continued, with 319 fewer reams of A4 required, a reduction of 45%
- In Sweden we have reduced the energy cost by 65% and reduced emissions by 80%, following the installation of the ground source system at Vånerparken
- In France we have reduced energy withdrawn from district heating and cooling systems by 28%, and reduced energy usage from fuels by 17%

EMPLOYEES

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

It is the Group's policy to apply best practice in the employment of disabled people. Full and fair consideration is given both to every application for employment from disabled persons whose aptitude and skills can be utilised in the business, and to their training and career development. This includes, wherever possible, the retraining and retention of staff who become disabled during their employment.

All staff are informed of matters concerning their interest as employees and the financial and economic factors affecting the business. Established management communication channels have been supplemented by direct presentations to staff by Directors to explain developments of particular significance.

HEALTH & SAFETY

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

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

BUSINESS ETHICS

The Board recognises the importance of the Company's responsibilities as an ethical employer and views matters in which the Company interacts with the community both socially and economically as the responsibility of the whole Board. Following the enactment of the Bribery Act 2010 in July 2011, the Company implemented a suitable policy which further demonstrates its commitment to business ethics.

EMISSIONS REPORTING

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

The Group's emissions are over 6,000kWh p.a. warranting inclusion in the Carbon Reduction Commitment Energy Efficiency Scheme (CRC). For continuity of data and ease of administration the same methodology is used for the Directors' Report. All emissions for which CLS Holdings and its subsidiaries are invoiced are reported, including all scope one and scope two emissions for

which the Group is responsible. The Group's emissions are largely from the multi-let buildings managed by CLS and its subsidiaries. CLS has no control over emissions from buildings with a full repairing and insuring lease, which are therefore not reported.

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

The tables below follow the format recommended by the EPRA Sustainability Reporting Committee.

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

TABLE 1 – SUSTAINABILITY PERFORMANCE – ABSOLUTE MEASURES

Broad Issue Type	Sustainability Performance Measure	UK HQ	Rest of UK	France	Sweden	Units
Energy	Total energy consumption from electricity*	140,943	11,603,022	3,528,214	5,460,074	kWh
	Total energy consumption from district heating and cooling	0	0	545,803	981,240	kWh
	Total energy consumption from fuels	0	7,247,672	837,999	0	kWh
Greenhouse gas emissions	Total direct emissions	0	1,331	173 [†]	0	Metric tonnes CO ₂ e
	Total indirect emissions	76.25	6,277	296 [†]	0.2	Metric tonnes CO ₂ e
	Total indirect emissions from district heating	0	0	118 [†]	6.1	Metric tonnes CO ₂ e
Water**	Total water withdrawal by source	Data not available	33,849	20,143	31,642	Cubic metres
Waste	Total weight of waste by disposal route	5.79 EFW 3.66 recycled	79.22 EFW 152.89 recycled	6.75	25	Metric tonnes
	Percentage of waste by disposal route	61% EFW 39% recycled	34% EFW, 66% recycled	Data not available	Data not available	Proportion by weight (%)

TABLE 2 – SUSTAINABILITY PERFORMANCE – INTENSITY MEASURES

Broad Issue Type	Sustainability Performance Measure	HQ	Rest of UK	France	Sweden	Intensity Indicator
Energy	Building energy intensity	81.38	277.53	118.11 [†]	140	kWh/m ² /year
Greenhouse gas emissions	Greenhouse gas intensity from building energy	44.03	112.01	15.11 [†]	0.14	kg CO ₂ e/m ² /year
Water	Building water intensity	Unknown	0.50	0.50	0.69	m ³ /m ² /year

[†] Common parts and centrally provided heating, ventilation and air conditioning only.

* Of which 100% is supplied on renewable energy tariffs.

** All water is currently supplied via the mains utility supply.

EFW Energy from waste.

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
PROPERTY INVESTMENT RISKS		
Underperformance of investment portfolio due to:	Cash flow Profitability Net asset value Banking covenants	Senior management has detailed knowledge of core markets and experience gained through many market cycles. This experience is supplemented by external advisors and financial models used in capital allocation decision-making.
<ul style="list-style-type: none"> Cyclical downturn in property market Inappropriate buy/sell/hold decisions 		
<ul style="list-style-type: none"> Changes in supply of space and/or occupier demand 	Rental income Cash flow Vacancy rate Void running costs Bad debts Net asset value	The Group's property portfolio is diversified across four countries. The weighted-average unexpired lease term is 7.0 years and the Group's largest occupier concentration is with the Government sector (50.2%).
<ul style="list-style-type: none"> Poor asset management 	Rental income Cash flow Vacancy rate Void running costs Property values Net asset value	Property teams proactively manage customers to ensure changing needs are met, and review the current status of all properties weekly. Written reports are submitted bi-weekly to senior management on, inter alia, vacancies, lease expiry profiles and progress on rent reviews.
OTHER INVESTMENT RISKS		
Corporate bond investments:	Net asset value Liquid resources	In assessing potential investments, the Treasury department undertakes research on the bond and its issuer, seeks third-party advice, and receives legal advice on the terms of the bond, where appropriate. The Treasury department and Executive Directors receive updates on bond price movements and third party market analysis on a daily basis, and reports on corporate bonds to the full Board on a bi-weekly basis. The Executive Directors formally review the corporate bond strategy monthly.
<ul style="list-style-type: none"> Underperformance of portfolio Insolvency of bond issuer 		
DEVELOPMENT RISK		
Failure to secure planning permission	Abortive costs Reputation	Planning permission is sought only after engaging in depth with all stakeholders.
Contractor solvency and availability	Reduced development returns Cost overruns Loss of rental revenue	Only leading contractors are engaged. Prior to appointment, contractors are the subject of a due diligence check and assessed for financial viability.
Downturn in investment or occupational markets	Net asset value	Developments are undertaken only after an appropriate level of pre-lets have been obtained.

Risk	Areas of impact	Mitigation
SUSTAINABILITY RISKS		
Increasing building regulation and obsolescence	Rental income, cash flow, vacancy rate, net asset value, profitability, liquid resources	Continual assessment of all properties against emerging regulatory changes. Fit-out and refurbishment projects benchmarked against third party schemes.
Climate change	Net asset value, profitability, liquid resources	Board responsibility for environment. Dedicated specialist personnel. Increased due diligence when making acquisitions. Investment in energy efficient plant and building mounted renewable energy systems.
Increasing energy costs and regulation	Net asset value, profitability, liquid resources	Investment in energy efficient plant and building mounted renewable energy systems
FUNDING RISKS		
Unavailability of financing at acceptable prices	Cost of borrowing Ability to invest or develop	The Group has a dedicated Treasury department and relationships are maintained with some 22 banks, thus reducing credit and liquidity risk. The exposure on re-financing debt is mitigated by the lack of concentration in maturities.
Adverse interest rate movements	Cost of borrowing Cost of hedging	The Group's exposure to changes in prevailing market rates is largely hedged on existing debt through interest rate swaps and caps, or by borrowing at fixed rates.
Breach of borrowing covenants	Cost of borrowing	Financial covenants are monitored by the Treasury department and regularly reported to the Board.
Foreign currency exposure	Net asset value Profitability	Property investments are partially funded in matching currency. The difference between the value of the property and the amount of the financing is generally unhedged and monitored on an ongoing basis.
Financial counterparty credit risk	Loss of deposits Cost of rearranging facilities Incremental cost of borrowing	The Group has a dedicated Treasury department and relationships are maintained with some 22 banks, thus reducing credit and liquidity risk. The exposure on re-financing debt is mitigated by the lack of concentration in maturities.
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.
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.
Economic downturn	Cash flow Profitability Net asset value Banking covenants	The Group's property portfolio is diversified across four countries. The weighted-average unexpired lease term is 7.0 years and the Group's largest customer concentration is with the Government sector (50.2%). 60% of rental income is subject to indexation.
GOING CONCERN		
The Group will not have adequate working capital to remain a going concern for the next 12 months.	Pervasive	The Directors regularly stress-test the business model to ensure the Group has adequate working capital.

SCHEDULE OF GROUP PROPERTIES

UNITED KINGDOM

at 31 December 2013	Tenure	Area sqm	Use
LONDON			
EC4 Clifford's Inn, Fetter Lane	Freehold	3,042	Offices
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	1,622	Offices
86 Bondway*	Freehold	891	Offices
18/20 Miles Street	Freehold	152	Offices
101/103/107 Wandsworth Road	Freehold	476	Residential
131/137 Wandsworth Road	Freehold	1,546	Offices
SE11 35 Albert Embankment	Freehold	527	Leisure
Western House, 5 Glasshouse Walk	Freehold	589	Community Centre
Gateway House, Milverton Street	Freehold	1,844	Offices
Spring Gardens, Tinworth Street	Freehold	19,519	Offices
Spring Mews, Tinworth Street	Freehold	–	Under construction
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
W6 Cambridge House, 100 Cambridge Grove	Freehold	6,712	Offices
W10 Buspace Studios, 10 Conlan Street	Freehold	3,006	Studios/ Workshops/Offices
NW10 Chancel House, Neasden Lane	Freehold	6,847	Offices
Brentford Great West House, Great West Road, TW8	Freehold	14,239	Offices
Bromley King's House, 32/40 Widmore Road, BR1†	Freehold	2,244	Offices/Retail
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
Harrow Hygeia, College Road, HA1†	Freehold	6,742	Offices
Hayes The Grange, 501 Uxbridge Road, UB4††	Freehold	1,042	Offices
Hounslow 115/123 Staines Road, TW3	Freehold	2,354	Offices
125/135 Staines Road, TW3	Freehold	2,340	Offices

* Owner-occupied

† Acquired in 2013

†† Neo portfolio acquired in 2013

at 31 December 2013	Tenure	Area sqm	Use
New Malden CI Tower, High Street, KT3	Freehold	7,568	Offices
Apex Tower, High Street, KT3	Freehold	10,065	Offices/Retail
Staines 62 London Road, TW18†	Freehold	1,272	Offices
Sunbury-on-Thames Benwell House, Green Street, TW16†	Freehold	2,377	Offices
Wallington Crosspoint House, 28 Stafford Road, SM6	Freehold	1,963	Offices

SOUTH

Basildon Great Oaks House, SS14††	Leasehold	5,057	Offices
Bridgwater Hanover House, Northgate, TA6††	Freehold	2,007	Offices
Cardiff Rivers House, Fortran Road, St Mellons, CF3††	Leasehold	2,109	Offices
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
Swansea Unit 5, Sandringham Park, Swansea Vale, SA6††	Leasehold	2,775	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
Ipswich Zest Nightclub, Princes Street, IP1	Freehold	1,951	Leisure
Northampton St Katherine's House, 21/27 St Katherine's Street, NN1††	Freehold	2,578	Offices
Norwich Blackburn House, 1 Theatre Street, NR2††	Leasehold	864	Retail
Peterborough Clifton House, 84 Broadway & 126/128 Park Road, PE1††	Freehold	5,344	Offices
Wolverhampton Temple House, Temple Street, WV2††	Freehold	2,557	Offices

at 31 December 2013	Tenure	Area sqm	Use
NORTH			
St Asaph Netcom House, St Asaph Business Park LL17 ⁺⁺	Leasehold	1,972	Offices
Billingham Theatre Buildings, Kingsway, TS23 ⁺⁺	Freehold	675	Offices
Birkenhead Great Western House, Woodside Ferry Approach, CH41 ⁺⁺	Freehold	7,445	Offices
Bradford Centenary Court, Forster Square, BD1 ⁺⁺ Phoenix House, Rushdon Avenue, BD3 ⁺⁺	Freehold	9,774	Offices
Chester Chantry House, 55/59 City Road, CH1 ⁺⁺	Freehold & leasehold	3,237	Offices
Manchester 1009 Oldham Road, Newton Heath, M40 ⁺⁺	Leasehold	1,412	Offices

at 31 December 2013	Tenure	Area sqm	Use
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
St Helens Gregson House, 2 Central Street, WA10 ⁺⁺	Leasehold	2,799	Offices

SCOTLAND

Aberdeen Atholl House, 84/88 Guild Street, AB11 ⁺⁺	Leasehold	5,058	Offices
Dundee Lindsay House, 18/30 Ward Road, DD1 ⁺⁺ Sidlaw House, 4 Explorer Road, DD2 ⁺⁺	Freehold	3,605	Offices
Edinburgh Ladywell House, Ladywell Road, EN12 ⁺⁺	Freehold	4,807	Offices
Paisley Phase 1, 47/51 High Street, PA12 ⁺⁺	Freehold	1,288	Offices
		249,644	

UK



SCHEDULE OF GROUP PROPERTIES CONTINUED

FRANCE AND LUXEMBOURG

at 31 December 2013	Tenure	Area sqm	Use
Paris			
48 Rue Croix des Petits Champs, 75001	Freehold	1,800	Offices
20/22 Rue des Petits Hôtels, 75010	Freehold	2,080	Offices
18 Rue Stephenson, 75018	Freehold	563	Offices
Le Sully, Îlot 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	4,998	Offices
2 Rue Pierre Timbaud, 92230 Gennevilliers	Freehold	3,118	Offices
23/27 Rue Pierre Valette, 92240 Malakoff	Freehold	10,778	Offices
Le Sigma, Place de Belgique, 90 Bld de L'Europe, 92250 la Garenne-Colombes	Freehold	6,690	Offices
Le Debussy, 77/81 Boulevard de la République, 92250 la Garenne-Colombes	Freehold	4,198	Offices
62 Avenue Foch, 92250 la Garenne-Colombes	Freehold	181	Offices
120 Rue Jean Jaurès, 92300 Levallois Perret	Freehold	4,029	Offices
56 Boulevard de la Mission Marchand, 92400 Courbevoie	Freehold	2,784	Offices
53/55 Rue du Capitaine Guynemer, 92400 Courbevoie	Freehold	2,170	Offices
7 Rue Eugène et Armand Peugeot, 92500 Rueil-Malmaison	Freehold	7,308	Offices

at 31 December 2013	Tenure	Area sqm	Use
Lyon			
Forum, 27/33 Rue Maurice Flandin, 69003	Freehold	6,806	Offices
D'Aubigny, 27 Rue de la Villette, 69003	Leasehold	4,316	Offices
Rhône Alpes, 235 Cours Lafayette, 69006	Freehold	3,147	Offices
Park Avenue, 81 Boulevard de Stalingrad, Villeurbanne, 69100	Freehold	4,249	Offices
Front de Parc, 109 Boulevard de Stalingrad, 69100	Leasehold	5,373	Offices
Lille			
96 Rue Nationale, 59000	Freehold	2,551	Offices
La Madeleine, 105 Avenue de la République, 59110	Freehold	4,446	Offices
Antibes			
Le Chorus, 2203 Chemin de St Claude, Nova Antipolis, 06600	Freehold	4,334	Offices
Luxembourg			
16 Rue Eugène Ruppert, L2453	Freehold	3,698	Offices
		96,437	



GERMANY

at 31 December 2013	Tenure	Area sqm	Use
Munich BrainLAB, Kapellenstrasse 12, Feldkirchen D-85622	Freehold	16,313	Offices
Planegg, Maximilian Forum, Lochhamer Strasse 11/15, D-82152	Freehold	13,816	Offices
Gräfelfing, Lochhamer Schlag 1	Freehold	8,527	Offices
Rüdesheimer Strasse 9, D-80686	Freehold	2,588	Offices
Unterschleissheim, Lise-Meitner-Strasse 4, D-85716	Freehold	2,960	Offices
Hamburg Fangdieckstrasse 75, 75a, b, 22547	Freehold	13,151	Offices
Jarrestrasse 8/10, D-22303	Freehold	5,569	Offices
Merkurring 33/35, D-22143	Freehold	5,605	Offices
Harburger Ring 33, D-21073	Freehold	3,330	Offices
Frohbösestrasse 12, D-22525	Freehold	1,941	Offices
Berlin Rudowerchausee 12, D-12489, Adlershofer Tor	Freehold	19,991	Offices/ Retail
Bismarckstrasse 105 & Leibnitzstrasse 11/13, Charlottenburg	Freehold	6,045	Offices
Bochum Hans-Böckler-Strasse 19, 44787	Freehold	25,007	Offices
Düsseldorf Schanzenstrasse 76, D-40549	Freehold	3,095	Residential
Freiburg Bismarckallee 18-20 ⁺	Freehold	7,138	Offices
Landshut 1, 3, 5 E.on Allee, Roeder-Jackl-Strasse & 1 Kiem-Pauli-Strasse	Freehold	16,054	Offices
Süderhastedt Dorfstrasse 14, 25727	Freehold	1,185	Nursing home
		152,315	

SWEDEN

at 31 December 2013	Tenure	Area sqm	Use
Vänerparken Lasarettet No. 2, 6/8, Vänerparken, Vänersborgs Kommun	Freehold	45,354	Offices/ Education/ Residential/ Leisure/ Hospital
		45,354	
Total Portfolio at 31 December 2013		543,750	



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 %
United Kingdom	34.7	33.9	249,644	45.1	40.7	11.8	2.4%
France	19.2	19.3	96,437	18.0	18.3	17.9	10.6%
Germany	15.5	15.3	152,315	16.2	16.0	15.6	3.5%
Sweden	6.6	4.6	45,354	6.3	5.6	6.3	1.7%
Total Portfolio	76.0	73.1	543,750	85.6	80.6	51.6	4.4%

Note: a further £3.8 million of United Kingdom contracted rent will be subject to annual indexation from June 2015.

VALUATION DATA

	Market value of property £m	Valuation movement in the year			EPRA topped up net initial yield ⁽²⁾ %	Reversion %	Over-rented %	True equivalent yield %
		Underlying £m	Foreign exchange £m	EPRA net initial yield ⁽¹⁾ %				
United Kingdom	617.8	11.5	–	7.1%	7.2%	6.8%	19.1%	7.2%
France	240.6	(9.2)	5.5	6.6%	6.8%	1.2%	11.1%	7.0%
Germany	214.4	(0.5)	4.3	6.9%	7.0%	1.9%	6.7%	6.1%
Sweden	60.1	(1.5)	(0.5)	8.4%	8.4%	2.5%	15.2%	7.3%
Total Portfolio	1,132.9	0.3	9.3	7.0%	7.2%	4.4%	14.8%	

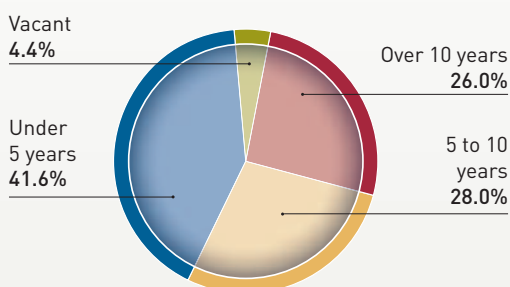
(1) Based on rent passing less non-recoverable service charges and after adding purchasers' costs to investment property values; if based on investment property values before adding purchaser's costs, net initial yield would be 7.4%

(2) Based on contracted rent less non-recoverable service charges and after adding purchasers' costs to investment property values

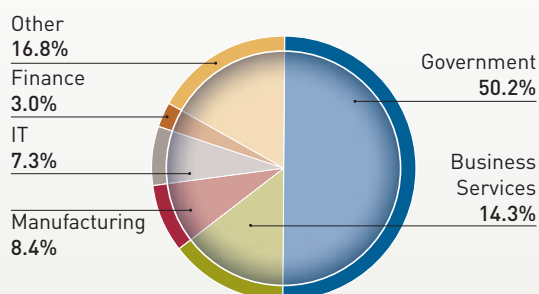
LEASE DATA

	Average lease length		Passing rent of leases expiring in:				ERV of leases expiring in:			
	To break years	To expiry years	Year 1 £m	Year 2 £m	Year 3 to 5 £m	After year 5 £m	Year 1 £m	Year 2 £m	Year 3 to 5 £m	After year 5 £m
United Kingdom	6.7	8.0	2.2	2.4	9.1	31.3	2.1	1.8	11.2	25.6
France	2.5	4.8	2.1	1.5	7.6	6.8	1.7	1.3	8.8	6.5
Germany	8.2	8.3	0.9	1.1	5.4	8.8	0.8	1.2	5.7	8.3
Sweden	3.4	3.4	–	4.6	0.4	1.4	–	3.8	0.4	1.4
Total Portfolio	5.8	7.0	5.2	9.6	22.5	48.3	4.6	8.1	26.1	41.8

RENT BY LEASE LENGTH



RENT BY SECTOR



DIRECTORS' REPORT

for the year ended 31 December 2013

DIRECTORS' REPORT

The Directors present their annual report and the audited financial statements for the year ended 31 December 2013.

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

REVIEW OF BUSINESS

The group statement of comprehensive income for the year is set out on page 68.

A review of results for the year, the Group's objective, business model and strategy applied to the business model, the principal risks and uncertainties facing the Group and the prospects for the future, are set out within the Chairman's Statement, Strategic Review and Property Portfolio on pages 4 to 36 and are incorporated into this report by reference. These also include analysis using key performance indicators and any other information required to fulfil the requirements of the Business Review.

Details of use by the Group of financial instruments are set out in the Strategic Review on pages 10 to 21 and in note 24 to the group financial statements. Risk management objectives are also detailed in note 24 to the group financial statements.

DIRECTORS

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

The statement of Directors' remuneration and their interests in shares and share options of the Company are set out in the Directors' Remuneration Report on pages 46 to 60. Related party transactions are shown in note 34.

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

Executive Directors

Sten A Mortstedt, aged 74, is Executive Chairman of the Company. He began his career in 1962 with Svenska Handelsbanken in Stockholm and within three years had formed a property investment partnership. In 1968 he was appointed Managing Director of the Mortstedt family property company, Citadellet AB, which was floated on the Stock Exchange in Stockholm in 1981. The company was sold in 1985 for a price five times higher than the introduction price which was at that time the largest property deal recorded in Scandinavia. Since 1977 he has been involved in establishing and running property interests in the UK, Sweden and France. He established CLS in 1987, and has been Executive Chairman since he took the Company to a listing on the main market of the London Stock Exchange in 1994.

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

He runs his global interests from his residence in Switzerland.

E Henry Klotz, aged 69, was appointed Executive Vice Chairman on 1 January 2011, having previously been Chief Executive Officer from May 2008. He joined the Group in 1999 with responsibility for the management of the Swedish operation and more recently was involved in the setting up of the German division and sourcing new business opportunities for the Group. He is a qualified engineer and economist.

On behalf of CLS he is Non-Executive Chairman of Catena AB, a Nordic real estate company quoted on the Stockholm Stock Exchange, in which CLS holds an interest in 13.8% of its issued share capital. He is also Non-Executive Chairman of Bulgarian Land Development Plc, in which CLS holds an interest in 48.3% of its issued share capital, a Non-Executive Director of Nyheter 24, a Swedish on-line news and media business in which CLS owns an interest in 20% of its issued share capital, a Non-Executive Director of Note AB, a technology company quoted on the Stockholm Stock Exchange, in which CLS holds an interest in 8.5% of its issued share capital, and a Non-Executive Director of Cood Investments AB, a Swedish camp site operator, in which CLS holds an interest of 44.2% of its issued share capital.

John H Whiteley, aged 55, joined the Company in 2009 as Chief Financial Officer. He has over 20 years' experience in the real estate sector: he was previously Finance Officer at Doughty Hanson & Co Real Estate, and for ten years was Finance Director of Great Portland Estates plc, a company listed on the London Stock Exchange. He spent nine years with Ernst & Young, after qualifying as an accountant with Spicer & Pegler. He is a member of the Finance Committee of the British Property Federation and a Fellow of the Institute of Chartered Accountants.

Non-Executive Directors

Malcolm C Cooper, aged 54, joined the Board in 2007 and is the Senior Independent Director, Chairman of the Audit Committee and a member of the Remuneration Committee. He is Global Tax & Treasury Director of National Grid plc where he has worked for various predecessor companies since 1991. Previously he worked for Andersen Consulting. He has a first in pure mathematics from Warwick University, is a qualified accountant and is a member of the Association of Corporate Treasurers.

Joseph A Crawley, aged 54, 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.

Claes-Johan Geijer, age 56, joined the Board on 14 May 2013 and has over 25 years' experience with international banking and commercial organisations in Europe and the United States. For the last 10 years he was Chief Executive Officer of Banque Carnegie Luxembourg, a private bank in Luxembourg. He holds a B.Sc. from the Stockholm School of Economics.

DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2013

Christopher P Jarvis FRICS, aged 58, joined the Board in 2008 and is Chairman of the Remuneration Committee and a member of the Audit Committee. He has an M.A. from Cambridge University and is a Partner of Jarvis & Partners, a boutique real estate consultancy which he established in Berlin in 1994. Previously he was Managing Director of Richard Ellis Germany where he established the firm's Frankfurt and Berlin offices. His firm has acted as development partner for the HRO Group in Germany.

H O Thomas Lundqvist, aged 69, joined the Board in November 1990 and was Finance Director of the Company until 1995, when he became a Non-Executive Director. He was Vice Chairman from 24 November 2009 until 1 January 2011. Prior to joining CLS, Mr Lundqvist worked for the ASEA-Brown Boveri Group (ABB) and from 1983 for Svenska Finans International, part of Svenska Handelsbanken Group, where he was a board member.

Jennica Mortstedt, aged 30, joined the Board in May 2010 and is the daughter of Bengt Mortstedt, a founding member and major shareholder in the Company. She has nine years' experience in the hotel industry and has a degree in International Business and Hospitality from Ecole Hôtelière de Lausanne, Switzerland.

Brigith Terry, aged 70, joined the Board in August 2011. She has over 35 years' experience in the international banking and property industries and was a bank director responsible for the international commercial property loans business at Württembergische Hypotheken-bank AG and then Hypo Real Estate Bank International AG (now part of Deutsche Pfandbriefbank AG) until 30 June 2007. Brigith Terry is a qualified public notary in Germany and is now retired from banking.

Thomas J Thomson, aged 63, joined the Board in 2001 as Executive Vice Chairman and Acting Chief Executive, and was made Chief Executive in 2004. He became a Non-Executive Director in 2006 and served as Non-Executive Vice Chairman from 2006 to 2009 and Company Secretary from 1983 to 2001 and from 2008 to 2009. He is a qualified solicitor and joined the Group as General Counsel in 1994, having been a partner with Taylor Walton Solicitors for many years.

Richard J S Tice, aged 49, joined the Company in 2010 as Deputy Chief Executive Officer, was appointed Chief Executive Officer on 1 January 2011 and became a Non-Executive Director on 14 February 2014. He has over 25 years' experience in international property and was joint CEO of the Sunley Group plc for 15 years until 2006 when he arranged a shareholder exit prior to the market downturn in 2007. He was then Managing Partner of his own boutique firm specialising in real estate debt. For three years until October 2009, he was also a non-executive director then Chairman of AIM-listed South African Property Opportunities plc. He has been a non-executive director of two other listed companies.

As explained in the Corporate Governance Report on page 42, all Directors will be subject to annual re-election at the Annual General Meeting in accordance with the UK Corporate Governance Code.

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

DIVIDENDS

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

The final distribution for 2012 as set out in a Circular dated 15 March 2013 for the purchase of 1 in 49 shares at 970 pence per share was completed on 26 April 2013. It returned £8.6 million to shareholders, equivalent to 19.8 pence per share.

The interim distribution for 2013 as set out in a Circular dated 23 August 2013 for the purchase of 1 in 116 shares at 1,360 pence per share was completed on 25 September 2013. It returned £5.0 million to shareholders, equivalent to 11.7 pence per share.

A final distribution for 2013 will be put to shareholders in March 2014 for the purchase of 1 in 66 shares at a price of 1,495 pence per share which, if approved, will return a further £10.0 million to shareholders, equivalent to 23.0 pence per share.

PURCHASE OF THE COMPANY'S SHARES

As described above, and under the relevant authority granted at the 2013 Annual General Meeting, during the year the Company made two tender offer purchases totalling 1,252,086 ordinary shares at a cost of £13.6 million. Of these, 883,793 ordinary shares were purchased on 26 April 2013 at 970 pence per share and 368,293 ordinary shares were purchased on 25 September 2013 at 1,360 pence per share. These shares were subsequently cancelled.

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

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

A resolution will be proposed at the 2014 Annual General Meeting to give the Company authority to make market purchases of up to 4,395,379 shares along with an additional resolution enabling the Company to undertake tender offer purchases, subject to set parameters, thereby reducing the administrative burden on shareholders of having to hold General Meetings more than once a year. Any market purchases or tender offer purchases during the year will not exceed 4,395,379 shares in aggregate.

The aggregated authority for the purchase of the Company's own shares that remained valid at the year end, following the tender offer purchases and market purchases that took place during the year, was in respect of 3,078,501 ordinary shares.

SHARE CAPITAL

Changes in share capital are shown in note 25 to the group financial statements. At 31 December 2013, and at the date of this report, the Company's issued share capital consisted of 46,856,893 ordinary shares of 25 pence each, of which 2,903,103 shares were held as treasury shares and all of which ranked *pari passu*.

At the date of this report, the total number of voting rights in CLS Holdings plc is 43,953,790, being the number of shares in issue excluding treasury shares. The rights (including full details relating to voting), obligations and any restrictions on transfer relating to the Company's shares, as well as the powers of the Directors, are set out in the Company's Articles of Association.

At 31 December 2013 the Company operated two employee share schemes: the 2005 Company Share Option Plan (CSOP) (an Inland Revenue Approved Scheme); and the Company's Unapproved Share Option Scheme (USOS). There were no options outstanding under these schemes at the year end and as at the date of this report (2012: 300,000 ordinary shares). Upon a change of control, option holders under these schemes have directly exercisable rights. Details of options exercised under these schemes during the year are shown in the Remuneration Report on page 59.

Details of the Directors' interests in shares are shown in the Remuneration Report on page 58.

PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2013 was carried out by Savills for the Neo Portfolio, Knight Frank for Vauxhall Square, Lambert Smith Hampton for the rest of the UK, Jones Lang Lasalle for France, Colliers International for Germany, and CB Richard Ellis for Sweden, which produced an aggregate market value of £1,132.9 million (2012: £934.5 million).

CORPORATE GOVERNANCE

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

EMPLOYEES, ENVIRONMENTAL AND SOCIAL ISSUES

The Group's policies on employment, environmental and social issues (including the information required by The Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 in relation to greenhouse gas emissions), including charitable donations, are summarised in the Corporate Social and Environmental Responsibility Report on pages 26 to 29. No political donations were made during 2013. The breakdown of gender information for the Board and Senior Managers is contained in note 7 to the group financial statements.

HUMAN RIGHTS

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

The Group's policies seek to ensure that employees comply with the relevant legislation and regulations in place to promote good practice. The Group's policies are formulated and kept up to date and communicated to all employees through the Group Intranet and, where appropriate, individual presentations. In the year to 31 December 2013, 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.

2014 ANNUAL GENERAL MEETING

The 2014 Annual General Meeting will be held on Wednesday, 16 April 2014. 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 30 and 31. The Group's business activities, and the factors likely to affect its future development and performance, are set out in the Strategic Review on pages 10 to 21. The financial position of the Group, its liquidity position and borrowing facilities are described in the Strategic Review and in notes 22 and 24 of the group financial statements.

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

By order of the Board

David Fuller BA FCIS
Company Secretary

4 March 2014

CORPORATE GOVERNANCE REPORT

CHAIRMAN'S INTRODUCTION

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

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

Corporate Governance is a key driver to the success of a listed company, but no two businesses are the same and no two boards are the same. Different governance structures develop and evolve, but neither should be considered to be substandard. Whilst some might say that the Chairman of a listed company should not hold executive powers, and be "independent upon appointment", as Executive Chairman and founding shareholder my interests are strongly aligned with all other stakeholders, which ensures that the Group succeeds in its business strategy and continues to look to the future with optimism.

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

Sten Mortstedt

Executive Chairman

COMPLIANCE WITH THE CODE

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

The Code contains a number of additional requirements applicable to FTSE 350 companies. At the date of this report the Company is not a constituent of the FTSE 350, however, in demonstrating its commitment to good corporate governance the Board has adopted a number of these requirements, as explained below. Save as identified and explained below, the Board considers that throughout 2013 it complied with the Main Principles and the supporting principles as set out in Section 1 of the Code.

LEADERSHIP

The Role of the Board

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

Strategy

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

Performance Monitoring

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

Conflicts of Interest

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

Meetings

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

	Meetings attended/eligible to attend
Sten Mortstedt	4/4
Henry Klotz	4/4
Richard Tice	4/4
John Whiteley	4/4
Malcolm Cooper	4/4
Joseph Crawley	4/4
Claes-Johan Geijer ⁽¹⁾	3/3
Christopher Jarvis	4/4
Thomas Lundqvist	4/4
Jennica Mortstedt	4/4
Brigith Terry	4/4
Thomas Thomson	4/4

(1) Appointed on 14 May 2013

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 in respect of legal action against its directors and officers. The Company has granted indemnities to each of the Directors and other senior executives, 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 of one or more of its subsidiaries or associates.

Division of Responsibilities

Throughout 2013, there was a division of responsibilities between the Executive Chairman, who is responsible for the overall strategy of the Group, the Executive Vice Chairman who supports the Executive Chairman, and the Chief Executive Officer, who is responsible for implementing the strategy and for the day-to-day running of the Group. The Chief Executive Officer is assisted by the senior management team. The Board has approved a written statement of the division of responsibilities between the Executive Chairman and the Chief Executive Officer.

A separate statement on the responsibilities of the Executive Vice Chairman and his role alongside the Executive Chairman and Chief Executive Officer was reviewed and amended by the Board in November 2013.

The Company does not comply with provision A3.1 of the Code, as the Executive Chairman was not independent on appointment. There have been no significant changes to the commitments of the Executive Chairman during the year.

Non-Executive Directors

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

A formal meeting of the Non-Executives took place during the year, without the Executive Directors or the Chairman present, and at which a thorough review of the performance of the Executive Chairman took place.

Several meetings of the Non-Executive Directors and the Executive Chairman took place during the year to discuss, amongst other things, the performance of the Group's strategy, the performance of the other Executive Directors and the performance of the Board as a whole.

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

EFFECTIVENESS

Composition of the Board

On 14 May 2013, Mr Claes-Johan Geijer was appointed a Non-Executive Director. On 14 February 2014, Mr Tice stepped down as the Group's Chief Executive Officer and was appointed a Non-Executive Director, since when the Board has comprised three Executive Directors, including the Executive Chairman, and nine Non-Executive Directors, four of whom the Board has determined to be independent for the purposes of the Code. From 14 February 2014, Mr Klotz assumed the role of Acting Chief Executive Officer in addition to being Executive Vice Chairman.

The biographies of the Directors can be found on pages 37 and 38.

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

Independence

Guidance to the Code recommends that for FTSE 350 companies at least half the Board, excluding the Chairman, should comprise independent Non-Executive Directors. Throughout 2013, as the Company was not a constituent of the FTSE 350 and had four independent non-executive directors, it was compliant with provision B.1.2, which states that companies outside the FTSE 350 should have two independent non-executive directors.

The Board has determined that, under the Code Guidance, Claes-Johan Geijer, Brigith Terry, Malcolm Cooper and Christopher Jarvis were independent in character and judgement and that there were no relationships or circumstances which could materially affect or interfere with the exercise of their independent judgement.

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

Appointments to the Board

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

No external consultancy or open advert was used in the appointment of Claes-Johan Geijer. The Board considered that there was a need to appoint a further Board member that had recent banking and finance experience. A list of possible candidates known to the Board was made followed by an interview process that included input from the independent directors.

Following its annual board evaluation and having had regard to stakeholder feedback the Board reviewed its balance of skills, knowledge and experience, and concluded that the composition of the Board had the necessary balance the Group required.

Diversity

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

Board Evaluation

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

From the results of this year's evaluation, the Directors considered that the Board and its committees were working effectively and that there was a good mix of personalities, skills and experience. They were pleased with the way in which the Executive Chairman led the Board and had concluded critical strategic decisions, such as the purchase of the Neo portfolio, which had benefited the Group.

The key themes arising from this year's evaluation, which will form an action plan for 2014 are wider work on succession planning with consideration of employees below Board level; a board meeting to discuss future strategy; and continued meetings with only the Non-Executive Directors and the Executive Chairman present.

In addition, following the comprehensive performance review of the Executive Chairman that took place at the Non-Executive Directors' meeting, the Senior Independent Director fed the results back to the Executive Chairman. The Board notes provision B.6.2 of the Code, requiring an externally facilitated evaluation for FTSE 350 companies every three years. As the Company is not a constituent of the FTSE 350, this provision does not apply, but the Board has considered such an evaluation. Due to the cost of an externally facilitated evaluation and the current structure of the Board, the Company intends to continue to undertake an annual performance evaluation survey internally.

Information, Support and Development

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

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

The Company offers all Directors the opportunity to update their skills and knowledge, and familiarity with the Company in order to fulfil their role on the Board. During the year, members of the Board have attended seminars on, inter alia, executive remuneration and the responsibilities of directors. In addition, meetings with senior managers within the Company have been arranged to further familiarise Non-Executive Directors with the Company. As part of every Board member's induction, Claes-Johan Geijer met with the Head of Property in each of the UK, France, Germany and Sweden.

Re-election

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

All Directors are subject to election by shareholders at the first Annual General Meeting following their appointment. Provision B.7.1 of the Code requires all directors of FTSE 350 companies to seek re-election by shareholders annually. As it is not a constituent of the FTSE 350, this does not apply to the Company, but nevertheless the Board has implemented this provision. Accordingly, Mr Claes-Johan Geijer will be standing for election and all other Directors will be seeking re-election at the forthcoming Annual General Meeting and their details are contained in the Directors' Report on pages 37 and 38.

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.

ACCOUNTABILITY

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

The Audit Committee

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

Full details of the Committee's work are given in the Audit Committee's Report on pages 61 and 62.

Risk Management and Internal Control

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

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

The Directors recognise that such a system can only provide a reasonable and not absolute assurance that there has been no material misstatement or loss.

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

Internal Controls

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

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

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 advise it on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

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

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

Set out on pages 10 to 21 is the Strategic Report, describing the Group's operations and the strategy which it employs to maximise returns and minimise risks.

Risks

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

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

As identified and discussed by the Board, the Company's key risks, the areas which they impact and how they are mitigated are described on pages 30 and 31.

CORPORATE GOVERNANCE REPORT CONTINUED

REMUNERATION

The Remuneration Committee

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

Full details of the Committee's work are given in the Remuneration Report on pages 46 to 60.

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

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

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

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

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 2013 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.

MAJOR INTERESTS IN THE COMPANY'S SHARES

Other than Mr Mortstedt's 51.1% interest referred to in the Directors' Remuneration Report on page 58, as at 4 March 2014 the Company has been notified of the following interests above 3% in the Company's issued share capital:

	No. of shares	%
Bengt Mörtstedt	3,014,602	6.9%
F&C Asset Management plc	2,444,617	5.6%
FIL Limited	2,238,712	5.1%

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

SIGNIFICANT AGREEMENTS – CHANGE OF CONTROL

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

JOINT VENTURE AND ASSOCIATES

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

DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Annual Report, Directors' Remuneration Report and the financial statements in accordance with applicable law and regulations and are required to state whether they consider them, taken as a whole, to be fair, balanced and understandable and provides the necessary information for shareholders to assess the Group's performance, business and strategy.

Company law requires the Directors to prepare financial statements for each financial year. The Directors are required by the IAS Regulation to prepare the group financial statements under those International Financial Reporting Standards (IFRS) adopted by the European Union. The group financial statements are also required by law to be properly prepared in accordance with the Companies Act 2006 and Article 4 of the IAS Regulation.

International Accounting Standard 1 requires that financial statements prepared under IFRS present fairly for each financial year the Group's financial performance and cash flows, and closing financial position. This requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the International Accounting Standards Board's "Framework for the preparation and presentation of financial statements".

In virtually all circumstances, a fair presentation will be achieved by compliance with all applicable IFRS. However, the Directors are also required to:

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

The Directors have elected to prepare the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK Accounting Standards and applicable law). The parent company financial statements are required by law to give a true and fair view of the state of affairs of the Company. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates which 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.

Under company law directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the period.

The Directors confirm that to the best of their knowledge the financial statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records which 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 also 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.

Statement of Directors' responsibilities

We confirm to the best of our knowledge that:

- 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 of the Company and the undertakings included in the consolidation as a whole;
- the Strategic Review, which is incorporated into the Directors' 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 they face; and
- the Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy.

This statement of responsibilities was approved by the Board on 4 March 2014.

By order of the Board

David Fuller BA FCIS
Company Secretary

4 March 2014

REMUNERATION COMMITTEE REPORT

for the year ended 31 December 2013

THE CHAIRMAN OF THE REMUNERATION COMMITTEE – CHRISTOPHER JARVIS

ANNUAL STATEMENT

Dear Shareholder,

On behalf of the Board, I am pleased to present the 2013 Remuneration Report.

As part of our corporate governance commitments, this year the Committee has embraced Government's new regulations on the presentation and disclosure of directors' remuneration. We trust that our report further demonstrates transparency and clarity in our disclosures.

As required by the new Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the rest of this remuneration report is split into two parts:

- The policy on directors' remuneration sets out the Company's proposed policy for three years from the 2014 Annual General Meeting and the key factors that were taken into account in setting the policy. The policy on directors' remuneration is subject to a binding shareholder vote at this year's AGM and at least every third year thereafter.
- The annual report on remuneration sets out payments and awards made to the Directors and details the link between Company performance and remuneration for the 2013 financial year. The annual report on remuneration together with this annual statement is subject to an advisory shareholder vote at the AGM in April 2014.

Membership

The Committee consisted of myself, as Chairman, and Malcolm Cooper, our Senior Independent Non-Executive Director, reflecting provision D.2.1. of the Code in respect of smaller companies, and we met three times during 2013.

2013 Key decisions

The Committee recognises the expectations of our shareholders on executive pay and that performance-related pay should reflect the performance of the Group. As a result, we undertook a review of the appropriateness of the Key Performance Indicators (KPIs) which make up the basis for the Performance Incentive Plan (PIP) and their associated targets. The Committee concluded that the KPIs continued to represent accurately a broad spectrum of Group performance and that the targets were sufficiently challenging and, therefore, appropriate. The KPIs have not been adjusted for 2014. As outlined in the Strategic Report, the Committee determined that all of the KPIs had been met and that the make-up of the 2013 award accurately reflected the performance of the Group.

The Committee also considered the relevant aspects of Mr Tice's remuneration in light of his stepping down as Chief Executive Officer. To this end, the Committee agreed that given his excellent performance during his tenure as Chief Executive Officer, the results of which have benefitted all shareholders as highlighted by our total shareholder return since 2010, he should be treated as a Good Leaver for the

purposes of the PIP and the balance of his pool would be released to him after completion of the 2013 audit. The Committee also agreed to reduce his notice period because Mr Tice would be remaining on the Board in a non-executive capacity and it recognised that Mr Klotz had undertaken the role of Chief Executive Officer prior to Mr Tice joining the Group and, therefore, there would be no gap in experience or knowledge.

Operation of Remuneration Policy for 2014

The Committee continually monitors senior executive remuneration so that it is able to attract, motivate and retain high quality executives who are able to deliver the Group's strategy and, in turn, deliver long-term growth and shareholder return.

The Committee reviewed the base salaries of the Executive Directors against 11 peer group property companies with market capitalisations ranging from £300 million to £2.4 billion. It also analysed the wider FTSE 250 and Small Cap remuneration reviews published by a number of professional remuneration consultants in order to gauge the consensus of the broader FTSE community, and sought advice from the Company's advisers.

As a result of that review, the Committee recognised that it should increase the level of base salary for the Executive Directors as set out in this report. Historically, the Company has paid Executive Directors in the lowest quartile. However, given both the increased responsibilities resulting from the substantial growth of the Company over the recent period, and the challenge the Committee faces in finding a new Chief Executive, the Committee concluded that it was in the best interests of the Company to rebase the starting point for salaries closer to the average than the lower quartile. This increase should be seen by shareholders as a progression to the median and that further work will be undertaken to align the overall package to market expectations as we look to replace our outgoing Chief Executive Officer.

In conclusion

We have provided an 'At a glance' summary of 2013 remuneration and performance immediately after this statement. The annual report on remuneration provides further details and the policy on directors' remuneration sets out how we are building for the future.

I hope that we can rely on your vote in favour of the annual report on remuneration and our policy on directors' remuneration for future years.

Christopher Jarvis

Chairman
Remuneration Committee

AT A GLANCE

In this section, we summarise the purpose of our remuneration policy and its linkage to our corporate strategic objectives, and we highlight the performance and remuneration outcomes for 2013. More detail can be found in the annual report on remuneration.

PROPOSED CHANGES TO REMUNERATION POLICY

Element	Operation of Element	Maximum Potential Value	Performance Metrics used, weighting and time period applicable																				
Base Salary	The Committee has determined to set its policy for the salaries of the Executive Directors at up to median against its comparator groups	Up to median within the following comparator groups: <ul style="list-style-type: none"> • Property Company Peer Group (see policy table for constituents); • FTSE 250; and • FTSE Small Cap This has resulted in the following salaries for the Directors for 2014: <table> <tr> <th>Name</th><th>2014 Salary</th><th>2013 Salary</th><th>%age Change</th></tr> <tr> <td>Sten Mortstedt</td><td>£350,000</td><td>£229,500</td><td>53%</td></tr> <tr> <td>Henry Klotz</td><td>£325,000</td><td>£224,145</td><td>45%</td></tr> <tr> <td>Richard Tice</td><td>£310,000</td><td>£212,262</td><td>46%</td></tr> <tr> <td>John Whiteley</td><td>£250,000</td><td>£195,840</td><td>28%</td></tr> </table>	Name	2014 Salary	2013 Salary	%age Change	Sten Mortstedt	£350,000	£229,500	53%	Henry Klotz	£325,000	£224,145	45%	Richard Tice	£310,000	£212,262	46%	John Whiteley	£250,000	£195,840	28%	n/a
Name	2014 Salary	2013 Salary	%age Change																				
Sten Mortstedt	£350,000	£229,500	53%																				
Henry Klotz	£325,000	£224,145	45%																				
Richard Tice	£310,000	£212,262	46%																				
John Whiteley	£250,000	£195,840	28%																				
Benefits	No change	No change	n/a																				
Performance Incentive Plan ('PIP') Option	No change	No change	No change																				
Share Options	It is the Committee's intention to use only in exceptional circumstances	Maximum grant is 300,000 shares	No change																				
Pension	No change	Increased to 10% contribution from 1 January 2014	n/a																				

THE PRINCIPLES OF OUR REMUNERATION POLICY

Competitive

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

Performance linked

A significant part of the Executive Directors' reward is determined by the Company's success.

Failure to achieve threshold levels of performance may result in both no bonus under the PIP and partial forfeiture of earned deferred elements from previous years.

Shareholder aligned

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

Simple and transparent

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

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2013

HOW HAVE WE PERFORMED AGAINST OUR KEY PERFORMANCE INDICATORS?

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

KPI	Maximum Forfeiture	Bonus/ Forfeiture Threshold	On Target Performance	Good Performance	Maximum Performance	2013 Achievement
1. Total Shareholder Return Growth	5%	7%	12%	14%	16%	80.3%
2. Effective management of balance sheet (ROE)	5%	7%	12%	16%	20%	18.3%
3. Vacancy rate	10%	8%	5%	4%	3%	4.4%
4. Administration cost ratio (as % of Net Rental)	20%	17.5%	14%	13%	12%	16.4%
5. Personal Performance Rating	2	2.5	4	4.5	5	n/a*
6. EPRA NAV Growth	0%	5%	7.5%	8.75%	10%	9.9%
7. NAV Growth	0%	5%	7.5%	8.75%	10%	14.0%
8. Core Profit over Budget	-5%	0%	7.5%	8.75%	10%	7.0%

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

KPI	Performance Breakdown		
	EVC	CEO	CFO
1. Total Shareholder Return Growth	67,244	63,679	39,168
2. Effective management of balance sheet (ROE)	20,448	19,364	17,866
3. Vacancy rate	46,622	44,150	8,421
4. Administration cost ratio (as % of Net Rental)	42,084	39,855	36,770
5. Personal Performance Rating	31,604	29,292	18,017
6. EPRA NAV Growth	22,135	20,961	14,505
7. NAV Growth	22,415	21,226	14,688
8. Core Profit over Budget	39,377	37,289	20,643
2013 Total Bonus	291,929	275,816	170,078
Bonus as a % of Salary	130.2%	129.9%	86.8%
Bonus Achieved as a % of Total Available Bonus	86.8%	86.6%	86.8%

PART 1: POLICY ON DIRECTORS' REMUNERATION

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 Remuneration Committee will review annually the remuneration arrangements for the Executive Directors and key senior management drawing on trends made to all employees across the Group and taking into consideration:

- business strategy over the period;
- overall corporate performance;
- market conditions affecting the Company. The Remuneration Committee uses the following comparators for executive remuneration:
 - Development Securities plc, Helical Bar plc, Quintain Estates 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;
 - FTSE 250; and
 - FTSE Small Cap
- the recruitment market;
- changing practice in the international market where the Company competes for talent; and
- changing views of institutional shareholders and their representative bodies.

The details of the Group's executive remuneration arrangements, including the operation of the Group's incentive plans and payments made under them, will be set out each year in a remuneration report contained in the Group's annual report.

In accordance with the new regulations, the Policy on Directors' Remuneration (the "Policy") as set out below will operate from 1 January 2014 and be put to a binding shareholders vote and become formally effective if approved at the 2014 Annual General Meeting in April.

Components of Directors' Remuneration

Element	Purpose and Link to Strategy	Operation	Opportunity	Performance Matrix
Executive Chairman				
Chairman Fees	Provides a level of fees to support recruitment and retention of a chairman with the necessary experience to advise and assist with establishing and monitoring the Group's strategic objectives.	<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; • fees within the ranges paid by the companies in the comparator groups used for remuneration benchmarking; and • the economic environment. 	<p>Policy: Median</p> <p>Median in the range for the Company's comparator groups.</p> <p>In line with the Company policy.</p> <p>Guided by any general increase for all staff across the Group.</p> <p>Increases may need to reflect an increase in scale, scope or responsibilities, or market conditions.</p> <p>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.</p>	None, although individual's performance and contribution are taken into account.
Executive Directors				
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; and • the economic environment. 	<p>Policy: Up to Median</p> <p>Up to Median 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>See summary on page 47 for details of the salaries for the Executive Directors for 2014.</p>	None, although individual's performance and contribution are taken into account.

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2013

PART 1: POLICY ON DIRECTORS' REMUNERATION (CONTINUED)

Components of Directors' Remuneration				
Element	Purpose and Link to Strategy	Operation	Opportunity	Performance Matrix
Executive Directors (continued)				
Benefits	Provides a benefits package in line with standard market practice relative to its activities to enable the Company to recruit and retain directors with the experience and expertise to deliver the Group's strategy.	<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>Policy: Market Level</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>	None
Pensions	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.	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>Policy: Market Level</p> <p>Market level in the range for the Company's comparator groups.</p> <p>The current Company contribution is 10%. The maximum employee contribution is 5%.</p>	None
CLS Holdings plc 2012 Performance Incentive Plan (the 'PIP')	<p>The PIP is the sole incentive arrangement used as part of the normal remuneration policy for executive directors.</p> <p>The PIP provides a significant incentive to the directors linked to achievement in 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; and 	See Note 1 below.	<p>Policy: Median</p> <p>Median in the range for the Company's comparator groups.</p> <p>Maximum 150% of salary.</p> <p>At Threshold 61.1% of the maximum is payable.</p> <p>At On target 115.3% of the maximum is payable.</p> <p>There are forfeiture provisions if minimum thresholds are not achieved.</p>	The performance metrics for 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 2013 financial year are detailed in the Annual Remuneration Report on page 48 and the conditions for 2014 in the section on how the policy will be operated for the future year on page 60. The PIP is measured over a period of one financial year.

Components of Directors' Remuneration

Element	Purpose and Link to Strategy	Operation	Opportunity	Performance Matrix
Executive Directors (continued)				
CLS Holdings plc 2012 Performance Incentive Plan (the 'PIP') (continued)	<ul style="list-style-type: none"> linking PIP plan years together and providing substantial deferral in shares and ongoing risk 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. 			<p>In order for the Company to be successful, the Committee believes 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 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 believes that the bonus outcome is not a fair and accurate reflection of business performance.</p>
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 broadly the median of the comparator groups.</p> <p>The Board as a whole is responsible for setting the remuneration of the Non-Executive Directors, other than the Chairman whose remuneration is considered by the Remuneration Committee and recommended to the Board.</p> <p>Non-Executive Directors are paid a base fee and additional fees for chairmanship of committees and other specific work outside their role as a Non-Executive Director. The Chairman does not receive any additional fees for membership of committees.</p>	<p>Policy: Up to Median</p> <p>Up to Median in the range for the Company's comparator groups.</p> <p>Breakdown of fee components:-</p> <ul style="list-style-type: none"> Base Fee – £15,000 SID Fee – £5,000 Committee Chairman – £8,000 Committee membership – £5,000 <p>The base fee has been increased for 2014 to from £15,000 to £22,500, which remains below the median in respect of the comparator group.</p> <p>Non-Executive Directors do not participate in any performance related pay.</p> <p>Fees related to consultancy will be agreed in advance and no higher than the market rate.</p>	None

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2013

PART 1: POLICY ON DIRECTORS' REMUNERATION (CONTINUED)

Notes to the Policy Table

1. Performance Incentive Plan

The Executive Vice Chairman, Chief Executive Officer and Chief Financial Officer participate in the PIP; the Executive Chairman does not participate.

The key elements of the Plan are:

- Performance Conditions and Targets are set at the beginning of the Plan Year (the financial year of the Company)
- The maximum annual incentive opportunity is 150% of salary
- On assessment of the Performance Targets at the end of the Plan Year the Remuneration Committee will determine the proportion of the maximum annual incentive opportunity awarded (the "Company Contribution")
- The Company Contribution for the Plan Year will be made to the Participant's Plan Account
- 50% of the cumulative balance held in the Participant's Plan Account will be paid in each of the first three Plan Years with 100% of the balance paid at the end of the fourth Plan Year (in Year 4 the Remuneration Committee may determine to start a new contribution period)
- Any unpaid balance will be converted into notional shares using the 30 day average share price at the end of the relevant Plan Year
- 50% of the unpaid balance will be at risk of forfeiture each Plan Year where the bonus forfeiture threshold set by the Committee is not met
- All payments under the PIP will be made in cash

Illustration of annual payment as a percentage of salary

For the purpose of illustration we have assumed a Maximum Annual Contribution of 150% of salary over a 4 year period assuming no increase in share price.

Feature	End of PIP year			
	1	2	3	4
Opening Balance	–	75.00%	112.50%	131.25%
PIP Contribution	150.00%	150.00%	150.00%	–
Plan Account Balance (y/e)	150.00%	225.00%	262.50%	131.25%
Annual Payment	75.00%	112.50%	131.25%	131.25%
Balance Carried Forward	75.00%	112.50%	131.25%	–

2. Share Options

The Board has delegated to the Committee the authority to grant options under the Company's share schemes, being the 2005 Company Share Option Plan (CSOP) (an Inland Revenue Approved Scheme) and the Company's Unapproved Share Option Scheme (USOS).

It is not foreseen that further options will be granted under the schemes unless there are exceptional circumstances, when aggregate awards to an individual under both schemes will be limited to options over a maximum of 300,000 shares, and, therefore, share options are not included in the table above.

Participation in each scheme is open to any Director or employee, subject to minimum working hours. Options may normally only be exercised between the third and seventh anniversaries of the date of grant, subject to compliance with the performance conditions that the growth in net assets of the Group be at least equivalent to the growth of the IPD All Properties Capital Growth Index over three years from the date of grant.

Any grant of options to an eligible employee under the CSOP is subject to HMRC limits. Both schemes are subject to the aggregate number of options granted in a ten year period not exceeding 10% of the shares then in issue.

Options ordinarily lapse if an option holder leaves employment, and are exercisable early in certain circumstances, including death, injury, disability, ill-health, redundancy, retirement, or at the Committee's absolute discretion. In these circumstances, options will be exercisable for a period of six months following cessation (or 12 months in the event of death). Options may also be exercised in the event of a takeover of the Company (or, in certain circumstances, may be exchanged for options over shares in an acquiring company). Options are not transferable other than on death.

Discretion

The Committee has discretion in several areas of policy as set out in this report. The Committee may also exercise operational and administrative discretions under relevant plan rules approved by shareholders. In addition, the Committee has the discretion to amend policy with regard to minor or administrative matters where it would be, in the opinion of the Committee, 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 2014 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 balanced 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 the Performance Incentive Plan. Instead, the Group operates a performance-based discretionary bonus scheme and a loyalty bonus scheme based on employment longevity. 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%.

Approach to Recruitment Remuneration

The Company's policy when setting remuneration for the appointment of new directors is summarised in the table below.

Remuneration element	Recruitment policy
Salary	Salary will be set in line with the policy for existing directors.
Benefits	The standard benefit package for existing directors will apply.
Pension	The maximum employer contribution will be set in line with the Company's policy for existing directors.
PIP	Maximum annual participation will be set in line with the Company's policy for existing directors and will not exceed 150% of salary.
Share options	On recruitment the Company may grant options under the Option Scheme subject to the maximum of 300,000 shares. Options will be subject to the performance conditions and vesting terms set out above.
Maximum variable pay (incentive opportunity)	In the year of recruitment the maximum variable pay will be 150% of salary under the PIP and if the Committee deems that exceptional circumstances have arisen may also include a maximum of 300,000 shares subject to option and/or an additional 150% of salary under sign on compensation.
Sign on compensation	The Committee's policy is not to provide sign on compensation. However, in exceptional circumstances where the Committee decides to provide this type of compensation it will endeavour to provide the compensation in equity, subject to a holding period during which cessation of employment will generally result in forfeiture and subject to the satisfaction of performance targets. The maximum value of this one-off compensation will be proportionate to the overall remuneration offered by the Company and in all circumstances is limited to 150% of salary.
"Buy Out" of incentives forfeited on cessation of employment	<p>The Committee's policy is not to provide buyouts as a matter of course. However, should the Committee determine that the individual circumstances of recruitment justify the provision of a buyout, the value of any incentives forfeited on cessation of a director's previous employment ("lapsed value") 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 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. <p>The Committee may then grant up to the equivalent value as the lapsed value, where possible, under the Company's incentive plans. To the extent that it was not possible or practical to provide the buyout within the terms of the Company's existing incentive plans, a bespoke arrangement would be used.</p>

Where an existing employee is promoted to the Board, the policy set out above 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 their ongoing remuneration. These would be disclosed to shareholders in the Remuneration Report for the relevant financial year.

The Company's policy when setting fees for the appointment of new non-executive directors is to apply the policy which applies to existing non-executive directors.

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2013

PART 1: POLICY ON DIRECTORS' REMUNERATION (CONTINUED)

Directors' Service Contracts

Each of the Executive Directors has a service contract of no fixed term. Mr Klotz's service contract ended on 31 December 2013 and on 1 January 2014 entered into a service contract of no fixed term. There is no provision in the contracts of Mr Mortstedt, Mr Klotz, Mr Tice 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. The Code requires that all directors of FTSE 350 companies be subject to annual election by shareholders. Although the Company is not a constituent of the FTSE 350, the Board adopted this provision in 2012 and requires the annual re-election of all Directors by shareholders. 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.

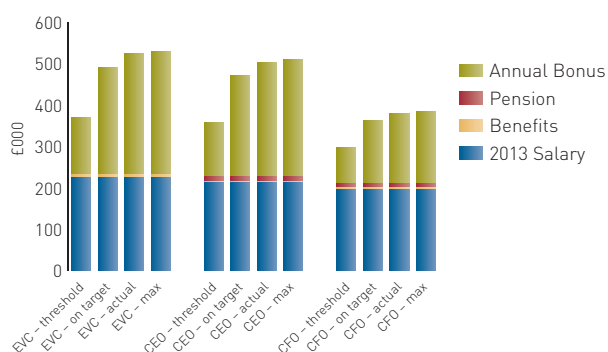
Details of the service contracts or letters of appointment of those who served as Directors during the year are as follows:

Name		Contract date	Notice period
Sten Mortstedt	Executive	1 January 2005	12 months
Henry Klotz	Executive	1 January 2014	12 months
Richard Tice ⁽¹⁾	Executive	11 March 2010	12 months
John Whiteley	Executive	1 October 2009	6 months
Malcolm Cooper	Non-Executive	15 June 2007	3 months
Joseph Crawley	Non-Executive	25 November 2008	3 months
Claes-Johan Geijer	Non-Executive	14 May 2013	3 months
Christopher Jarvis	Non-Executive	25 November 2008	3 months
Thomas Lundqvist	Non-Executive	1 October 1995	3 months
Jennica Mortstedt	Non-Executive	11 May 2010	3 months
Brigith Terry	Non-Executive	16 August 2011	3 months
Thomas Thomson	Non-Executive	25 January 2008	3 months

- (1) On 14 February 2014 Mr Tice ceased to be an Executive Director but continues to serve on the Board as a Non-Executive Director pursuant to a letter of appointment dated 15 January 2014, the terms of which are identical to each Non-Executive Director.

Illustrations of application of Remuneration Policy

COMPONENTS OF EXECUTIVE REMUNERATION



Policy on Payment for loss of office

The Committee will honour directors' contractual entitlements. Service contracts do not contain liquidated damages clauses. If a contract is to be terminated, the Committee will determine such mitigation as it considers fair and reasonable. There are no contractual arrangements which would guarantee a pension with limited or no abatement on severance or early retirement. There is no agreement between the Company and its directors or employees, providing for compensation for loss of office or employment that occurs because of a takeover bid. 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 a director's office or employment.

Remuneration element	Treatment on exit
Salary	Salary will be paid over the notice period. The Company has discretion to make a lump sum payment on termination of the salary payable during the notice period. In all cases the Company will seek to mitigate any payments due.
Benefits	Benefits will be normally be provided over the notice period. The Company has discretion to make a lump sum payment on termination equal to the value of the benefits payable during the notice period. In all cases the Company will seek to mitigate any payments due.
Pension	Company pension contributions will be normally be provided over the notice period. The Company has discretion to make a lump sum payment on termination equal to the value of the Company pension contributions during the notice period. In all cases the Company will seek to mitigate any payments due.
PIP	<p>Good Leaver Reason During the year of cessation participants will be entitled to a bonus pro rata based on the satisfaction of the performance conditions over the full year. All deferred balances will be paid. Good leaver reason is one of the following reasons for cessation:</p> <ul style="list-style-type: none"> – injury, ill-health or disability; – redundancy within the meaning of the Employment Rights Act 1996 or equivalent legislation; – retirement by agreement with the Company; – the participant being employed by a company which ceases to be a Group member; – the participant being employed in an undertaking or part of an undertaking which is transferred to a person who is not a Group member; or – any other circumstances if the Committee decides in any particular case. <p>Cessation of employment in circumstances other than those set out above is for other reasons.</p> <p>Other Reason There will be not entitlement to any bonus for the year of cessation. All deferred balances will lapse.</p> <p>Committee Discretion 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; – whether to award the bonus pro rata for the year of cessation. The Committee's policy is generally to do so. <p>It is the Committee's intention to use its discretion in each case only in circumstances where there is an appropriate business case, which will be explained in full to shareholders.</p>
Share Options	<p>Good Leaver Reason Good leaver reason is one of the following reasons for cessation:</p> <ul style="list-style-type: none"> – injury, ill-health or disability; – redundancy within the meaning of the Employment Rights Act 1996 or equivalent legislation; – retirement by agreement with the employing company; – the participant being employed by a company which ceases to be a Group member; – the participant being employed in an undertaking or part of an undertaking which is transferred to a person who is not a Group member; or – any other circumstances if the Committee decides in any particular case. <p>Cessation of employment in circumstances other than those set out above is for other reasons and all options will lapse.</p> <p>Committee Discretion The Committee has the following elements of discretion:</p> <ul style="list-style-type: none"> – to determine that an option holder is a good leaver. It is the Committee's intention to only use this discretion in circumstances where there is an appropriate business case which will be explained in full to shareholders; – whether some or all of the options may be exercised within six months of the date of termination of employment.

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2013

PART 1: POLICY ON DIRECTORS' REMUNERATION (CONTINUED)

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. Employees have not been consulted in respect of the design of the policy on directors' remuneration.

Consideration of Shareholder Views

The Committee sought the views of shareholders on the implementation of the Performance Incentive Plan, and made some amendments following their responses. 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 whole.

PART 2: ANNUAL REPORT ON REMUNERATION

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN 2013

For the year ended 31 December 2013, the Group's Policy on remuneration was implemented as set out below.

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

The following table shows an analysis of remuneration in respect of qualifying services for the 2013 financial year for each Executive Director:

Single Figure for Executive Directors	Salary £000		Taxable Benefits £000		Bonus £000		LTIP £000		Pension £000		Other fees £000		Total £000	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
Sten Mortstedt	230	225	–	–	–	–	–	–	–	–	375	375	605	600
Henry Klotz	224	220	9	8	146	138	115	–	–	–	29	28	523	394
Richard Tice	212	208	4	4	138	130	356	–	11	10	–	–	721	352
John Whiteley	196	192	5	5	85	80	67	–	10	10	–	–	363	287

Notes:-

1. The bonus is 50% of the contribution into the Director's Plan Account (see below for details of calculation).
2. The LTIP is the difference between the values calculated in 1. above and the 2013 Payment set out in the table below and is the payment of part of the deferred performance-based element under the PIP.

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

PERFORMANCE AGAINST PERFORMANCE TARGETS FOR PIP

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

Plan Accounts	Henry Klotz	Richard Tice	John Whiteley
2013 Opening Balance (Shares)	18,594	17,609	10,751
2013 Contribution (Note 1)	£291,929	£275,816	£170,078
Value at Measurement Date (Note 2)	£230,659	£218,440	£133,366
2013 Payment	£261,294	£247,128	£151,722
Closing Balance Deferred in Shares	21,064	19,922	12,231
Number of Deferred Shares (Note 3)	21,064	19,922	12,231

Notes:-

1. The 2013 bonus performance conditions and their level of satisfaction are set out on page 48.
2. The price used at the Measurement Date to calculate the value of shares is the mid-market value of a share for the 30 day period finishing on the end of 31 December 2013.
3. The number of deferred notional shares is calculated using the share price of 1,240.5 pence per share.

The following table sets out the 2013 Company contribution for each of the participants:

	Henry Klotz	Richard Tice	John Whiteley
Salary	£224,145	£212,262	£195,840
Maximum Company Contribution	£336,218	£318,398	£195,840
Percentage of Maximum Contribution earned (page 48)	86.8%	86.6%	86.8%
2013 Company Contribution	£291,929	£275,816	£170,078

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 (2012: one). Participants are required to contribute 5% of basic UK salary (2012: 5%), which is matched by a contribution from the Company of 5% (2012: 5%). The Company contributed 5% of salary towards Richard Tice's Self Invested Personal Pension (SIPP) in lieu of contributions to the Company pension scheme (2012: 5%). The Executive Chairman is not a member of the Company pension scheme. The Executive Vice Chairman is a deferred member of the scheme. The Company contribution has been increased to 10% from 1 January 2014.

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 2013:

Non-Executive	Board fee £000		Other Board Fees £000		Additional Fees		Total £000	
	2013	2012	2013	2012	2013	2012	2013	2012
Malcolm Cooper	15	15	18	18	–	–	33	33
Joseph Crawley	15	15	–	–	–	–	15	15
Claes-Johan Geijer	10	–	–	–	31	–	41	–
Christopher Jarvis	15	15	13	13	4	–	32	28
Thomas Lundqvist	15	15	–	–	30	9	45	24
Jennica Mortstedt	15	15	–	–	–	–	15	15
Brigith Terry	15	15	–	–	–	–	15	15
Thomas Thomson	15	15	–	–	–	2	15	17

Additional Fees

A company associated with Mr Mortstedt provided consultancy services which related to specific advice which was outside the terms of Mr Mortstedt's contract of employment. The Committee has reviewed the fees for these services, and is of the opinion that the market rate for the services would have far exceeded the amount paid.

Mr Klotz received additional fees which he retained of £19,622 (2012: £18,926) in respect of his role as Non-Executive Chairman of Catena AB and £9,811 (2012: £9,463) as Non-Executive Director of Note AB.

Non-Executive Directors receive hourly fees for specific projects undertaken, subject to the agreement of the Chief Executive Officer or Executive Chairman. This year, Mr Lundqvist received £30,361 in respect of certain historical finance related matters that required investigation and, at the Remuneration Committee's request, liaising with the Sten Mortstedt Family and Charity Trust on executive remuneration issues. Mr Jarvis received £4,300 in respect of advice in relation to the development strategy and commercial and residential opportunities for specific properties within the portfolio.

Mr Geijer received £31,410 in respect of his appointment as a non-executive director to a number of Group subsidiary companies.

Payments to Past Directors

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

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2013

PART 2: ANNUAL REPORT ON REMUNERATION (CONTINUED)

Payments for Loss of Office

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

Remuneration element	Treatment on exit
PIP	<p>2013 Financial Year</p> <p>Richard Tice was an executive director throughout the 2013 financial year and therefore participated in the PIP for the full year with a payment which will be made in March 2014 of £494,255.</p> <p>Deferred Balances under the PIP</p> <p>Richard Tice was treated as a good leaver under the PIP and the balance of his Plan Account will be paid in cash in March 2014 within the amount stated above.</p> <p>Committee Discretion</p> <p>The Committee determined to treat Richard Tice as a good leaver because of the strong performance of the Company over the period whilst he was Chief Executive and acknowledging that the balance in his Plan Account was earned deferred value.</p>

No other payments were made to Richard Tice in relation to his loss of office. Salary and benefits were paid to the date of termination. Richard Tice was appointed a Non-Executive Director of the Company on 14 February 2014.

Directors' Interests in Shares

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

Director	Unconditional Shares	Conditional PIP Shares	Total
Sten Mortstedt	22,481,118	–	22,481,118
Henry Klotz	71,395	21,045	92,440
John Whiteley	12,000	12,215	24,215
Malcolm Cooper	4,319	–	4,319
Joseph Crawley	–	–	–
Claes-Johan Geijer	–	–	–
Christopher Jarvis	4,844	–	4,844
Thomas Lundqvist	80,000	–	80,000
Jennica Mortstedt	–	–	–
Brigith Terry	–	–	–
Thomas Thomson	82,548	–	82,548
Richard Tice*	406,170	19,904	426,074

* Following Mr Tice's resignation as Chief Executive Officer, the value of the conditional PIP notional shares will be paid in cash in March 2014.

The shares in which Sten Mortstedt is interested are held in trust and include shares held in the name of, owned by, and/or held in trust for, Mrs K Mortstedt and the S Mortstedt family. There have been no changes to the interests of the Directors since 31 December 2013.

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

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

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

Henry Klotz: 439% (2012: 40%)

Richard Tice: 2639% (2012: 968%)

John Whiteley: 84% (2012: 48%)

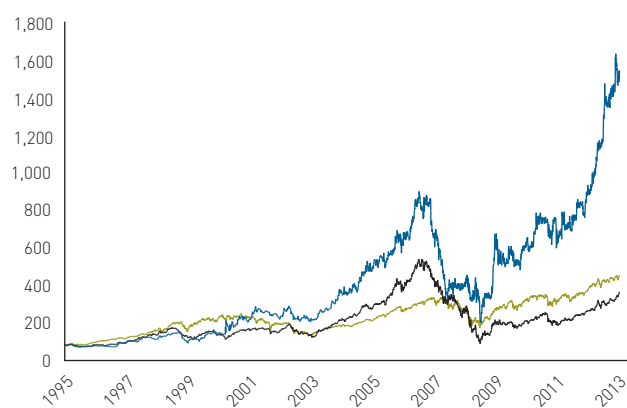
The Executive Chairman, Sten Mortstedt, has an interest in shares which is substantially in excess of the minimum requirement.

Share Options

On 17 May 2013, Richard Tice exercised options over 300,000 ordinary shares at an option price of £4.70 and sale price of £9.80, representing a gain of £5.10 per ordinary share. In respect of the options, 6,382 ordinary shares were granted and exercised under the CSOP and 293,618 ordinary shares under the USOS. Of the total, Mr Tice sold 146,000 ordinary shares and the remaining 154,000 ordinary shares were transferred to him.

The highest mid-market share price in the year was 1,399 pence, the lowest 753 pence, and the average was 1,018 pence. The closing share price on 31 December 2013 was 1,379 pence.

TOTAL RETURNS TO SHAREHOLDERS 1994-2013



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 Index and Sectors in which the Company has been included since listing.

Total Remuneration for the Chief Executive Officer

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

REMUNERATION COMMITTEE REPORT CONTINUED

for the year ended 31 December 2013

PART 2: ANNUAL REPORT ON REMUNERATION (CONTINUED)

Percentage Change in remuneration of the Chief Executive Officer

The table below shows how the percentage change in the Chief Executive Officer's salary, benefits and bonus between 2012 and 2013 compares with the percentage change in the average of each of those components of pay for employees.

	Salary			Taxable Benefits			Bonus		
	2013 £000	2012 £000	Percentage Increase	2013 £000	2012 £000	Percentage Increase	2013 £000	2012 £000	Percentage Increase
CEO	212	208	1.9%	4	4	–	138	130	6.2%
All Employees	4,066	3,253	25.0%	119	91	30.8%	1,448	1,167	24.1%

The Group's pay review taking effect from 1 January 2013 awarded average percentage increases in wages and salaries of 2%. The nature and level of benefits to employees in the year ended 31 December 2013 was broadly similar to those of the previous year.

Relative importance of spend on pay

	2013 £000	2012 £000	% Change
Remuneration paid to all employees of the Group	8,291	6,669	+24.3%
Distributions to shareholders	14,965	13,221	+13.2%
Group revenue	91,200	80,200	+13.7%

STATEMENT OF IMPLEMENTATION OF REMUNERATION POLICY IN THE FOLLOWING FINANCIAL YEAR

By reference to the Annual Statement, the Remuneration Policy will be implemented as set out in the body of the report. Salary increases are set out in the At a Glance page above. The performance measures and weighting of the PIP KPIs remain unchanged for 2014.

CONSIDERATION BY THE DIRECTORS OF MATTERS RELATING TO DIRECTORS' REMUNERATION

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, along with 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 £12,500 (2012: £nil). 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

At the 2013 Annual General Meeting, the Directors' Remuneration Report achieved 99.6% (2012: 88.2%) in favour, 0.2% (2012: 5.7%) against and 0.2% (2011: 6.1%) withheld.

On behalf of the Board

Christopher Jarvis

Chairman
Remuneration Committee

4 March 2014

AUDIT COMMITTEE REPORT

Audit Committee members	Meetings attended/eligible to attend
Malcolm Cooper (Chairman)	4/4
Christopher Jarvis	4/4

The role of the Audit Committee is:

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

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

REPORT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

This year the Committee has undertaken significant work in ensuring its compliance with the requirements of the Code. Additionally, so that it is kept abreast of governance and reporting standards, it met with senior management and, in particular, was briefed on financial reporting developments that affect the Group.

During the year the Committee reviewed the Annual Report and Accounts and the Half-Yearly Financial Report, focusing on key areas of judgement and complexity, critical accounting policies and any changes required to them. Given the relatively new development opportunities that the Group has been progressing, the Committee paid particular attention to the valuations relating to Spring Mews and Vauxhall Square. The Committee also discussed the valuation and integration of the Neo Portfolio, purchased in September 2013. Specifically with regard to Spring Mews, the Committee noted that completion was expected in September 2014 and, therefore, the development and construction risks in relation to its valuation had decreased. Taking into account the various factors affecting the valuations of both developments, the Committee concluded that they were appropriately valued and recommended the same to the Board.

Having regard to the key financial reporting issues, the Committee also considered the appropriateness of the valuation of the Corporate Bond portfolio at the half year and were pleased to note that the sale of the majority of this portfolio in August, in order to finance the purchase of the Neo portfolio, underlined its liquidity and supported the valuation. With this precedent, the Committee were confident that there should be no impairment of the current Corporate Bond portfolio at the year end. The Committee also reviewed and challenged management on the Group's compliance with going concern assumptions and concluded that there were adequate measures in place to ensure the Group remained a going concern even in severe economic circumstances.

The Committee paid particular attention to reviewing the Group's key business risks, and ensuring that they had been adequately identified and mitigated. One such key risk was the Group's overall strategy of holding properties primarily through special purpose vehicles, thus ring-fencing the assets and liabilities relating to such property. Following discussion, it was agreed that management were able adequately to mitigate the associated risks and that it had proved to be a very successful strategy during the economic downturn.

The Committee also met with the Group's UK valuers, Lambert Smith Hampton, Knight Frank and Savills, at which it invited the whole Board, to discuss and question the methodology used for the bi-annual valuations of the Group's UK properties and developments. It received written presentations from Colliers International and Jones Lang LaSalle in respect of Germany and France, respectively, with follow up meetings planned at the half year. The Committee were satisfied with the explanations in relation to the portfolio and its associated key risks, such as vacancy levels, which management were addressing.

AUDIT COMMITTEE REPORT CONTINUED

REPORT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE (CONTINUED)

Towards the end of the year, the Committee reviewed its Terms of Reference so as to ensure it continued to comply with best practice, and reviewed its performance to ensure that it continued to operate as an effective Audit Committee and had discharged its responsibilities in accordance with its remit. For the size and complexity of the Group the composition of the Committee was considered appropriate and in compliance with the Code.

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

EXTERNAL AUDIT

The Committee reviewed the external audit strategy and the findings of the Company's auditor from its review of the Half-Yearly Financial Report and its audit of the Annual Report and Accounts. It reviewed the letter of representations 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 signoff meeting for these Annual Report and Accounts in order to receive their report on from the external audit process. I am pleased to report that at both the half year and the full year, after reviewing the significant risks identified by the Company's auditor and how management had mitigated them, there were no issues of a material nature which needed to be addressed or brought to the Board's attention.

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

The external audit was last put out to tender in 2007 when the current auditor, Deloitte LLP, was appointed. After five years, the lead audit partner was changed by rotation in 2012. There are no contractual obligations to restrict the Company's choice of external auditor. With regard to external audit tendering, the Committee notes the wider EU regulatory developments in this area, on which it keeps a watching brief, and will comply with the applicable standard.

INTERNAL AUDIT

Following its annual review, the Committee recommended to the Board not to establish an internal audit function due to the relatively small number of personnel employed within the Group, the nature of the business and the current control and review systems in place. This view was supported by the Company's auditor.

POLICY ON NON-AUDIT SERVICES

The Committee is also responsible for monitoring the compliance of the Company's policy on the provision of non-audit services by the Company's auditor, so as to safeguard the auditor's objectivity and independence. The policy, which is based on the most recent Guidance on Audit Committees and reviewed annually, categorises non-audit services as either:

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

The only non-audit services provided by the Company's auditor during the year were:

- five individual pieces of work on capital allowances in respect of acquisitions with aggregate fees of £28,000;
- capital allowance advice on capital expenditure with aggregate fees of £16,000; and
- tax advice on swap cancellations for a fee of £5,000.

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

On behalf of the Board

Malcolm Cooper

Chairman
Audit Committee

4 March 2014

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

Opinion on financial statements of CLS Holdings plc ("CLS")

In our opinion:

- the financial statements give a true and fair view of the state of the Group and the parent Company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group Statement of Comprehensive Income, the Group Balance Sheet, the Group Statement of Changes in Equity, the Group Statement of Cash Flows, the related notes to the group financial statements 1 to 34, the Company Balance Sheet and the related notes to the parent company financial statements 1 to 14. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Going concern

As required by the Listing Rules we have reviewed the Directors' statement on page 39 that the Group is a going concern. We confirm that:

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

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

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

Our assessment of risks of material misstatement

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

Risk

How the scope of our audit responded to the risk

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

We assessed management's process for reviewing the valuations of the property portfolio. We met with the external valuers of the portfolio to discuss and understand the valuation process, performance of the portfolio and significant assumptions and critical judgement areas, including occupancy rates, yields and development milestones.

We obtained relevant industry data, which was then used to benchmark the portfolio performance and key assumptions used to assess whether the external evidence supported the assumptions used by the valuers. As part of our meeting with the external valuers we assessed their competence, independence and integrity. We finally performed audit procedures to assess the integrity of information provided to the valuer relating to rental income.

Accounting for property acquisitions

We evaluated the acquisition treatment of properties acquired in the period with particular focus on the Neo Portfolio which accounted for £123.7 million of the acquisitions in the year. We inspected the purchase agreements to obtain the purchase prices, tested costs which were capitalised with the acquisitions and assessed the accounting entries made. We checked whether the transactions were properly reflected and disclosed in the accounts.

Accounting for investments, focusing on the impact of changes in shareholdings on classification and accounting, and on the risk of impairment. In the year there has been a change in the percentage ownership of both Catena AB ("Catena") and Cood Investments AB ("Cood").

We assessed the classification of investments in the financial statements and audited the valuation and the associated gain arising on investments through changes in the market value.

All remaining investments were evaluated for impairment by comparing the market value to cost. We have also challenged management's assumptions behind the fair value of the investments to assess whether there are any signs of impairment.

The Audit Committee's consideration of these risks is set out on pages 61 and 62.

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

Our application of materiality

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

We determined materiality for the group to be £8.9 million, which is below 2% of net assets.

In addition to net assets, we consider EPRA Adjusted Profit Before Tax as a critical performance measure for the Group and we applied a lower materiality of £1.4 million which is less than 5% of income before tax for testing of balances impacting that measure, being most balance sheet and income statement balances with the exception primarily of fair value movements on investment property and complex financial instruments.

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

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the Group level. Based on that assessment, we focused our group audit scope on the audit work at the most significant components, being the UK, Germany and France, which together accounted for 95.4% of the Group's net assets and 97.9% of the Group's profit before tax. They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

With the exception of the audit work relating to the risk surrounding revenue recognition which was carried out by component auditors all of the audit work on the risk described above was performed centrally by the group team.

The audit of the UK business was carried out by the group team with the remaining audit work being carried out through the use of component auditors from within the Deloitte network. The review procedures for the Swedish business were carried out by PricewaterhouseCoopers. The audit and review work for each component location was executed at levels of materiality applicable to each component which were lower than group materiality. We reviewed the work of and, where necessary, requested component auditors to carry out further testing. Where necessary, a senior member of the group audit team visits the component locations to meet the component audit team and deal with any issues that arise.

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

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

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

Matters on which we are required to report by exception	
Adequacy of explanations received and accounting records	<p>Under the Companies Act 2006 we are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or • the parent company financial statements are not in agreement with the accounting records and returns. <p>We have nothing to report in respect of these matters.</p>
Directors' remuneration	<p>Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the 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.</p>
Corporate Governance Statement	<p>Under the Listing Rules we are also required to review the part of the Corporate Governance Statement relating to the Company's compliance with nine provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.</p>
Our duty to read other information in the Annual Report	<p>Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:</p> <ul style="list-style-type: none"> • materially inconsistent with the information in the audited financial statements; or • apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or • otherwise misleading. <p>In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.</p>
Respective responsibilities of Directors and Auditor	<p>As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.</p> <p>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, strategically focused second partner reviews and independent partner reviews.</p> <p>This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.</p>

Scope of the audit of the financial statements

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

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

Chartered Accountants and Statutory Auditor
London, United Kingdom

4 March 2014

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Notes	2013 £m	2012 £m
Continuing operations			
Group revenue		91.2	80.2
Net rental income	4	73.1	62.9
Administration expenses		(12.4)	(10.5)
Other expenses		(3.5)	(2.9)
Group revenue less costs		57.2	49.5
Profit on sale of investment property		4.5	–
Profit on sale of joint venture	33	1.8	–
Net gain/(loss) on sale of corporate bonds and other financial investments		14.1	(0.4)
Net movements on revaluation of investment properties	13	(0.2)	16.2
Fair value gain on reclassification of an associate as an investment		14.9	–
Operating profit		92.3	65.3
Finance income	8	7.6	10.6
Finance costs	9	(23.7)	(25.6)
Share of (loss)/profit of associates after tax	16	(4.8)	5.8
Profit before tax		71.4	56.1
Taxation	10	(8.2)	(9.4)
Profit for the year	6	63.2	46.7
Other comprehensive income			
Items that will not be classified to profit or loss			
Foreign exchange differences		3.4	(2.6)
Items that may be reclassified to profit or loss			
Fair value (losses)/gains on corporate bonds and other financial investments	17	(1.4)	19.7
Fair value (gains)/losses taken to net gain/(loss) on sale of corporate bonds and other financial investments	17	(11.2)	4.0
Deferred tax on net fair value gains on corporate bonds and other investments	21	3.1	(5.9)
Revaluation of owner-occupied property	14	–	0.1
Total items that may be reclassified to profit or loss		(9.5)	17.9
Total comprehensive income for the year		57.1	62.0
Earnings per share from continuing operations attributable to the owners of the Company during the year (expressed in pence per share)			
Basic	11	146.9	106.0
Diluted	11	146.7	105.8

The notes on pages 72 to 100 are an integral part of these group financial statements.

GROUP BALANCE SHEET

at 31 December 2013

	Notes	2013 £m	2012 £m
Non-current assets			
Investment properties	13	1,132.9	934.5
Property, plant and equipment	14	2.8	2.8
Goodwill	15	1.1	1.1
Investments in associates	16	9.1	33.3
Other financial investments	17	104.3	129.9
Derivative financial instruments	23	0.4	0.2
Deferred tax	21	6.4	8.7
		1,257.0	1,110.5
Current assets			
Trade and other receivables	18	12.7	17.0
Derivative financial instruments	23	0.3	0.6
Cash and cash equivalents	19	129.8	97.6
		142.8	115.2
Total assets		1,399.8	1,225.7
Current liabilities			
Trade and other payables	20	(40.3)	(33.0)
Current tax		(3.5)	(3.6)
Borrowings	22	(77.5)	(135.6)
Derivative financial instruments	23	-	(0.4)
		(121.3)	(172.6)
Non-current liabilities			
Deferred tax	21	(74.4)	(77.8)
Borrowings	22	(717.3)	(549.4)
Derivative financial instruments	23	(5.9)	(8.8)
		(797.6)	(636.0)
Total liabilities		(918.9)	(808.6)
Net assets		480.9	417.1
Equity			
Share capital	25	11.7	12.0
Share premium	27	82.9	71.5
Other reserves	28	96.0	101.8
Retained earnings		290.3	231.8
Total equity		480.9	417.1

The financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 4 March 2014 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr E H Klotz
Director

The notes on pages 72 to 100 are an integral part of these group financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Arising in 2013:						
Total comprehensive income for the year		-	-	(6.1)	63.2	57.1
Issue of share capital		-	11.4	-	8.0	19.4
Expenses thereof		-	-	-	(0.4)	(0.4)
Exercise of share options		-	-	-	1.4	1.4
Purchase of own shares	25	(0.3)	-	0.3	(13.6)	(13.6)
Expenses thereof		-	-	-	(0.1)	(0.1)
Total changes arising in 2013		(0.3)	11.4	(5.8)	58.5	63.8
At 1 January 2013		12.0	71.5	101.8	231.8	417.1
At 31 December 2013		11.7	82.9	96.0	290.3	480.9

	Notes	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m
Arising in 2012:						
Total comprehensive income for the year		-	-	15.3	46.7	62.0
Purchase of own shares	25	(0.5)	-	0.5	(12.5)	(12.5)
Expenses thereof		-	-	-	(0.1)	(0.1)
Employee share option schemes		-	-	-	0.2	0.2
Total changes arising in 2012		(0.5)	-	15.8	34.3	49.6
At 1 January 2012		12.5	71.5	86.0	197.5	367.5
At 31 December 2012		12.0	71.5	101.8	231.8	417.1

The notes on pages 72 to 100 are an integral part of these group financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2013

	Notes	2013 £m	2012 £m
Cash flows from operating activities			
Cash generated from operations	29	63.4	54.3
Interest paid		(22.2)	(22.5)
Income tax (paid)/refunded		(5.4)	0.1
Net cash inflow from operating activities		35.8	31.9
Cash flows from investing activities			
Purchase of investment property		(165.3)	(13.1)
Capital expenditure on investment property		(34.3)	(13.5)
Proceeds from sale of investment property		13.2	–
Proceeds from sale of joint venture		4.4	–
Interest received		11.2	8.2
Purchase of corporate bonds		(110.6)	(65.6)
Proceeds from sale of corporate bonds		172.9	45.8
Purchase of equity investments		(3.3)	(0.6)
Dividends received from equity investments		0.4	0.1
Proceeds from sale of equity investments		3.1	0.6
Purchase of interests in associate undertakings		(0.3)	(4.1)
Loans to associate undertakings		(1.2)	(4.5)
Distributions received from associate undertakings		0.3	0.8
(Costs)/income on foreign currency transactions		(1.7)	0.3
Costs of corporate disposals		(0.3)	(0.8)
Purchases of property, plant and equipment		(0.3)	(0.2)
Net cash outflow from investing activities		(111.8)	(46.6)
Cash flows from financing activities			
Proceeds from issue of shares		20.4	–
Purchase of own shares		(13.7)	(12.6)
New loans		207.4	223.3
Issue costs of new loans		(1.9)	(2.4)
Repayment of loans		(103.4)	(151.7)
Purchase or cancellation of derivative financial instruments		(0.3)	(0.1)
Net cash inflow from financing activities		108.5	56.5
Cash flow element of net increase in cash and cash equivalents		32.5	41.8
Foreign exchange (loss)/gain		(0.3)	0.5
Net increase in cash and cash equivalents		32.2	42.3
Cash and cash equivalents at the beginning of the year		97.6	55.3
Cash and cash equivalents at the end of the year	19	129.8	97.6

The notes on pages 72 to 100 are an integral part of these group financial statements.

NOTES TO THE GROUP FINANCIAL STATEMENTS

31 December 2013

1 GENERAL INFORMATION

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements have been prepared on a going concern basis as explained in the Directors' Report on page 39 and have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, International Financial Reporting Interpretations Committee ("IFRIC") interpretations, and the provisions of the Companies Act 2006 applicable to companies reporting under IFRS.

New standards and interpretations

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

- IFRS 13 – *Fair value measurement*

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

- IFRS 9 – *Financial instruments*
- IFRS 10 – *Consolidated financial statements*
- IFRS 11 – *Joint arrangements*
- IFRS 12 – *Disclosure of interests in other entities*
- IAS 27 (amended) – *Separate financial statements*
- IAS 32 (amended) – *Offsetting financial assets and financial liabilities*
- IAS 36 (amended) – *Recoverable amount disclosure for non-financial assets*

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

2.2 Business Combinations

(i) Subsidiary undertakings

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

(ii) Associates

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

(iii) Goodwill

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

2.3 Foreign currency

(i) Foreign currency transactions

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

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

(ii) Consolidation of foreign entities

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

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

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

2.4 Investment properties

Investment properties are those properties held for long-term rental yields or for capital appreciation or both. Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties comprise costs of a capital nature; in the case of investment properties under development, these include capitalised interest and certain staff costs directly attributable to the management of the development. Capitalised interest is calculated at the rate on associated borrowings applied to direct expenditure between the date of gaining planning consent and the date of practical completion.

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. If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Subsequently the owner-occupied property is depreciated over its useful economic life and revalued at the balance sheet date.

2.5 Property, plant and equipment

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

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

Plant and equipment	4 – 5 years
Freehold property	6 years

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. Freehold property is depreciated until December 2014 after which it is anticipated that it will be redeveloped.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

2 SIGNIFICANT ACCOUNTING POLICIES CONTINUED

2.6 Financial instruments

(i) Derivative financial instruments

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

(ii) Available-for-sale investments

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

(iii) Cash and cash equivalents

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

(iv) Trade and other receivables and payables

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

(v) Borrowings

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

2.7 Revenue

(i) Rental income

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

(ii) Service charge income

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

2.8 Profit on sale of investment properties

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

2.9 Income tax

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

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

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

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

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

(i) Fair value of investment properties

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

(ii) Listed corporate bonds

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

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

(iii) Income Taxes

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

(iv) Deferred tax

The method of calculation of deferred tax in relation to UK properties assumes that indexation allowance will be available as it is assumed that the Group will recover the carrying amount of its investment properties through use followed by an eventual sale.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

4 SEGMENT INFORMATION

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

Investment Property – United Kingdom

France

Germany

Sweden

Other Investments

There are no transactions between the operating segments.

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

	Investment Property				Other Investments £m	Total £m
	United Kingdom £m	France £m	Germany £m	Sweden £m		
Rental income	34.7	19.2	15.5	6.6	–	76.0
Other property-related income	0.7	0.4	0.1	–	–	1.2
Service charge income	5.1	5.4	3.1	0.4	–	14.0
Service charges and similar expenses	(6.6)	(5.7)	(3.4)	(2.4)	–	(18.1)
Net rental income	33.9	19.3	15.3	4.6	–	73.1
Administration expenses	(3.0)	(1.4)	(1.3)	(0.6)	(0.5)	(6.8)
Other expenses	(1.6)	(0.6)	(1.1)	(0.2)	–	(3.5)
Group revenue less costs	29.3	17.3	12.9	3.8	(0.5)	62.8
Profit on sale of investment property	4.5	–	–	–	–	4.5
Profit on sale of joint venture	1.8	–	–	–	–	1.8
Net gain on sale of corporate bonds and other financial investments	–	–	–	–	14.1	14.1
Net movements on revaluation of investment properties	11.0	(9.2)	(0.6)	(1.4)	–	(0.2)
Fair value gain on reclassification of an associate as an investment	–	–	–	–	14.9	14.9
Segment operating profit	46.6	8.1	12.3	2.4	28.5	97.9
Finance income	–	–	–	–	7.6	7.6
Finance costs	(9.6)	(3.2)	(2.9)	(0.8)	(7.2)	(23.7)
Share of loss of associates after tax	–	–	–	–	(4.8)	(4.8)
Segment profit before tax	37.0	4.9	9.4	1.6	24.1	77.0
Central administration expenses						(5.6)
Profit before tax						71.4

The Group's results for the year ended 31 December 2012 by operating segment were as follows:

	Investment Property				Other Investments £m	Total £m
	United Kingdom £m	France £m	Germany £m	Sweden £m		
Rental income	27.5	18.5	13.9	6.2	–	66.1
Other property-related income	0.6	0.1	0.1	–	–	0.8
Service charge income	4.7	5.5	2.7	0.4	–	13.3
Service charges and similar expenses	(6.0)	(5.6)	(3.6)	(2.1)	–	(17.3)
Net rental income	26.8	18.5	13.1	4.5	–	62.9
Administration expenses	(2.3)	(1.4)	(0.9)	(0.3)	(0.5)	(5.4)
Other expenses	(1.5)	(0.4)	(0.9)	(0.1)	–	(2.9)
Group revenue less costs	23.0	16.7	11.3	4.1	(0.5)	54.6
Net loss on sale of corporate bonds and other financial investments	–	–	–	–	(0.4)	(0.4)
Net movements on revaluation of investment properties	19.8	(3.5)	0.1	(0.2)	–	16.2
Segment operating profit/(loss)	42.8	13.2	11.4	3.9	(0.9)	70.4
Finance income	–	0.1	–	–	10.5	10.6
Finance costs	(11.9)	(4.6)	(4.6)	(1.2)	(3.3)	(25.6)
Share of profit of associates after tax	–	–	–	–	5.8	5.8
Segment profit before tax	30.9	8.7	6.8	2.7	12.1	61.2
Central administration expenses						(5.1)
Profit before tax						56.1

Other segment information:

	Assets		Liabilities		Capital expenditure	
	2013 £m	2012 £m	2013 £m	2012 £m	2013 £m	2012 £m
Investment Property						
United Kingdom	640.9	463.5	457.1	358.7	180.4	19.9
France	245.1	247.0	206.2	207.5	4.7	1.4
Germany	220.3	202.5	147.7	144.4	13.2	5.5
Sweden	67.5	62.9	44.5	40.2	2.1	0.7
Other Investments	226.0	249.8	63.4	57.8	–	–
	1,399.8	1,225.7	918.9	808.6	200.4	27.5

Included within the assets of other investments are investments in associates of £9.1 million (2012: £33.3 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

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:

	2013 £m	2012 £m
Administration expenses of the operating segments	6.8	5.4
Central administration expenses	5.6	5.1
Total administration expenses of the Group	12.4	10.5
Less: administration expenses of Other Investments	(0.5)	(0.5)
Property-related and central administration expenses	11.9	10.0
Net rental income	73.1	62.9
Administration cost ratio	16.3%	15.9%

6 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2013 £m	2012 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the parent company and group accounts	0.3	0.2
Fees payable to the Company's auditor for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	0.1	0.1
Depreciation of property, plant and equipment	0.3	0.2
Employee benefits expense (note 7)	7.6	6.6

7 EMPLOYEE BENEFITS EXPENSE

	2013 £m	2012 £m
Wages and salaries	5.8	5.0
Social security costs	0.8	0.7
Pension costs – defined contribution plans	0.2	0.2
Other employee-related expenses	0.8	0.7
	7.6	6.6

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

Information on Directors' emoluments, share options and interests in the Company's shares is given in the Directors' Remuneration Report on pages 46 to 60.

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

	2013			2012		
	Property number	Other operations number	Total number	Property number	Other operations number	Total number
Male	36	1	37	29	1	30
Female	39	–	39	35	–	35
	75	1	76	64	1	65

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

	2013				2012			
	Directors number	Senior managers number	Other employees number	Total number	Directors number	Senior managers number	Other employees number	Total number
Male	10	14	25	49	9	11	19	39
Female	2	3	37	42	2	4	41	47
	12	17	62	91	11	15	60	86

Share-based payments

The Group operates two employee share option schemes, the 2005 CLS Holdings plc Company Share Option Plan and the Group's unapproved Share Option Scheme. In March 2010, share options under these schemes were granted at an exercise price of 470p, and could be exercised from March 2013 to March 2017. Details of vesting conditions in relation to these options are given within the Directors Remuneration report on page 59.

The movement in share options during the year was:

	2013		2012	
	Number of share options	Exercise price	Number of share options	Exercise price
Outstanding at the beginning of the year	300,000	470p	300,000	470p
Granted during the year	–		–	
Exercised during the year	(300,000)	470p	–	
Outstanding at the end of the year	–		300,000	470p
Exercisable at the end of the year	–		–	

The fair value of share options granted in 2010 were calculated using the Black Scholes model. The inputs to this model were:

Share price at grant date (pence)	495.0
Exercise price (pence)	470.0
Expected volatility	47.9%
Option life (years)	7.0
Risk-free rate	4.1%
Expected dividend yield	4.3%
Value per option (pence)	177.2

The expected volatility was estimated using the historical volatility of the share price over a four year period. The expected life of the options was adjusted, based on management's best estimate, for the effects of behavioural considerations and exercise restrictions. The Group recognised an expense of £nil (2012: £0.2 million) relating to equity-settled share-based transactions in the year and a corresponding increase to equity.

8 FINANCE INCOME

	2013 £m	2012 £m
Interest income	7.2	9.9
Other finance income	0.4	0.1
Foreign exchange variances	–	0.6
	7.6	10.6

9 FINANCE COSTS

	2013 £m	2012 £m
Interest expense		
Bank loans	13.9	15.4
Debenture loan	3.3	3.5
Zero-coupon note	1.4	1.2
Secured notes	0.3	–
Unsecured bonds	5.1	2.8
Amortisation of loan issue costs	2.1	1.3
Total interest costs	26.1	24.2
Less interest capitalised on development projects	(0.9)	(0.1)
	25.2	24.1
Movement in fair value of derivative financial instruments		
Interest rate swaps: transactions not qualifying as hedges	(3.4)	0.2
Interest rate caps: transactions not qualifying as hedges	0.1	1.3
Foreign exchange variances	1.8	–
	23.7	25.6

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

10 TAXATION

	2013 £m	2012 £m
Current tax charge	5.3	2.3
Deferred tax charge (note 21)	2.9	7.1
	8.2	9.4

A deferred tax credit of £3.1 million (2012: charge of £5.9 million) was recognised directly in equity (note 21).

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

	2013 £m	2012 £m
Profit before tax	71.4	56.1
Tax calculated at domestic tax rates applicable to profits in the respective countries	16.5	13.9
Expenses not deductible for tax purposes	0.1	0.2
Tax effect of unrecognised profits in associates and joint ventures	(0.7)	(1.2)
Adjustment in respect of indexation allowance on United Kingdom properties	(4.2)	(3.0)
Non-taxable income	(2.4)	(0.9)
Change in tax rate	(1.6)	(1.0)
Deferred tax assets not recognised	0.9	0.1
Other deferred tax adjustments	(0.1)	0.1
Adjustment in respect of prior periods	(0.3)	1.2
Tax charge for the year	8.2	9.4

The weighted average applicable tax rate of 23.1% (2012: 24.9%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated.

11 EARNINGS PER SHARE

Management has chosen to disclose the European Public Real Estate Association (EPRA) measure of earnings per share which has been provided to give relevant information to investors on the long-term performance of the Group's underlying 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	2013 £m	2012 £m
Profit for the year	63.2	46.7
Profit on sale of investment property	(4.5)	–
Profit on sale of joint venture	(1.8)	–
Net (gain)/loss on sale of corporate bonds and other financial investments	(14.1)	0.4
Net movements on revaluation of investment properties	0.2	(16.2)
Fair value gain on reclassification of an associate as an investment	(14.9)	–
Impairment of carrying value of associate	4.0	–
Change in fair value of derivative financial instruments	(3.3)	1.5
Deferred tax relating to the above adjustments	(0.3)	2.0
Adjustments in respect of associates	–	(5.6)
EPRA earnings	28.5	28.8

Weighted average number of ordinary shares	2013 Number	2012 Number
Weighted average number of ordinary shares in circulation	43,026,586	44,072,410
Dilutive share options [†]	59,992	85,002
Diluted weighted average number of ordinary shares	43,086,578	44,157,412

Earnings per Share	2013 Pence	2012 Pence
Basic	146.9	106.0
Diluted	146.7	105.8
EPRA	66.2	65.3

[†] 300,000 share options were granted on 11 March 2010 at an exercise price of 470 pence.

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 on 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	2013 £m	2012 £m
Basic net assets	480.9	417.1
Dilutive impact of share options	–	1.4
Diluted net assets	480.9	418.5
Adjustment to increase fixed rate debt to fair value, net of tax	(21.1)	(23.9)
Goodwill as a result of deferred tax	(1.1)	(1.1)
EPRA triple net assets	458.7	393.5
Deferred tax on property and other non-current assets	72.5	74.6
Fair value of derivative financial instruments	5.2	8.4
Adjustment to decrease fixed rate debt to book value, net of tax	21.1	23.9
Adjustments in respect of associates	–	3.0
EPRA net assets	557.5	503.4

Number of ordinary shares	2013 Number	2012 Number
Number of ordinary shares in circulation	43,953,790	43,305,876
Dilutive share options	–	300,000
Diluted number of ordinary shares	43,953,790	43,605,876

Net Assets Per Share	2013 Pence	2012 Pence
Basic	1,094.1	963.1
Diluted	1,094.1	959.7
EPRA	1,268.4	1,154.4
EPRA triple net	1,043.6	902.5

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

13 INVESTMENT PROPERTIES

	United Kingdom £m	France £m	Germany £m	Sweden £m	Total £m
At 1 January 2013	437.5	239.6	197.4	60.0	934.5
Acquisitions	153.2	–	12.1	–	165.3
Capital expenditure	26.9	4.7	1.1	2.1	34.8
Disposals	(11.3)	–	–	–	(11.3)
Net movement on revaluation of investment properties	11.0	(9.2)	(0.6)	(1.4)	(0.2)
Rent-free period debtor adjustments	0.5	–	0.1	(0.1)	0.5
Exchange rate variances	–	5.5	4.3	(0.5)	9.3
At 31 December 2013	617.8	240.6	214.4	60.1	1,132.9

	United Kingdom £m	France £m	Germany £m	Sweden £m	Total £m
At 1 January 2012	398.0	248.3	197.1	58.7	902.1
Acquisitions	13.1	–	–	–	13.1
Capital expenditure	6.6	1.4	5.5	0.7	14.2
Net movement on revaluation of investment properties	19.8	(3.5)	–	(0.1)	16.2
Rent-free period debtor adjustments	–	–	0.1	(0.1)	–
Exchange rate variances	–	(6.6)	(5.3)	0.8	(11.1)
At 31 December 2012	437.5	239.6	197.4	60.0	934.5

The investment properties (and the owner-occupied property detailed in note 14) were revalued at 31 December 2013 to their fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by external, professionally qualified valuers as follows:

United Kingdom: Lambert Smith Hampton; Savills; Knight Frank

France: Jones Lang LaSalle

Germany: Colliers International

Sweden: CB Richard Ellis

Property valuations are complex and require a degree of judgements and are based on data which is not publicly available. Consistent with EPRA guidance, we have classified the valuations of our property portfolio as level 3 as defined by IFRS 13. In addition to note 3(i), inputs into the valuations include equivalent yields and rental income and are described as 'unobservable' as per IFRS 13. These inputs are analysed by segment in the property portfolio information on page 36. 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 £57.4 million (2012: £18.3 million).

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

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

In 2010 the Group purchased a property in London for £1.8 million. Under the terms of the purchase agreement, should the site be developed additional consideration may become due to the vendor. The maximum liability in respect of this is estimated to be £0.5 million. At the balance sheet date the fair value of the liability was £nil (2012: £nil).

14 PROPERTY, PLANT AND EQUIPMENT

	2013 £m	2012 £m
Cost or valuation		
At 1 January	3.9	4.0
Additions	0.3	0.2
Disposals	(0.1)	(0.4)
Revaluation	–	0.1
At 31 December	4.1	3.9
Accumulated depreciation and impairment		
At 1 January	(1.1)	(1.3)
Depreciation charge	(0.3)	(0.2)
Disposals	0.1	0.4
At 31 December	(1.3)	(1.1)
Net book value		
At 31 December	2.8	2.8

An owner-occupied property was revalued at 31 December 2013 based on the external valuation performed by Knight Frank (2012: Lambert Smith Hampton) as detailed in note 13.

15 GOODWILL

	£m
Cost	
At 1 January 2013 and 31 December 2013	1.1
Amortisation	
At 1 January 2013 and 31 December 2013	–
Net book value	
At 31 December 2013	1.1
	£m
Cost	
At 1 January 2012 and 31 December 2012	1.1
Amortisation	
At 1 January 2012 and 31 December 2012	–
Net book value	
At 31 December 2012	1.1

Goodwill comprised £0.8 million (2012: £0.8 million) on the acquisition of a French property portfolio in 2004 and £0.3 million (2012: £0.3 million) on a German property acquisition in 2005.

Impairment review 2013 and 2012

Goodwill was reviewed for impairment at 31 December 2013 and at 31 December 2012 using the key assumptions set out below. No adjustment for impairment was required.

Key assumptions:

Unamortised goodwill at 31 December 2013 and at 31 December 2012 related to contingent deferred tax arising on acquisitions of corporate entities for which an equal deferred tax liability was recognised in the balance sheet. Management have reviewed the sensitivity to a fall in property values of each cash generating unit. A fall of 10% would result in a potential impairment of goodwill of up to £0.1 million (2012: £0.1 million).

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

16 INVESTMENTS IN ASSOCIATES

	Net assets £m	Goodwill £m	Impairment £m	Total £m
At 1 January 2013	25.5	7.8	–	33.3
Additions	5.6	(5.3)	–	0.3
Share of (loss)/profit of associates after tax	(0.8)	4.2	(8.2)	(4.8)
Dividends received	(0.3)	–	–	(0.3)
Reclassification of associate as an investment	(14.8)	(5.4)	–	(20.2)
Exchange rate differences	0.4	0.2	0.2	0.8
At 31 December 2013	15.6	1.5	(8.0)	9.1

	Net assets £m	Goodwill £m	Total £m
At 1 January 2012	17.4	6.7	24.1
Additions	3.1	1.0	4.1
Share of profit of associates after tax	5.8	–	5.8
Dividends received	(0.8)	–	(0.8)
Exchange rate differences	–	0.1	0.1
At 31 December 2012	25.5	7.8	33.3

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

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

	Catena AB £m	Bulgarian Land Development Plc £m	Other associates £m	Total £m
At 31 December 2012				
<i>Interest held in ordinary share capital</i>	29.9%	48.3%	various	
Revenues	0.7	0.4	2.7	3.8
Share of profit/(loss) of associates after tax	5.8	(0.7)	0.7	5.8
Assets	26.1	8.4	10.0	44.5
Liabilities	(12.4)	(0.6)	(6.0)	(19.0)
Net assets	13.7	7.8	4.0	25.5
Goodwill	5.2	–	2.6	7.8
Investments in associates	18.9	7.8	6.6	33.3

Catena AB

At 31 December 2012 the Group had a 29.9% interest in Catena AB ("Catena"), a listed Swedish property company. On 30 September 2013, Catena issued new shares in payment for an acquisition, reducing the Group's interest in Catena to 13.8%. Consequently, the investment in Catena was reclassified as an available-for-sale financial investment and held at fair value by reference to Catena's share price. Henry Klotz, Executive Vice Chairman of the Company, is the Non-Executive Chairman of Catena AB.

Bulgarian Land Development Plc

At 31 December 2013 the Group had a 48.3% (2012: 48.3%) interest in Bulgarian Land Development Plc ("BLD"), an unlisted developer of residential and commercial real estate in Bulgaria. Henry Klotz, Executive Vice Chairman of the Company, is the Non-Executive Chairman of BLD.

Other associates

On 11 March 2013, the Group increased to 44.2% (2012: 16.6%) its interest in Cood Investments AB ("Cood"), an unlisted residential property company specialising in holiday cottages and cabins on vacation sites in Sweden. Henry Klotz, Executive Vice Chairman of the Company, is a non-executive director of Cood.

At 31 December 2013 the Group had a 20.0% (2012: 20.0%) interest in Nyheter 24, an unlisted Swedish on-line news and media business. Henry Klotz, Executive Vice Chairman of the Company, is a non-executive director of Nyheter 24.

Impairment

2013

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

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

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

2012

In assessing the carrying value of Catena AB, management considered that the net asset value of Catena's balance sheet was not representative of true fair value as it did not include the latent development profit on Catena's remaining single development site, Haga Norra. Furthermore, the market value of the Group's interest in Catena exceeded its carrying value by £1.8 million at 31 December 2012.

BLD was carried in the balance sheet at a value equal to the Group's share of its net assets. BLD's audited net assets, which were prepared under IFRS, were reviewed and found not to be impaired at 31 December 2012. Accordingly there was no requirement to provide for further impairment in the carrying value of the Group's interest in BLD at 31 December 2012.

The fair value of Nyheter 24 was determined on acquisition to be £1.9 million and was based upon detailed forward forecasts. As the progress to date has not been materially dissimilar from these forecasts, management considered the carrying value of Nyheter 24 not to be impaired at 31 December 2012.

The fair value of Cood was assessed on acquisition, and the results for 2012, including the payment of a dividend, supported the fair value.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

17 OTHER FINANCIAL INVESTMENTS

	Investment type	Destination of Investment	2013 £m	2012 £m
Available-for-sale financial investments carried at fair value	Listed corporate bonds	UK	28.4	73.2
		Eurozone	10.8	21.7
		Other	30.2	32.4
			69.4	127.3
	Listed equity securities	UK	0.2	0.3
		Sweden	34.1	1.7
		Other	0.3	0.2
	Unlisted investments	Sweden	0.3	0.3
	Government securities	UK	-	0.1
			104.3	129.9

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

	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods* £m	Total £m
At 1 January 2013	2.3	127.3	0.3	129.9
Additions	37.7	110.6	-	148.3
Disposals	(4.1)	(156.5)	-	(160.6)
Fair value movements recognised in reserves on available-for-sale assets	(1.4)	-	-	(1.4)
Fair value movements recognised in profit before tax on available-for-sale assets	0.9	(12.1)	-	(11.2)
Loss on permanent impairment	-	(0.3)	-	(0.3)
Exchange rate variations	(0.8)	0.4	-	(0.4)
At 31 December 2013	34.6	69.4	0.3	104.3
	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods* £m	Total £m
At 1 January 2012	2.3	85.1	0.4	87.8
Additions	0.6	65.6	-	66.2
Disposals	(0.9)	(46.3)	(0.3)	(47.5)
Fair value movements recognised in reserves on available-for-sale assets	0.1	19.6	-	19.7
Fair value movements recognised in profit before tax on available-for-sale assets	0.3	3.5	0.2	4.0
Exchange rate variations	(0.1)	(0.2)	-	(0.3)
At 31 December 2012	2.3	127.3	0.3	129.9

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

Corporate Bond Portfolio

At 31 December 2013

Sector	Banking	Insurance	Travel and tourism	Food producers	Other	Total
Value	£27.0m	£4.6m	£10.2m	£7.7m	£19.9m	£69.4m
Running yield	8.0%	7.2%	5.9%	8.8%	8.3%	7.8%
Issuers	RBS Lloyds Investec SNS Bank* Rothschild Commerzbank Societe Generale	Brit Phoenix Life	TUI SAS British Airways	Findus Boparan	Dell Enel Stora Enso Bombardier Manutencoop Corral Finans Telecom Italia	

* Less than £0.1 million market value.

18 TRADE AND OTHER RECEIVABLES

	2013 £m	2012 £m
Current		
Trade receivables	1.3	3.0
Prepayments	1.2	0.9
Accrued income	2.7	6.8
Other debtors	7.5	6.3
	12.7	17.0

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 (2012: none). No trade and other receivables were interest-bearing.

Included within other debtors is £6.0 million (2012: £5.0 million) due after more than one year.

19 CASH AND CASH EQUIVALENTS

	2013 £m	2012 £m
Cash at bank and in hand	129.8	96.8
Short-term bank deposits	–	0.8
	129.8	97.6

At 31 December 2013, Group cash at bank and in hand included £11.0 million (2012: £6.8 million) which was restricted by a third-party charge.

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

The cash and cash equivalents currency profile was as follows:

	Cash at bank and in hand £m	Short-term deposits £m	Total £m
At 31 December 2013			
Sterling	106.7	–	106.7
Euro	9.5	–	9.5
Swedish Krona	13.6	–	13.6
	129.8	–	129.8
	Cash at bank and in hand £m	Short-term deposits £m	Total £m
At 31 December 2012			
Sterling	59.6	0.8	60.4
Euro	15.8	–	15.8
Swedish Krona	21.2	–	21.2
Other	0.2	–	0.2
	96.8	0.8	97.6

20 TRADE AND OTHER PAYABLES

	2013 £m	2012 £m
Current		
Trade payables	6.1	1.6
Social security and other taxes	1.3	2.2
Other payables	7.0	7.4
Accruals	14.5	11.0
Deferred income	11.4	10.8
	40.3	33.0

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

21 DEFERRED TAX

	2013 £m	2012 £m
Deferred tax assets:		
– after more than 12 months	(6.4)	(8.7)
Deferred tax liabilities:		
– after more than 12 months	74.4	77.8
	68.0	69.1

The movement in deferred tax was as follows:

	2013 £m	2012 £m
At 1 January	69.1	57.3
Charged in arriving at profit after tax	2.9	7.1
(Credited)/charged to other comprehensive income	(3.1)	5.9
Deferred tax on acquisition	(2.1)	–
Exchange rate variances	1.2	(1.2)
At 31 December	68.0	69.1

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

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

Deferred tax assets	Tax losses £m	Other £m	Total £m
At 1 January 2012	(10.6)	(7.1)	(17.7)
Charged in arriving at profit after tax	5.1	1.0	6.1
Charged to other comprehensive income	–	2.9	2.9
At 31 December 2012	(5.5)	(3.2)	(8.7)

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

Deferred tax liabilities	UK capital allowances £m	Fair value adjustments to investment properties £m	Other £m	Total £m
At 1 January 2012	9.7	64.5	0.8	75.0
(Credited)/charged in arriving at profit after tax	(0.3)	1.4	(0.1)	1.0
Charged to other comprehensive income	–	–	3.0	3.0
Exchange rate variances	–	(1.2)	–	(1.2)
At 31 December 2012	9.4	64.7	3.7	77.8

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 2013 the Group did not recognise deferred tax assets of £8.4 million (2012: £8.2 million) in respect of losses amounting to £33.7 million (2012: £33.2 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.

On 1 April 2014 the UK corporation tax rate reduces from 23% to 21%, and on 1 April 2015 reduces to 20%. As these changes have been substantively enacted at the balance sheet date the UK deferred tax assets and liabilities have been calculated at a rate of 20%. The impact on net assets for 2013 as a result of this change was an increase of £1.4 million.

22 BORROWINGS

	Current £m	Non-current £m	Total borrowings £m
At 31 December 2013			
Bank loans	72.6	507.5	580.1
Debenture loans	1.5	29.0	30.5
Zero coupon note	–	13.4	13.4
Unsecured bonds	(0.6)	92.3	91.7
Secured notes	4.0	75.1	79.1
	77.5	717.3	794.8
At 31 December 2012			
Bank loans	134.5	414.6	549.1
Debenture loans	1.3	30.5	31.8
Zero coupon note	–	12.1	12.1
Unsecured bonds	(0.2)	92.2	92.0
	135.6	549.4	685.0

Arrangement fees of £5.5 million (2012: £5.2 million) have been offset in arriving at the balances in the above tables.

Bank loans

Interest on bank loans is charged at fixed rates ranging between 3.1% and 11.2%, including margin (2012: 3.1% and 11.2%) and at floating rates of typically LIBOR, EURIBOR or STIBOR, plus a margin. Fixed rate margins range between 0.8% and 1.8% (2012: 0.8% and 1.8%) and floating rate margins range between 0.8% and 3.8% (2012: 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 (2012: £1.2 million) with final repayment due in January 2025. Each instalment is apportioned between principal and interest on a reducing balance basis. Interest is charged at an annual fixed rate of 10.8%, including margin. The debentures are secured by a legal charge over a property and securitisation of its rental income.

Zero coupon note

The zero coupon note accrues interest at an annual rate of 11.2%, including margin. It is unsecured and is redeemable as a balloon repayment of principal and interest of £43.7 million in aggregate in February 2025.

Unsecured bonds

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

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

Secured notes

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

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

22 BORROWINGS CONTINUED

Loan covenants

There were no covenant breaches at 31 December 2013 or at 31 December 2012.

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 2013						
Within one year or on demand	73.7	1.5	–	–	4.2	79.4
More than one but not more than two years	155.4	1.7	–	–	4.2	161.3
More than two but not more than five years	321.3	6.1	–	28.2	12.5	368.1
More than five years	32.8	21.2	13.4	65.0	59.1	191.5
Unamortised issue costs	583.2 (3.1)	30.5 –	13.4 –	93.2 (1.5)	80.0 (0.9)	800.3 (5.5)
Borrowings	580.1	30.5	13.4	91.7	79.1	794.8
Less amount due for settlement within 12 months	(72.6)	(1.5)	–	0.6	(4.0)	(77.5)
Amounts due for settlement after 12 months	507.5	29.0	13.4	92.3	75.1	717.3

	Bank loans £m	Debenture loans £m	Zero coupon note £m	Unsecured bonds £m	Total £m
At 31 December 2012					
Within one year or on demand	135.7	1.3	–	–	137.0
More than one but not more than two years	37.1	1.5	–	–	38.6
More than two but not more than five years	286.1	5.5	–	28.4	320.0
More than five years	94.0	23.5	12.1	65.0	194.6
Unamortised issue costs	552.9 (3.8)	31.8 –	12.1 –	93.4 (1.4)	690.2 (5.2)
Borrowings	549.1	31.8	12.1	92.0	685.0
Less amount due for settlement within 12 months	(134.5)	(1.3)	–	0.2	(135.6)
Amounts due for settlement after 12 months	414.6	30.5	12.1	92.2	549.4

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

	At 31 December 2013		At 31 December 2012	
	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	6.2	8.5	7.5	8.5
Euro	5.0	1.7	5.1	1.6

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

	At 31 December 2013			At 31 December 2012		
	% 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	63	3.0	2.2	33	3.0	2.9
Euro	70	3.1	2.2	79	3.1	2.9
Swedish Krona	–	n/a	n/a	44	2.6	0.9
Other	–	n/a	n/a	–	n/a	n/a

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

	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
At 31 December 2013			
Sterling	200.6	213.9	414.5
Euro	28.1	260.3	288.4
Swedish Krona	–	81.1	81.1
Other	–	10.8	10.8
	228.7	566.1	794.8

	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
At 31 December 2012			
Sterling	123.9	206.9	330.8
Euro	60.5	223.6	284.1
Swedish Krona	–	68.6	68.6
Other	–	1.5	1.5
	184.4	500.6	685.0

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

	Carrying amounts		Fair values	
	2013 £m	2012 £m	2013 £m	2012 £m
Current borrowings	77.5	135.6	77.5	136.1
Non-current borrowings	717.3	549.4	743.7	579.8
	794.8	685.0	821.2	715.9

Arrangement fees of £5.5 million (2012: £5.2 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:

	2013 £m	2012 £m
Floating rate:		
– expiring within one year	9.5	21.9
– expiring after one year	3.1	12.9
	12.6	34.8

23 DERIVATIVE FINANCIAL INSTRUMENTS

	2013 Assets £m	2013 Liabilities £m	2012 Assets £m	2012 Liabilities £m
Non-current				
Interest rate swaps	–	(5.9)	–	(8.8)
Interest rate caps	0.4	–	0.2	–
	0.4	(5.9)	0.2	(8.8)
Current				
Interest rate swaps	–	–	–	(0.4)
Forward foreign exchange contracts	0.3	–	0.6	–
	0.3	–	0.6	(0.4)
	0.7	(5.9)	0.8	(9.2)

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

23 DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

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 2013 was £35.2 million (2012: £48.4 million). The average period to maturity of these interest rate swaps was 4.2 years (2012: 3.1 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 2013 the Group had £1.4 million of outstanding net foreign exchange contracts (2012: £9.9 million).

24 FINANCIAL INSTRUMENTS

Categories of financial instruments

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

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

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

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

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

Capital risk management

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

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

The gearing ratio at the year end was as follows:

	2013 £m	2012 £m
Debt	800.3	690.2
Liquid resources	(199.2)	(224.9)
Net debt	601.1	465.3
Equity	480.9	417.1
Net debt to equity ratio	125%	112%

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

Externally imposed capital requirement

At 31 December 2013 the Group was subject to a minimum equity ratio of total equity to total assets of 22.5% imposed by unsecured bonds of £91.7 million (2012: £92.0 million). The Group was also restricted from making distributions to shareholders if to do so would reduce net assets below £250 million, imposed by unsecured bonds of £64.2 million (2012: £64.1 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 statement of comprehensive income for a defined movement in the underlying interest rate. The impact of a reasonably likely movement in interest rates is set out below:

Scenario	2013 Statement of Comprehensive Income £m	2012 Statement of Comprehensive Income £m
Cash +50 basis points	0.3	0.2
Variable borrowings (including caps) +50 basis points	(2.6)	(2.3)
Cash -50 basis points	(0.3)	(0.2)
Variable borrowings (including caps) -50 basis points	1.9	2.4

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

24 FINANCIAL INSTRUMENTS CONTINUED

(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 the local trading performance and net assets into sterling 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	2013 Net assets £m	2013 Profit before tax £m	2012 Net assets £m	2012 Profit before tax £m
1% increase in value of sterling against the euro	(1.2)	(0.1)	(1.3)	(0.1)
1% increase in value of sterling against the Swedish krona	(0.4)	(0.2)	(0.4)	(0.1)
1% fall in value of sterling against the euro	1.3	0.1	1.4	0.1
1% fall in value of sterling against the Swedish krona	0.4	0.2	0.4	0.1

(iii) Other price risk

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

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

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

Scenario: Shift of 10% in valuations	2013 Other Comprehensive Income £m	2012 Other Comprehensive Income £m
10% fall in value	(10.4)	(13.0)
10% increase in value	10.4	13.0

(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 scoring, and is reduced by obtaining bank guarantees from the customer or its parent, and rental deposits. The overall credit risk in relation to customers is monitored on an ongoing basis. Moreover, a significant proportion of the Group portfolio is let to Government occupiers which can be considered financially secure.

At 31 December 2013 the Group held £104.3 million (2012: £129.9 million) of available-for-sale and other 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 and other investments held by the Group:

S&P Credit rating at balance sheet date	2013 £m	2012 £m
Investment grade	3.8	42.9
Non-investment grade	56.6	44.1
Not rated	43.9	42.9
Total	104.3	129.9

(c) Liquidity risk

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

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

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

Loan covenant compliance is closely monitored by the treasury department. Potential covenant breaches can ordinarily be avoided by placing additional security or a cash deposit with the lender, or by partial repayment before an event of default takes place. There were no potential loan-to-value covenant breaches at 31 December 2013.

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 2013	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings	79.4	161.3	368.1	191.5
Interest payments on borrowings[†]	24.4	24.4	44.8	24.4
Trade and other payables	40.3	-	-	-
Forward foreign exchange contracts:				
Cash flow hedges				
– Outflow	(11.4)	-	-	-
– Inflow	11.4	-	-	-
At 31 December 2012	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings	137.0	38.6	320.0	194.6
Interest payments on borrowings [†]	21.1	19.7	45.2	25.2
Trade and other payables	33.0	-	-	-
Forward foreign exchange contracts:				
Cash flow hedges				
– Outflow	9.9	-	-	-
– Inflow	(9.9)	-	-	-

[†] 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.

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

25 SHARE CAPITAL

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

	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 2012	44,953,611	4,803,103	49,756,714	11.3	1.2	12.5
Cancelled following tender offers	(1,647,735)	–	(1,647,735)	(0.5)	–	(0.5)
At 31 December 2012	43,305,876	4,803,103	48,108,979	10.8	1.2	12.0

Ordinary shares have a nominal value of 25 pence each.

26 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 15 March 2013 for the purchase of 1 in 49 shares at 970 pence per share was completed in April. It returned £8.6 million to shareholders, equivalent to 19.80 pence per share.

A tender offer by way of a Circular dated 23 August 2013 for the purchase of 1 in 116 shares at 1,360 pence per share was completed in September. It returned £5.0 million to shareholders, equivalent to 11.72 pence per share.

A further tender offer will be put to shareholders in April 2014 for the purchase of 1 in 66 shares at a price of 1,495 pence per share which, if approved, will return £10.0 million to shareholders, equivalent to 22.65 pence per share.

27 SHARE PREMIUM

	2013 £m	2012 £m
At 1 January	71.5	71.5
Ordinary shares issued from treasury shares	11.4	–
At 31 December 2013	82.9	71.5

28 OTHER RESERVES

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

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Other reserves £m	Total £m
At 1 January 2012	21.2	46.4	(9.7)	28.1	86.0
Purchase of own shares:					
– cancellation pursuant to tender offer	0.5	–	–	–	0.5
Exchange rate variances	–	(2.6)	–	–	(2.6)
Available-for-sale financial assets:					
– net fair value gains in the year	–	–	23.7	–	23.7
– deferred tax thereon	–	–	(5.9)	–	(5.9)
Revaluation of owner-occupied property	–	–	0.1	–	0.1
At 31 December 2012	21.7	43.8	8.2	28.1	101.8

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

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

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

29 CASH GENERATED FROM OPERATIONS

	2013 £m	2012 £m
Operating profit	92.3	65.3
Adjustments for:		
Net movements on revaluation of investment properties	0.2	(16.2)
Depreciation and amortisation	0.3	0.2
Profit on sale of investment property	(4.5)	–
Profit on sale of joint venture	(1.8)	–
Net (gain)/loss on sale of corporate bonds and other investments	(14.1)	0.4
Fair value gain on reclassification of an associate as an investment	(14.9)	–
Non-cash rental income	(0.5)	–
Share-based payment expense	–	0.2
Changes in working capital:		
Decrease in debtors	1.2	0.8
Increase in creditors	5.2	3.6
Cash generated from operations	63.4	54.3

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

30 CONTINGENCIES

At 31 December 2013 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. Certain warranties given in the course of corporate sales during 2008 either have been provided for or are too remote to be considered contingent.

31 COMMITMENTS

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

Operating lease commitments – where the Group is the lessee	2013 £m	2012 £m
More than one but not more than five years	0.5	0.4
More than five years	0.4	0.4
	0.9	0.8

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

Operating lease commitments – where the Group is lessor	2013 £m	2012 £m
Within one year	83.8	66.6
More than one but not more than five years	256.6	213.1
More than five years	262.7	209.0
	603.1	488.7

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

Other commitments

At 31 December 2013 the Group had contracted capital expenditure of £35.8 million (2012: £2.3 million). There were no authorised financial commitments which were yet to be contracted with third parties (2012: none).

32 PRINCIPAL SUBSIDIARIES

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

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

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

* Incorporated in Luxembourg

** Incorporated in France

*** Incorporated in Sweden

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

33 BUSINESS DISPOSALS

Fielden House Limited

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

	Fielden House Investment Limited	
	11 April 2013 £m	2012 £m
Net assets disposed of:		
Non-current assets	2.7	2.7
Current assets	0.1	0.2
Current liabilities	(0.1)	(0.1)
Non-current liabilities	(2.0)	(2.0)
	0.7	0.8
Gain on disposal of joint venture	1.8	
Total consideration	2.5	
Satisfied by:		
Cash	2.5	
Deferred consideration	-	
	2.5	
Net cash inflow arising on disposal:		
Cash consideration	2.5	
Cash and cash equivalents disposed of	(0.1)	
Borrowings disposed of	2.0	
	4.4	

NOTES TO THE GROUP FINANCIAL STATEMENTS CONTINUED

31 December 2013

34 RELATED PARTY TRANSACTIONS

Associates and Joint Ventures

A Group company provided accounting services to Bulgarian Land Development plc, an associate of the Group, for which a charge of £40,333 was made (2012: £48,000), of which £6,250 (2012: £nil) remained outstanding at the balance sheet date.

At 31 December 2013, the Group had a convertible loan of £469,210 (2012: £473,140), due from Nyheter24 Media Network AB, an associate company. Until 1 May 2015, this loan is interest free, and thereafter attracts Swedish base rate plus 2%. At any date between 1 May 2016 and 30 June 2016, the Group is permitted to convert the loan into shares in Nyheter24 Media Network AB at SEK 40.5 each.

In 2013, the Group sold its one-third interest in Fielden House Investment Limited (see note 33). At 31 December 2012, Fielden House Investment Limited owed a loan to a Group company of £350,000. Interest of £8,774, receivable on this loan at a rate of 2.0% above base rate, was accrued in 2012. Accrued interest of £87,531 remained outstanding at 31 December 2012.

On 11 March 2013, the Group acquired an additional 27.59% interest in Cood Investments AB ("Cood"), for £0.3 million, increasing its interest to 44.23% (2012: 16.64%). This was a related party transaction as: first, the trust in which Sten Mortstedt, Executive Chairman of CLS Holdings plc, is interested (the "Trust") simultaneously acquired at the same price per share an additional 13.80% interest in Cood, increasing its interest to 22.19% (2012: 8.39%); and, second, Christer Sandberg, who is a director of certain Group companies, owned 9.8% (2012: 7.5%) of Cood.

At 31 December 2013, the Group had provided to Cood up to £8.0 million (2012: £8.0 million) of lending facilities at market rates, of which £3,324,362 (2012: £4,525,110) was outstanding. During the year interest of £270,229 (2012: £42,920) was charged on these loans, of which £25,109 (2012: £25,270) was outstanding at the balance sheet date. The Group charged Cood fees of £nil (2012: £44,555) relating to the arrangement of these loans.

On 25 July 2013, Cood issued a two year convertible loan bearing an annual interest rate of 12% and convertible into preference shares (the "Convertible Loan"). The conversion price is SEK 10,000 per Cood preference share, and each preference share would carry ten times the voting rights and capital rights of an ordinary share. The loanholder may elect to be paid the loan coupon in cash or payment-in-kind (being preference shares in Cood). The Convertible Loan is convertible at the option of the loanholder only, and at any time between 1 January 2014 and 31 May 2015. The Group's participation in the Convertible Loan amounted to SEK 23,220,000; the Trust simultaneously participated in the Convertible Loan for an amount of SEK 11,650,000 and Christer Sandberg for an amount of SEK 5,170,000. At the balance sheet date, the Convertible Loan due from Cood was £2,179,013 (2012: £nil), and during the year interest of £81,000 (2012: £nil) was charged, of which £77,476 (2012: £nil) was outstanding at the balance sheet date.

Transactions with Directors

Distributions totalling £8,096,147 (2012: £7,737,720) were made through tender offer buy-backs in the year in respect of ordinary shares held by the Company's Directors.

In August 2012, companies connected with Sten Mortstedt subscribed for retail bonds totalling £1,120,000, Richard Tice subscribed for £90,000, Thomas Thomson subscribed for £46,900 and Malcolm Cooper subscribed for £30,000 on the issue by the Company of its unsecured retail bond.

During the year, a company owned by Sten Mortstedt rented office space to a Group company, Vänerparken Investment AB ("Vänerparken"), at a cost of £39,240 (2012: £37,270). At the balance sheet date Vänerparken had signed an agreement to lease the office space until 31 December 2014 at a cost of £39,240 per annum. Also, a company owned by Sten Mortstedt purchased accountancy services from Vänerparken during the year amounting to £4,710 (2012: £8,950). In relation to all of these transactions, no balances were outstanding at the balance sheet date (2012: £nil).

Directors' Remuneration

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Information about the remuneration of individual directors is provided in the audited part of the Remuneration Committee Report on pages 46 to 60.

	2013 £000	2012 £000
Short-term employee benefits	1,653	1,613
Post-employment benefits	21	20
Other long-term benefits	538	–
	2,212	1,633

COMPANY BALANCE SHEET – UK GAAP

at 31 December 2013

	Notes	2013 £m	2012 £m
Fixed assets			
Investment in subsidiary undertakings	5	178.3	150.4
Current assets			
Trade and other receivables	6	132.2	111.7
Cash and cash equivalents		9.6	11.2
Total assets		320.1	273.3
Current liabilities			
Trade and other payables	7	(3.4)	(2.0)
Non-current liabilities			
Borrowings	8	(137.2)	(92.2)
Total liabilities		(140.6)	(94.2)
Net assets		179.5	179.1
Equity			
Called up share capital	9	11.7	12.0
Share premium	10	82.9	71.5
Other reserves	11	26.6	26.3
Profit and loss account	11	58.3	69.3
Shareholders' funds		179.5	179.1

These financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 4 March 2014 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr E H Klotz
Director

The notes on pages 102 to 105 are an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP

at 31 December 2013

1 GENERAL INFORMATION

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

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts as detailed in the Directors' Report on page 39.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Investment in Group companies

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

2.2 Pension costs

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

2.3 Share capital

Ordinary shares are classified as equity.

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

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

2.4 Related party transactions

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

There were no other related party transactions during the year.

2.5 Foreign currency

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

3 LOSS 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 loss for the financial year was £6.3 million (2012: profit of £20.0 million).

Audit fees for the Company were £0.1 million (2012: £0.2 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Report on pages 46 to 60.

4 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 15 March 2013 for the purchase of 1 in 49 shares at 970 pence per share was completed in April. It returned £8.6 million to shareholders, equivalent to 19.80 pence per share.

A tender offer by way of a Circular dated 23 August 2013 for the purchase of 1 in 116 shares at 1,360 pence per share was completed in September. It returned £5.0 million to shareholders, equivalent to 11.72 pence per share.

A further tender offer will be put to shareholders in April 2014 for the purchase of 1 in 66 shares at a price of 1,495 pence per share which, if approved, will return £10.0 million to shareholders, equivalent to 22.65 pence per share.

5 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2013 £m	2012 £m
At 1 January	150.4	133.7
Additions	39.0	17.1
Disposals	(6.0)	(0.4)
Impairment	(5.1)	–
At 31 December	178.3	150.4

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

6 TRADE AND OTHER RECEIVABLES

	2013 £m	2012 £m
Current		
Amounts owed by subsidiary undertakings	132.0	111.5
Prepayments and accrued income	0.2	0.2
	132.2	111.7

7 TRADE AND OTHER PAYABLES

	2013 £m	2012 £m
Current		
Trade payables	0.5	–
Amounts owed to subsidiary undertakings	0.2	0.1
Accruals	3.3	2.1
Arrangement fees	(0.6)	(0.2)
	3.4	2.0

8 BORROWINGS

	2013 £m	2012 £m
Bank loan	45.0	–
Unsecured bonds	93.2	93.4
Arrangement fees	(1.0)	(1.2)
	137.2	92.2

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

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

NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP CONTINUED

at 31 December 2013

9 CALLED UP 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 2013	43,305,876	4,803,103	48,108,979	10.8	1.2	12.0
Cancelled following tender offers	(1,252,086)	–	(1,252,086)	(0.3)	–	(0.3)
Exercise of share options	300,000	(300,000)	–	0.1	(0.1)	–
Ordinary shares issued from treasury shares	1,600,000	(1,600,000)	–	0.4	(0.4)	–
At 31 December 2013	43,953,790	2,903,103	46,856,893	11.0	0.7	11.7

	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 2012	44,953,611	4,803,103	49,756,714	11.3	1.2	12.5
Cancelled following tender offers	(1,647,735)	–	(1,647,735)	(0.5)	–	(0.5)
At 31 December 2012	43,305,876	4,803,103	48,108,979	10.8	1.2	12.0

Ordinary shares have a nominal value of 25 pence each.

10 SHARE PREMIUM

	2013 £m	2012 £m
At 1 January	71.5	71.5
Ordinary shares issued from treasury shares	11.4	–
At 31 December	82.9	71.5

11 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 2013	21.7	4.6	26.3	69.3
Issue of share capital	–	–	–	8.0
Expenses thereof	–	–	–	(0.4)
Exercise of share options	–	–	–	1.4
Purchase of own shares	0.3	–	0.3	(13.6)
Expenses thereof	–	–	–	(0.1)
Loss for the year	–	–	–	(6.3)
At 31 December 2013	22.0	4.6	26.6	58.3

	Other reserves			Profit and loss account £m
	Capital redemption reserve £m	Other £m	Total £m	
At 1 January 2012	21.2	4.6	25.8	61.9
Purchase of own shares	0.5	–	0.5	(12.5)
Expenses thereof	–	–	–	(0.1)
Profit for the year	–	–	–	20.0
At 31 December 2012	21.7	4.6	26.3	69.3

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2013 £m	2012 £m
Balance at 1 January	179.1	171.7
(Loss)/profit for the year	(6.3)	20.0
Issue of share capital	19.0	–
Exercise of share options	1.4	–
Purchase of own shares	(13.7)	(12.6)
Balance at 31 December	179.5	179.1

13 CONTINGENCIES

At 31 December 2013 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. Certain warranties were given in the course of corporate sales during 2008. Since the possibility of payment by the Company under any of these guarantees and warranties is considered remote, no provisions in relation to these have been made in the Company's financial statements and no reportable contingent liability exists.

14 COMMITMENTS

At 31 December 2013, the Company had no contracted capital expenditure (2012: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2012: £nil).

FIVE YEAR FINANCIAL SUMMARY

31 December 2013

	2013 £m	2012 £m	2011 £m	2010 £m	2009 £m
Group revenue	91.2	80.2	80.1	79.1	76.3
Net rental income	73.1	62.9	63.0	59.7	57.7
Income from non-property activities	–	–	0.8	4.3	3.8
Administration expenses	(12.4)	(10.5)	(12.1)	(13.0)	(12.2)
Other expenses	(3.5)	(2.9)	(2.2)	(2.2)	(3.3)
Group revenue less costs	57.2	49.5	49.5	48.8	46.0
Net movements on revaluation of investment properties	(0.2)	16.2	18.0	30.1	(6.7)
Gain/(loss) on sale of corporate bonds and other financial investments	14.1	(0.4)	0.5	9.3	1.9
Profit on sale of investment properties	4.5	–	–	–	0.3
Profit on sale of subsidiaries/joint venture/associates	1.8	–	2.2	–	–
Fair value gain on reclassification of associate	14.9	–	–	–	–
Operating profit	92.3	65.3	70.2	88.2	41.5
Finance income	7.6	10.6	12.2	6.1	6.6
Finance costs	(23.7)	(25.6)	(47.7)	(31.1)	(32.1)
Share of (loss)/profit of associates after tax	(4.8)	5.8	3.0	7.7	2.5
Profit before tax	71.4	56.1	37.7	70.9	18.5
Taxation	(8.2)	(9.4)	1.1	(10.8)	(1.1)
Profit for the year	63.2	46.7	38.8	60.1	17.4
Share buy-backs paid and proposed	15.0	13.2	12.3	11.2	6.0
Net Assets Employed					
Non-current assets	1,257.0	1,110.5	1,037.0	1,018.6	944.2
Current assets	142.8	115.2	67.3	59.8	80.7
	1,399.8	1,225.7	1,104.3	1,078.4	1,024.9
Current liabilities	(121.3)	(172.2)	(182.9)	(123.1)	(164.3)
Non-current liabilities	(797.6)	(636.4)	(553.9)	(598.1)	(551.6)
Net assets	480.9	417.1	367.5	357.2	309.0
Ratios	2013	2012	2011	2010	2009
Net assets per share (pence)	1,094.1	963.1	817.5	766.7	643.3
EPRA net assets per share (pence)	1,268.4	1,154.4	983.1	952.9	825.8
Earnings per share (pence)	146.9	106.0	82.0	127.1	36.4
EPRA earnings per share (pence)	66.2	65.3	64.9	42.5	28.0
Net gearing (%)	125.0	111.6	131.9	130.4	147.4
Adjusted net gearing (%)	107.8	92.7	109.3	104.6	114.8
Interest cover (times)	3.18	3.49	2.44	2.48	1.78

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 and the ERV of vacant space

PASSING RENT

Contracted rent before any rent-free periods have expired

PROPERTY LOAN TO VALUE

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

RENT ROLL

Contracted rent

SOLIDITY

Equity shareholders' funds expressed as a percentage of total assets

TOTAL SHAREHOLDER RETURN

For a given number of shares, the aggregate of the proceeds from tender offer buy-backs and change in the market value of the shares during the year adjusted for cancellations occasioned by such buy-backs, as a percentage of the market value of the shares at the beginning of the year

TRUE EQUIVALENT YIELD

The capitalisation rate applied to future cash flows to calculate the gross property value, as determined by the Group's external valuers

DIRECTORS, OFFICERS AND ADVISERS

Directors

Sten Mortstedt	(Executive Chairman)
Henry Klotz	(Executive Vice Chairman and Acting Chief Executive Officer)
John Whiteley	(Chief Financial Officer)
Malcolm Cooper * † ‡	(Non-Executive Director)
Joseph Crawley	(Non-Executive Director)
Claes-Johan Geijer	(Non-Executive Director)
Christopher Jarvis * †	(Non-Executive Director)
Thomas Lundqvist	(Non-Executive Director)
Jennica Mortstedt	(Non-Executive Director)
Brigith Terry	(Non-Executive Director)
Thomas Thomson	(Non-Executive Director)
Richard Tice	(Non-Executive Director)

* member of Remuneration Committee

† member of Audit Committee

‡ Senior Independent Director

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The paper used in this report is produced using wood fibre from fully sustainable forests in Finland, Sweden, Portugal, Spain and Brazil, with FSC certification. The pulps used are Elemental Chlorine Free (ECF), and the manufacturing mill is accredited with the ISO 14001 standard for environmental management and with EMAS (The EU Environmental Management and Audit System).



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