CLS

CLS Holdings plc
Annual Report & Accounts

2012

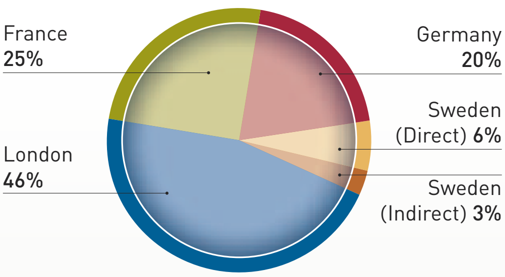

CONTENTS

INVESTORS IN EUROPEAN COMMERCIAL PROPERTY

LISTED SINCE 1994

- Shareholders' funds of £417 million
- EPRA net assets of £503 million
- £934 million of office properties across London, France, Germany and Sweden
- Top UK property company total shareholder return performance in the last 5 years
- Strong alignment of interest with shareholders: management owns 54%
- Substantial cash and liquid resources available for new investment
- Cautiously entrepreneurial approach to future opportunities

PROPERTY INVESTMENTS BY VALUE



GENERATING CASH THROUGH HIGH NET INITIAL YIELD AGAINST LOW COST OF DEBT

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

KEY PERFORMANCE INDICATORS

Total Shareholder Return

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

Achievement – 2008-2012: 135.4%, or 18.7% p.a. compound

Effective management of balance sheet

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

Achievement – 2006 to 2012: £746 million of property sales

– Pre-let developments in Landshut and Gräfelfing, Germany are providing returns on equity of 19.4% and 18.3% p.a., respectively

Administration cost ratio

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

Achievement – 2012: 15.9%

– 2011: 15.4%

– 2010: 15.2%

Occupancy rate

Aim – to maintain an occupancy level of over 95%

Achievement – 2012: 96.2%

– 2011: 96.1%

– 2010: 95.7%

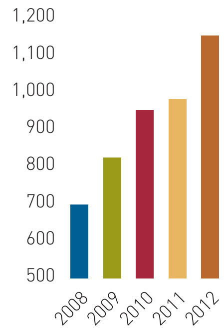
FINANCIAL HIGHLIGHTS

- **EPRA net assets per share: up 17.4%** to 1,154.4 pence (2011: 983.1 pence)
- **EPRA net assets: up 13.1%** to £503.4 million (2011: £444.9 million)
- **EPRA earnings per share: up 0.6%** to 65.3 pence (2011: 64.9 pence)
- **Net assets per share: up 17.8%** to 963.1 pence (2011: 817.5 pence)
- **Net assets: up 13.5%** to £417.1 million (2011: £367.5 million)
- **Earnings per share: up 29.3%** to 106.0 pence (2011: 82.0 pence)
- **Profit before tax: up 48.8%** to £56.1 million (2011: £37.7 million)
- **Profit after tax: up 20.4%** to £46.7 million (2011: £38.8 million)
- **Proposed distribution to shareholders: £8.5 million** (April 2012: £7.9 million) by way of tender offer buy-back: 1 in 46 at 900 pence, equivalent to 19.6 pence per share
- **Low weighted average cost of debt: 3.67%** (2011: 4.06%)
- **Adjusted solidity: 41.1%** (2011: 40.5%)
- **Adjusted gearing 92.7%** (2011: 109.3%)
- **Interest cover 3.9 times** (2011: 2.6 times)

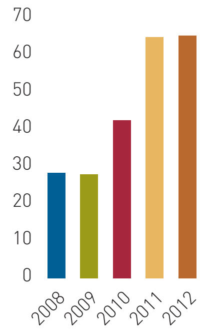
OTHER KEY DATA

- **Total Shareholder Return ("TSR") in 2012: 29.7%**
- **Top performer in UK listed property sector TSR over 5 years: 135.4%**
- **Planning permission gained at:**
  - Vauxhall Square (143,000 sq m)
  - Spring Mews (20,800 sq m)
  - Clifford's Inn (3,423 sq m)
  - Catena (150,000 sq m)
- **Portfolio value: £934.5 million** – up 1.7% in local currencies
- **Loan to value of property loans: 58.8%** (2011: 62.5%)
- **Issue of 5.5% £65 million retail bond 2019**
- **Proportion of Government occupiers: 39.6%**
- **Occupancy rate: 96.2%**
- **Indexation applies to 65% of contracted rent**
- **Liquid resources: £224.9 million**

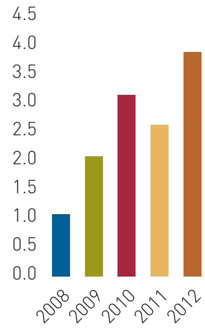
EPRA NET ASSETS PER SHARE
(pence)



EPRA EARNINGS PER SHARE
(pence)



RECURRING INTEREST COVER
(times)



PROGRESS ON MANY FRONTS

This has been a successful year for the Group, with continued progress on many fronts: we have gained two significant planning permissions, reduced the vacancy rate, acquired properties, expanded the sources of our financing, increased profits and delivered strong returns for shareholders.

OVERVIEW Our total shareholder return for the year was 30% and the annualised return since 2008 has been almost 19% compound, making CLS the top performing UK listed real estate share over the last five years.

The profit before tax was up 48.8% to £56.1 million (2011: £37.7 million) and EPRA net assets per share increased by 17.4% to 1,154.4 pence (2011: 983.1 pence). EPRA earnings per share were marginally ahead at 65.3 pence (2011: 64.9 pence).

The core fundamentals of our business have remained strong: we have secure income from over 400 customers across four countries, a broad range of financing sources from over 20 banks and the capital markets, and high levels of cash and other liquid resources.

The conditions in the financial markets improved during the second half of the year as concerns regarding the future of the Eurozone eased after some decisive measures from the European Central Bank. This led to a strong performance in the securities markets, even though many fundamental challenges are still to be addressed in the economy.

INVESTMENT PROPERTY PORTFOLIO During the year, the investment property portfolio in local currency terms and on a like-for-like basis grew by 1.7%, due largely to planning consents gained on two important sites in London. Elsewhere across the Group values were broadly unchanged. Total acquisitions, all in London, were £13.1 million while no properties were sold. At the year end the total portfolio value had increased to £934.5 million (2011: £902.1 million), notwithstanding a negative currency effect of £11.1 million.

The Group continues to generate cash from its core investment portfolio with a high net initial yield of 7.0% and a low cost of debt of just 3.67%. This spread of 330 basis points, amongst the highest in the listed property sector, is a key factor in our performance.

Contracted rental income in the year grew by £1.6 million, or 2.4%, on a like-for-like basis and the rent roll at 31 December 2012 was £68.3 million. At a time of rising inflation, it is worth emphasising that 65% of our rents are subject to indexation, and the quality of our income remains high, with 40% from governments and 29% from major corporations.

We work closely with our customers to understand their space needs, and having in-house property management in all our regions is a key factor in meeting our occupiers' expectations in well-maintained buildings. As an example, we were able to accommodate the expansion needs of one of our occupiers by moving them from one of our London buildings to 1,500 sq m in another, and we provided a full facilities management service as part of the move. This attention to detail is a material reason for our low vacancy rate, which reduced in the year to just 3.8%, less than half the benchmark average of over 9% for our type of property.

Letting enquiries remain resilient, in particular in London and Germany. The French economy is currently the weakest in which we invest, and where we are aware of the intentions of certain occupiers to depart in 2013; we will need to work hard to replace them. The weighted average lease length across the Group is 7.2 years, and 6.1 years to first break clause.

During the year we acquired a number of high yielding office properties in London, the three most significant of which cost £10.8 million with an average yield of 9.97% and an average capital value per sq m of £1,489, which was well below replacement cost. The UK government's initiatives to improve the planning system to ease the housing shortage are to be welcomed and we are actively exploring the potential for conversions of offices to residential for selected elements of our London portfolio.

We completed the development of two pre-let office buildings in Germany totalling 7,042 sq m to generate an extra €856,000 per annum. We secured planning permission on both the significant applications in Vauxhall. In May, we gained consent for the student and hotel scheme, Spring Mews, SE11, where demolition took place before the end of the year and completion is targeted for late 2014. The annual net income is expected to be some £5.5 million after a development cost of £50 million. Secondly, in December the major 143,000 sq m mixed-use scheme, Vauxhall Square, SW8 gained planning permission. We will now progress options and details on this site, where vacant possession is available from the end of 2014.

Since the year end, we have gained planning consent for a prime 3,423 sq m office refurbishment and 500 sq m residential development at Clifford's Inn, Fetter Lane, London EC4, which we expect to complete by the end of 2014.

In Sweden, Catena AB, a Stockholm-listed company in which we own a 29.9% interest, also secured its planning approval for a 150,000 sq m mixed-use development and will, likewise, be advancing its plans during 2013.

RESULTS Profit after tax grew by 20.4% to £46.7 million (2011: £38.8 million), and shareholders' funds increased to £417.1 million after distributions to shareholders of £12.6 million.

The uplift in EPRA net assets per share of 17.4% to 1,154.4 pence (2011: 983.1 pence) was after an adverse foreign exchange effect of 8.7 pence, equating to £3.8 million, due to the weaker euro against sterling. Net assets per share rose by 17.8% to 963.1 pence (2011: 817.5 pence). Since 1 January 2013, sterling has weakened against the euro and Swedish krona.

> "With a solid balance sheet, a strong cash generating operation and a tangible, medium-term development programme, we are in an excellent position."

Had the current exchange rates applied at 31 December 2012, our net assets would have increased by 3.2%, or £13.4 million, to £430.5 million, and pro forma EPRA NAV would have been 40.0 pence higher at 1,194.4 pence. Also, since the year end the corporate bond portfolio has risen in value by £2.4 million, equivalent to 5.5 pence on EPRA net assets per share.

Recurring interest cover was a healthy 3.9 times (2011: 2.6 times) reflecting, in particular, the Group's reduced cost of debt. Net debt as a percentage of property loan to value was 58.8% (2011: 62.5%).

FINANCING The Group seeks to have a wide variety of different financing from banks and other debt sources, and to ring-fence debt against individual properties where appropriate, a strategy which has served the Group well over the years. This year we welcome two new lenders to the Group, an Asian bank and a German Sparkasse lender, which brings the total number of banks with which we enjoy an active relationship to 21. This shows that there continue to be new borrowing sources in the market, even as others stop lending, and to exploit this we typically approach a wide range of banks for any new financing.

During the year we refinanced £95 million of debt with banks and in September raised our second corporate bond, this time in London on the relatively new Order book for Retail Bonds (ORB). It raised £65 million, from some 5,000 private investor bondholders, at a fixed rate of interest of 5.5% for over seven years. This retail bond increased the diversity of our funding sources, and was for a longer term and enjoyed additional flexibility than traditional bank debt. It also had the intangible benefit of raising the awareness of the Group amongst the private investor and wealth management community. We were only the second listed property company to raise money this way, which highlighted our ability to innovate; a further three listed property companies subsequently issued bonds on ORB and we are optimistic that this market will offer increasing choice and sophistication as it grows, evolves and matures.

In addition, in December we signed a new £15 million general facility with one of our existing lenders to finance the acquisition of new purchases.

Our weighted average cost of debt at 31 December 2012 was just 3.67% (2011: 4.06%), with an average loan length of 4.6 years. We continue to believe in a benign interest rate environment and, therefore, have 73% of our debt at floating rates whilst 67% is protected against interest rate rises, mainly using caps for 40%.

The Group's balance sheet is strong and we have cash and other liquid resources of £224.9 million, excluding substantial credit facility headroom. The Group's portfolio of corporate bonds performed well during the year with a total return, being an aggregate of price changes and income, of £32.5 million, or 31.4%. All bonds met with their respective terms and the Group received around £9.1 million of interest income during the year, corresponding to an 8.8% running yield. At the end of the year, the average annual running yield was 8.2% against market value and the bonds had a weighted average duration of 7.4 years.

ENERGY EFFICIENCY The extra attention and investment that the Group has made in this important area is paying dividends. Driven by our in-house Sustainability Manager, we have progressed a wide range of measures, including installing our first photovoltaic panels on the roof of one of our London properties. It is pleasing to report that in London we have reduced our gas consumption by over 25% in each of the last two years across our portfolio. In our HQ office we have reduced paper consumption by some 31% in one year. Many efficiency improvements have been behavioural, together with better use and monitoring of controls. During the year we have installed over 500 LED lights.

As we share our knowledge with our customers, we are enhancing our service to them, which can help to retain them in our properties.

DISTRIBUTIONS TO SHAREHOLDERS During 2012, using our traditional tender offer buy back of shares, we distributed £7.9 million in April and £4.6 million in September. The Board proposes to distribute £8.5 million in April 2013 at a rate of 1 in 46 shares at 900 pence per share. A circular setting out the details will be sent to shareholders with the Annual Report and Accounts.

OUTLOOK In last year's report, I referred to the need for a credible solution to the Eurozone crisis and a greater supply of credit to provide a platform for economies to grow. There has been some progress on both counts which has lessened risk and volatility, but much remains to be done to restore confidence amongst the business community.

Our central expectation is that growth in the countries in which we operate will remain volatile, but that attractive opportunities will continue to emerge. With a solid balance sheet, a strong cash generating operation and a tangible, medium-term development programme, we are in an excellent position to benefit from any such opportunities.

Sten Mortstedt
Executive Chairman

4 March 2013

A PROVEN STRATEGY

THE BENEFITS OF OUR STRATEGY OF DIVERSIFICATION REMAIN CLEAR: WE OPERATE ACROSS FOUR COUNTRIES, WE HAVE A SOLID CUSTOMER BASE OF SOME 400 OCCUPIERS AND WE ARE FINANCED BY 21 BANKS.

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		STRATEGY
Investments are required to make a high cash-on-cash return	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
We invest in modern, high quality, well-let properties in good locations in selected European cities		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 operate in diverse locations		We invest in London, France, Germany and Sweden, and in sterling, the euro and the Swedish krona
We utilise diversified sources of finance to reduce risk		We have 58 loans from 21 lending sources and two CLS corporate bonds Most properties are owned by single purpose vehicles and financed by non-recourse bank debt in the currency used to purchase the asset Usually over 10 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 2012, 73% of debt was at floating rates
The customer base is diversified, but underpinned by a strong core income stream		We avoid a heavy reliance on any one customer or business sector, and actively seek rent indexation; we have some 400 customers; 39.6% of rental income is derived from government occupiers, and a further 29.3% from major corporations; the weighted average unexpired lease term is 7.2 years; 65% of rental income is subject to indexation
We maintain low vacancy rates	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
We maintain strict cost control	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 retain high levels of liquid resources		We operate an in-house Treasury team which manages cash and corporate bonds to maximise their returns

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.

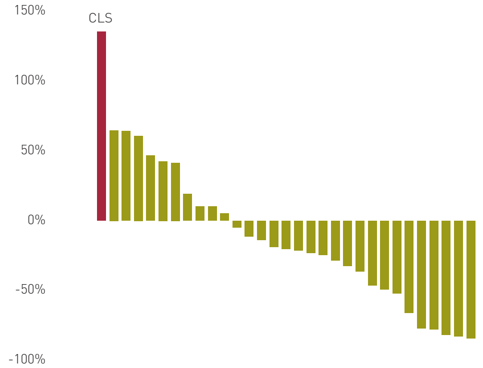
In 2008/09 whilst virtually all UK listed property companies were having to conduct rights issues, CLS returned cash to shareholders.

Accordingly, in the five years from 1 January 2008, CLS has provided a total shareholder return of 135.4%, or 18.7% per annum compound, representing the best performance amongst its peer group.

PERFORMANCE AGAINST OTHER KPIs

See page 2.

TOTAL SHAREHOLDER RETURN OF UK LISTED PROPERTY SECTOR COMPANIES 2008-2012 (%)



Source: Bloomberg

“The best TSR performance within the UK real estate sector over the past five years.”

MEETING CUSTOMER NEEDS

The main activity of the Group is investment in commercial real estate across four European regions: London, 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 cities.

The Group's total property interests at 31 December 2012 were £959.9 million, comprising the wholly-owned investment property portfolio valued at £934.5 million, a 29.9% interest in Swedish listed property company Catena AB valued at £20.7 million and a £4.7 million interest in 16.6% of Cood Investments AB. The Group's Other Investments comprised the corporate bond portfolio, valued at £127.3 million at the year end, and smaller equity holdings of £2.6 million.

PROPERTIES

OVERVIEW At 31 December 2012, the directly held investment portfolio totalled £934.5 million, a like-for-like annual increase of 1.7% in local currencies or 0.5% when translated into sterling. In local currencies, the London portfolio rose by 4.7% and the other portfolios were broadly unchanged (Germany +0.1%, Sweden -0.3% and France -1.4%). At the year end, and excluding Spring Mews, which is under development, the average capital value of £2,164 per sq m was close to replacement cost, meaning that the land element of our investments in key European cities was minimal; this highlights how competitive the Group can be in attracting occupiers with cost-effective rents.

The contracted rent grew in the year on a like-for-like basis by 2.4% in local currencies and at the year end was £68.3 million. This produces a net initial yield of 7.0% on value, again excluding Spring Mews, and an average rent of just £169 per sq m. The income stream is strongly secured as 40% is from government occupiers and 29% from major corporations, and 65% of rents are subject to indexation. The weighted average lease length is 7.2 years, or 6.1 years to the first break. Over the next three years, just 23% of the current rent roll expires and the rent on these expiries is broadly in line with current open market rental values.

The overall vacancy rate remains low at just 3.8%, reflecting the benefits of active, in-house asset and property management together with maintaining strong relationships with our occupiers, working to understand their needs as our customers.

The Group's portfolio spread provides diversification and protection. Inevitably occupier demand will vary year on year as different economies grow at different speeds. As previously forecast, the lack of new speculative offices in most of our local markets is a positive for our portfolio and our ability to attract occupiers, and this is likely to remain the case for the foreseeable future.

Whilst the availability of debt continued to shrink over the last 12 months (presenting buying opportunities) our extensive banking contacts meant that we were able to identify new lenders to the Group, including from the Far East.

Across the Group, the extra focus on sustainability in our operations and our properties has paid real dividends and improved energy efficiency. Occupiers have appreciated the collaborative approach we have adopted on this, sharing knowledge, and this has been a powerful incentive for occupiers to stay with the Group. The benefits of our employing a full-time Sustainability Manager are evident in the Corporate, Social and Environmental Responsibility Report on page 20.

> "A particular focus on providing well-managed, cost-effective offices and property for cost-conscious occupiers in key European cities."

LONDON

• Value	£437.5 million
• Group's property interests	46%
• No of properties	28
• Lettable space	137,753 sq m
• Net initial yield	6.6%
• Vacancy rate	2.3%
• Like-for-like valuation uplift	4.7%
• Government and major corporates	79%
• Average unexpired lease length	8.4 years
• To first break	7.6 years

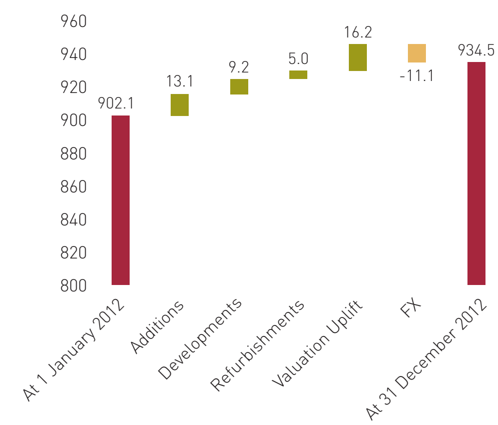
The London division has had another very successful year, with a significant fall in the vacancy rate and the achievement of two key planning permissions.

It continues to be most encouraging to have further reduced vacancy levels from 4.0% in 2011 to just 2.3%. This reinforces the trend referred to last year of occupiers clearly making decisions not just on price but also towards better managed and refurbished buildings. This is coupled with the clear benefits of in-house property management. For example, service charges are prepared on our multi-let buildings within just three weeks of the year end, giving confidence to occupiers.

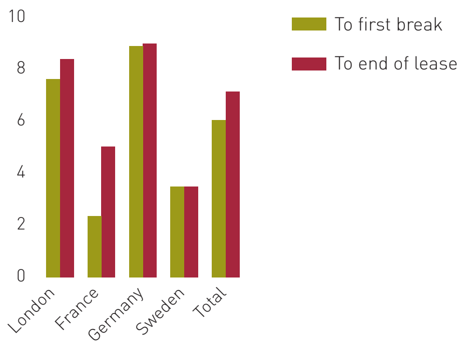
During the year, 12,815 sq m became vacant, and we let or renewed leases with existing occupiers on 15,116 sq m. In particular we let 1,801 sq m at Great West House, reducing its vacancy to its lowest level for over five years. Westminster Tower, Quayside and Falcon House all became fully let in the year.

During the second half of the year we acquired three office buildings: Crosspoint House in Wallington near Croydon (1,963 sq m yielding 14.1%), Gateway House in Kennington, SW8 (1,844 sq m yielding 8.5%) and Sentinel House, Coulsdon near Croydon (3,411 sq m yielding 8.9%) in separate transactions totalling £10.8 million before costs. This equated to an average capital value of £1,489 per sq m, which was below replacement cost. These transactions were of a size where competition to buy them was reduced due to other parties' difficulties in finding debt.

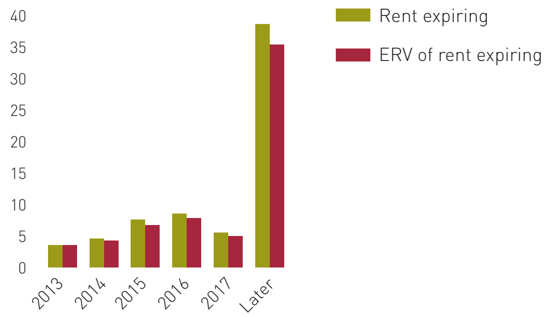
MOVEMENT IN INVESTMENT PROPERTIES 2012
(£ millions)



AVERAGE UNEXPIRED LEASE TERM
(Years)



EFFECT OF RENT EXPIRIES
(£ millions)



Significant progress has been made since January 2012 on progressing development opportunities from within the investment portfolio:

- Spring Mews, Vauxhall, SE11 – in May, planning consent was granted for a 20,800 sq m mixed-use scheme which will consist of 400 student bedrooms, and a 93 bedroom suite hotel, together with a 561 sq m community centre and café, 468 sq m of offices and a 245 sq m convenience store. We will also provide a new pedestrian thoroughfare for the public linking Spring Gardens to Tinworth Street. Demolition has been completed and construction is under way, with a target completion in late 2014. The development is expected to generate over £5.5 million net income per annum when complete. Detailed discussions are well advanced with our selected operators for both the hotel and the student housing.
- Vauxhall Square, SW8 – in December, and subject to signing a Section 106 agreement, this 143,000 sq m mixed-use scheme was also granted planning consent for 410 private residential apartments, 110 affordable homes, 22,732 sq m of offices, 3,119 sq m of shops and restaurants, a 278 bedroom hotel and a 123 suite hotel, 359 student rooms and a 50 bedroom new hostel for the homeless, together with a 3,777 sq m multi-screen cinema. There will also be associated community facilities, all built around a substantial new public square. The Group will progress plans during 2013, with a start date on site expected to be in 2015 on a phased basis. The development cost is anticipated to be in excess of £500 million. The Vauxhall Nine Elms Opportunity area has seen significant achievements in 2012, with the Battersea Power Station's future being secured, the Northern Line extension funding confirmed by the Government, and construction well under way on the new United States embassy and on numerous other sites with substantial pre-sales of residential apartments. The Dutch embassy is reported to be coming to the area and other requirements are emerging. The pace of activity bodes well for Vauxhall Square, which is located in the heart of the area, adjacent to the Vauxhall transport interchange. The Vauxhall Business Improvement District has had a positive first nine months of operation, with a series of initiatives which have raised awareness of the benefits of Vauxhall as a business location, to the advantage of the Group's holdings in the area.
- Clifford's Inn, EC4 – in January 2013, planning consent was gained to comprehensively refurbish the existing space to create 3,423 sq m of offices behind a new Portland stone façade, with an infill extension, and eight new residential apartments, at a total cost of £10.1 million. The twelve month programme is expected to begin in the second quarter of 2013.

Overall the London portfolio increased in value by 4.7%. Spring Mews and Vauxhall Square rose in value by 51.7% in aggregate, reflecting the effect of their planning gains. Excluding these properties, the London portfolio fell by 0.3%; the effect of the weakening of the high-yielding investment market was mitigated by our success in significantly reducing the vacancy rate of the portfolio, and by other asset management initiatives.

FRANCE

• **Value**	**£239.6 million**
• **Group's property interests**	**25%**
• **No of properties**	**26**
• **Lettable space**	**96,244 sq m**
• **Net initial yield**	**7.7%**
• **Vacancy rate**	**3.8%**
• **Like-for-like valuation fall**	**-1.4%**
• **Government and major corporates**	**59%**
• **Average unexpired lease length**	**5.0 years**
• **To first break**	**2.4 years**

The French economy has been impacted noticeably by the Eurozone crisis, concern over rising sovereign debt levels, and a presidential election year when change was expected. GDP growth was only just in positive territory at 0.2%, with economists' forecasts for 2013 being not much higher.

Unsurprisingly this has led some businesses to pause their investment plans and this, coupled with some struggling financially, has led to a reduction in new letting enquiries and a rise in our vacancy rate over the year to from 2.7% twelve months ago to 3.8% at December 2012. This is still well below the market average vacancy of 6.5%. Take up of offices fell in both the Paris and Lyon markets by 4% and 29% respectively.

Leases were renewed on 3,596 sq m, and whilst new leases were signed on 4,066 sq m, occupiers vacated 5,202 sq m. In France the property fundamentals are good, with the lack of new construction protecting rents and vacancy levels, especially in Lyon. However, we must be prepared for vacancy levels to rise if the economy does not grow, as there are more lease expiries and breaks in our French portfolio in 2013 than in either of the previous two years. At our property in Rueil Malmaison, to the west of Paris, an occupier departure in 2013 from 2,867 sq m provides an opportunity to refurbish and reconfigure some of the common areas.

The investment market has seen an expected reduction in volumes of almost 8% in the year; however, there were still over 30 individual transactions of more than €100 million. There are fewer properties being offered for sale and there are still almost no signs of distress sales in this region. The Group's own investment portfolio fell in value by 1.4% in local currency terms, largely reflecting the increase in voids.

GERMANY

• Value	£197.4 million
• Group's property interests	20%
• No of properties	16
• Lettable space	144,991 sq m
• Net initial yield	7.0%
• Vacancy rate	7.4%
• Like-for-like valuation uplift	0.1%
• Government and major corporates	49%
• Average unexpired lease length	9.0 years
• To first break	8.9 years

The German economy has demonstrated resilience with GDP growth in 2012 of 0.9% and a forecast of 1.5% for 2013, and with employment data at an all-time high of over 41 million people and unemployment at only 6.7%. In real estate markets, whilst the volume of new lettings in 2012 was lower than 2011, it was still above the 10 year average at over 3 million sq m. Inevitably, there have been some pauses in decision-making by occupiers, but vacancy levels are at their ten-year low of 9%, and new construction is at a five-year low. The level of investment increased by some 11% compared to 2011, to the highest level since 2007.

The Group's German vacancy rate at the year end was 7.4%, which reflected a long-planned departure in December of an occupier in Berlin from 3,500 sq m. Current enquiries, however, are encouraging, notably at the Group's two multi-let properties in the Munich area; by letting space currently under offer the vacancy rate would fall to 5.1%.

During the year we completed the two pre-let developments near Munich on time and budget, let to Dr Honle AG and E.ON Service Plus GmbH, increasing the annual rent roll by €856,000. The value of the German portfolio remained flat in the year in local currency terms, with the positive effect of the new developments being largely offset by the increased vacancy rate.

We continue to look actively for opportunities in this market. The availability of bank debt is most advantageous in Germany compared to the Group's other regions.

TOP 10 CUSTOMERS

The 10 customers which contribute most rental income to the Group account for 41.2% of the rent roll, and comprise:

LONDON

→ The Home Office	Government
→ Secretary of State for Work and Pensions	Government
→ Cap Gemini	Major Corporation
→ BAE Systems	Major Corporation

GERMANY

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

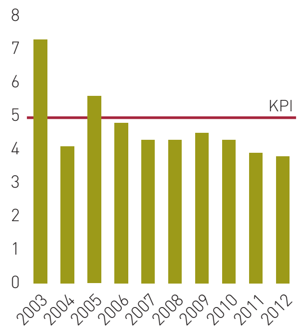
SWEDEN

→ Västra Götaland County Council	Government
→ Vänersborg Kommun	Government

FRANCE

→ Grand Duchy of Luxembourg	Government

VACANCY RATE HISTORY
(%)



SWEDEN

• Value	£85.4 million

Directly owned

• Value	£60.0 million
• Group's property interests	6%
• No of properties	1
• Lettable space	45,354 sq m
• Net initial yield	7.5%
• Vacancy rate	1.7%
• Like-for-like valuation fall	-0.3%
• Government and major corporates	97%
• Average unexpired lease length	3.5 years
• To first break	3.5 years

Indirectly owned

• Value in Catena	£20.7 million
• Group's property interest	2%
• Interest in Catena AB	29.9%
• Value in Cood Investments	£4.7 million
• Group's property interest	1%
• Interest in Cood Investments	16.6%

The Group's property interests in Sweden span two operating segments: Investment Properties and Other Investments. Two of our Other Investments are equity stakes in associates which invest in Swedish real estate, and as these operate against the same economic backdrop, they are considered together with the directly-held Swedish investment properties in this Business Review.

The Swedish economy continues to perform relatively well, with GDP growth in 2013 and 2014 expected to be 1.2% and 2.6%, respectively, low levels of sovereign debt at just 35% of GDP, and unemployment at 8%. Sweden's rising working age population is also good for economic growth prospects, due to its productivity and consumption potential.

The directly-owned interest is a 45,354 sq m office complex at Vänersborg, near Gothenburg, called Vänerparken, which has over 98% occupancy. The leases to the largest occupier, the local County Council, expire in 2015, and in 2013 negotiations are expected to begin on lease renewals. Our new £2.3 million energy centre has been through its first full year of operation and is performing well. The Swedish engineers who designed the system are advising the Group on similar opportunities in London, most notably at Spring Mews, Vauxhall.

The Group owns 29.9% in the Stockholm-listed real estate company, Catena AB, which has one remaining but significant property in Stockholm. Catena secured planning permission in December for some 800 apartments and 73,000 sq m of commercial space which can be delivered over the next few years. The valuation uplift from gaining this permission drove its contribution to share of profit of associates after tax to £5.8 million, and during the year we also received a distribution from Catena of £0.6 million. At the year end, the market value of the Group's shareholding was £20.7 million, being a surplus of £1.8 million over the book value; this equates to an extra 4 pence per share on our EPRA net asset value.

The Group's 16.6% interest in the residential property company, Cood Investments AB, which specialises in holiday homes on vacation sites. Since the Group's initial investment in January 2012, operational improvements at Cood have delivered encouraging results with an associate profit after tax of £0.8 million, in addition to a dividend of £0.2 million paid in the year. The remaining carrying value of this associate holding was £4.7 million and future potential is significant.

RESULTS FOR THE YEAR

HEADLINES Profit after tax of £46.7 million (2011: £38.8 million) generated EPRA earnings per share of 65.3 pence (2011: 64.9 pence), and basic earnings per share of 106.0 pence (2011: 82.0 pence). Gross property assets at 31 December 2012 were £934.5 million (2011: £902.1 million), EPRA net assets per share were 17.4% higher at 1,154.4 pence (2011: 983.1 pence), and basic net assets per share rose by 17.8% to 963.1 pence (2011: 817.5 pence).

Approximately 40% of the Group's business is conducted in the reporting currency of sterling, around 50% is in euros, and the balance is in Swedish kronor. Compared to last year, profits suffered as the average rate of the euro was 7.0% weaker and the krona 3.1% weaker against sterling than in 2011. Likewise, at 31 December 2012 the closing rate of the euro was 2.8% weaker against sterling than twelve months previously, reducing the sterling equivalent value of net assets.

EXCHANGE RATES TO THE £

	EUR	SEK
At 31 December 2010	1.1664	10.4828
2011 average rate	1.1525	10.4091
At 31 December 2011	1.1987	10.7088
2012 average rate	1.2332	10.7326
At 31 December 2012	1.2317	10.5677

STATEMENT OF COMPREHENSIVE INCOME At £66.1 million, rental income in 2012 was £0.1 million less than in 2011, but acquisitions added £1.0 million of rent, and indexation a further £1.3 million, and it was the weakness of the euro and krona, reducing rent by £2.3 million, which distorted the underlying strong rental performance of the Group. Other property-related income and net service charge expenses were in line with last year, resulting in net rental income of £62.9 million being broadly unchanged from last year (2011: £63.0 million).

We monitor the administration expenses incurred in running the property portfolio by reference to the income derived from it, which we call the administration cost ratio, and this is a key performance indicator of the Group. In 2012, we expanded the property development team in London ahead of gaining planning consents for Spring Mews and Vauxhall Square, and administration expenses, net of £0.1 million capitalised since gaining the planning consents, increased to £10.0 million (2011: £9.7 million). As a proportion of net rental income, the administration cost ratio increased to 15.9% (2011: 15.4%), but would have fallen had the euro and Swedish krona not weakened against sterling.

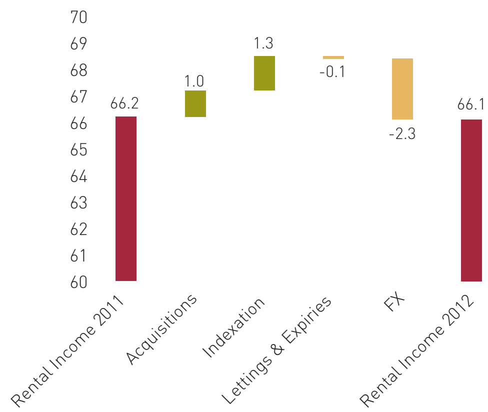
The net surplus on revaluation of investment properties in the year was £16.2 million (2011: £18.0 million). £21.0 million of uplift came from the two London properties on which we gained planning permission, and the remaining portfolio fell by 0.5% in local currencies, and by 1.7% after foreign exchange effects.

Finance income of £10.6 million (2011: £12.2 million) comprised predominantly interest income of £9.1 million (2011: £8.4 million) from our corporate bond portfolio. This portfolio appreciated in value strongly, particularly in the second half of the year, producing a total return in the year of 31.4%, and ended the year with a value of £127.3 million.

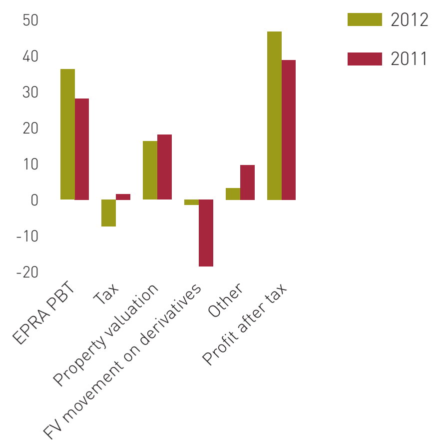
The fall in short-term interest rates, the switch from fixed rates to floating rates for certain loans, the termination in December 2011 of an onerous interest rate swap, and the weakness of the euro and Swedish krona relative to sterling, all contributed to the fall in the interest expense of bank loans, debenture loans and unsecured bonds in the year to £24.2 million (2011: £29.2 million). These effects were only partially offset by the increase in borrowings, particularly the issue of the retail bond. With significantly fewer derivative liabilities than in 2011, the movement in the fair value of derivatives in 2012 was only £1.5 million (2011: £18.5 million).

The majority of the £5.8 million (2011: £3.0 million) share of results of associates was contributed by Catena AB. This contribution reflected Catena's planning consent gained on its large development site in Stockholm.

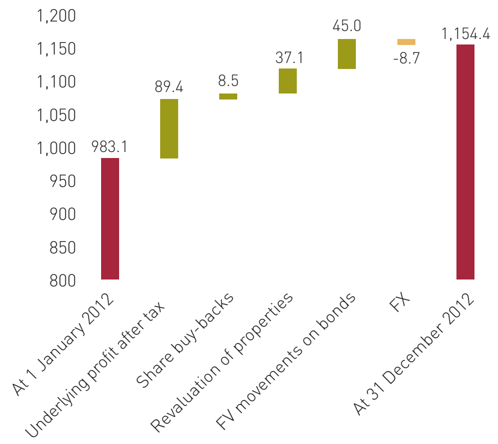
MOVEMENT IN RENTAL INCOME 2011 v 2012
(£ million)



PROFIT AFTER TAX
(£ million)



MOVEMENT IN EPRA NAV 2012
(Pence per share)



Once again this year the tax charge was below the weighted average rate of the countries in which we do business, due primarily to the accruing benefit of indexation on the original cost of UK properties.

EPRA NET ASSET VALUE At 31 December 2012, EPRA net assets per share (a diluted measure which highlights the fair value of the business on a long-term basis) were 1,154.4 pence (2011: 983.1 pence), a rise of 17.4%, or 171.3 pence per share. The main reason for the increase was underlying profit after tax which added 89.4 pence. The two tender offer buy-backs in the year added 8.5 pence per share, the fair value movement on investment properties added a further 37.1 pence, and the valuation uplift of the corporate bonds added 45.0 pence; against this, exchange rate variances reduced EPRA net assets per share by 8.7 pence.

CASH FLOW, NET DEBT AND GEARING At 31 December 2012, the Group's cash balances of £97.6 million were £42.3 million higher than twelve months previously, mainly due to £31.9 million from operating activities and net new loans of £69.2 million, less capital expenditure of £26.6 million, £12.6 million of distributions to shareholders, and net investments in corporate bonds of £19.8 million.

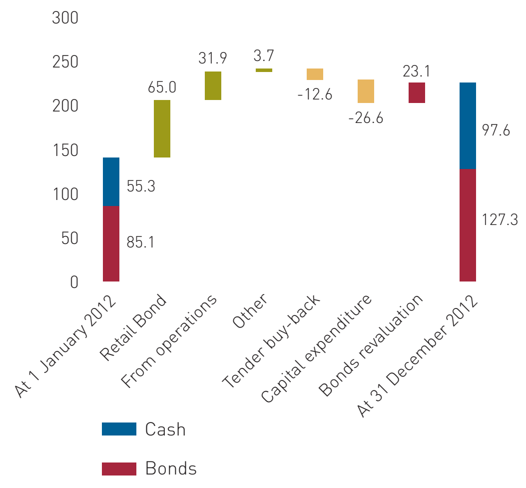
Following the success of the issue of a SEK 300 million unsecured bond in Stockholm in 2011, in September 2012 the Company issued its first retail bond on the Order book for Retail Bonds (ORB) of the London Stock Exchange. This £65 million unsecured bond attracts a coupon of 5.5% and expires in December 2019. It was taken up by some 5,000 investors, extending the constituency of investor stakeholders, and thereby raising the profile of the Company. £101.3 million of bank debt, excluding overdrafts, was drawn or refinanced in the year, including £78.5 million at our largest asset, Spring Gardens. £121.9 million of loans were repaid in 2012, including £11.7 of amortisation of loan balances in the normal course of business. At 31 December 2012 the weighted average unexpired term of the Group's debt, excluding overdrafts, was 4.6 years.

Adjusted net gearing, which is based on EPRA net assets, was 92.7% at 31 December 2012 (2011: 109.3%) and the weighted average loan-to-value on borrowings against properties was a comfortable 58.8% (2011: 62.5%). Adjusted solidity was 41.1% (2011: 40.5%).

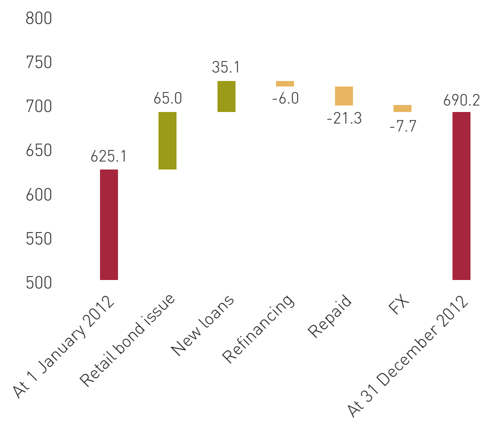
The weighted average cost of debt at 31 December 2012 was 3.67%, one of the lowest in the property sector, and down from 4.06% twelve months earlier. The fall was primarily caused by cancelling a long-term swap, and a fall in short-term interest rates. With bank financing now more expensive than when certain existing loans were taken out, refinancing them as they fall due will probably gradually increase the average cost of debt of the Group.

In 2012, our low cost of debt led to recurring interest cover of a comfortable 3.9 times (2011: 2.6 times).

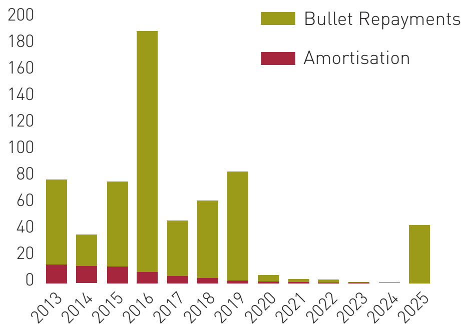
MOVEMENT IN LIQUID RESOURCES
(£ million)



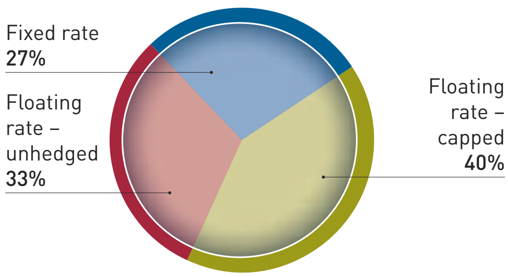
MOVEMENT IN GROSS DEBT
(£ million)



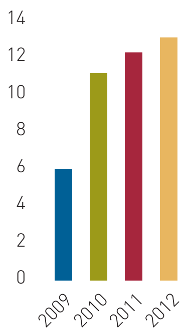
DEBT PROFILE
(£ million)



DEBT HEDGING



DISTRIBUTIONS TO SHAREHOLDERS PAID AND PROPOSED
(£ million)



FINANCING STRATEGY The Group's strategy is to hold its investment properties predominantly in single-purpose vehicles financed primarily by non-recourse bank debt in the currency used to purchase the asset. In this way credit and liquidity risk can most easily be managed, around 75% of the Group's exposure to foreign currency is naturally hedged, and the most efficient use can be made of the Group's assets. Bank debt ordinarily attracts covenants on loan-to-value and on interest and debt service cover. None of the Group's debt was in breach of covenants at 31 December 2012. The Group had 56 loans across the portfolio from 21 banks, a debenture, a zero-coupon loan and two unsecured bonds. None of the loans at 31 December 2012 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 swaps and caps. 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 2012, 27% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 40% were subject to caps and 33% of debt costs were unhedged.

The Group's financial derivatives – predominantly interest rate swaps and interest rate caps – are marked to market at each balance sheet date. At 31 December 2012 they were a net liability of £8.4 million (2011: £7.3 million).

SHARE CAPITAL AND DISTRIBUTIONS TO SHAREHOLDERS
At 1 January 2012, there were 49,756,714 shares in issue, of which 4,803,103 were held as treasury shares. In April, £7.9 million was distributed to shareholders by means of a tender offer buy-back of 1 in 42 shares at 735 pence per share, which cancelled 1,070,324 shares. In September, a further £4.6 million was distributed by means of a tender offer buy-back of 1 in 76 shares at 805 pence per share, which cancelled 577,411 shares. Consequently, at 31 December 2012, 43,305,876 shares were listed on the London Stock Exchange, and 4,803,103 shares remained held in Treasury.

In April 2013, the Directors intend to put to a General Meeting of the Company a proposal to issue a tender offer buy-back of 1 in 46 shares at 900 pence per share. If approved by shareholders this could lead to the purchase and cancellation of 941,432 shares, and a distribution to shareholders of £8.5 million, being an increase of 7.7% on the same time last year, and distributions paid and proposed for the year of £13.1 million (2011: £12.3 million), an increase of 6.7%.

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 590 pence on 31 December 2011 to 765 pence at 31 December 2012. Accordingly, the total shareholder return in 2012 was 29.7%. In the five years to 31 December 2012, our total shareholder return of 135.4%, which represented a compound annual return of 18.7%, represented the best performance in the UK listed real estate sector.

Since the Company listed on the London Stock Exchange in 1994, it has outperformed the FTSE Real Estate and FTSE All Share indices, as set out in the graph below. 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.

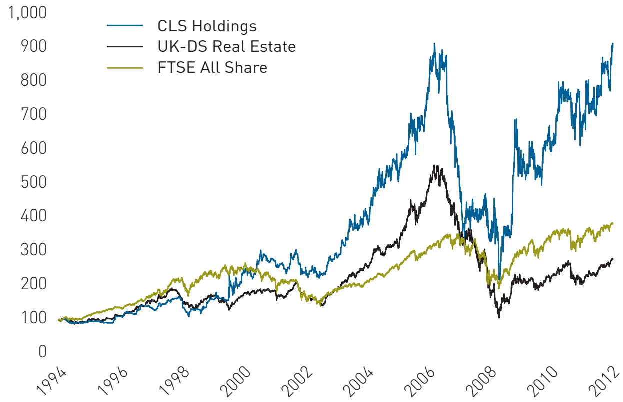
KEY PERFORMANCE INDICATORS

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

SHARE PRICE MOVEMENT 2012

Source: Bloomberg

TOTAL RETURNS TO SHAREHOLDERS 1994-2012



Source: Datastream

BASED IN VAUXHALL INVESTING IN VAUXHALL

CLS'S PRIMARY BUSINESS COMPRISES A CASH-GENERATIVE INVESTMENT PROPERTY PORTFOLIO. WHEN THE TIME IS RIGHT, THE GROUP TAKES THE OPPORTUNITY TO ADD VALUE TO THE BUSINESS BY UNDERTAKING DEVELOPMENTS AFTER MITIGATING THEIR RISKS THROUGH PRE-LETTINGS OR PRE-SALES.

Spring Mews, London SE11

A 20,800 sq m mixed-use development scheme

In May, planning consent was granted for a 20,800 sq m mixed-use scheme which will consist of 400 student bedrooms, and a 93 bedroom suite hotel, together with a 561 sq m community centre and café, 468 sq m of offices and a 245 sq m convenience store. We will also provide a new pedestrian thoroughfare for the public linking Spring Gardens to Tinworth Street. Demolition has been completed and construction is under way, with a target completion in late 2014. The development is expected to generate over £5.5 million income per annum when complete. Detailed discussions are well advanced with our selected operators for both the hotel and the student housing.

Vauxhall Square, London SW8

A 143,000 sq m mixed-use development scheme

In December 2012 we gained planning approval, subject to finalising a s.106 agreement, for a 143,000 sq m mixed-use development scheme in Vauxhall. The site is at the heart of the Vauxhall Nine Elms regeneration area, adjacent to the Vauxhall transport interchange and close to the new US Embassy. The scheme includes: 520 new homes, consisting of 410 private homes in two 50 storey towers and a further 110 affordable homes; 22,732 sq m of offices; 3,119 sq m of shops and restaurants; a 278 bedroom hotel and a 123 bedroom suite hotel; a 50 bedroom new hostel for the homeless; 359 student rooms; a 3,777 sq m multi-screen cinema and associated community facilities; and a substantial new public square and public realm improvements.

Construction of the scheme is expected to begin in 2015 and the Group will now progress discussions on phasing, design, pre-letting and funding options. The cost of the scheme is expected to be in excess of £500 million.

Since July 2012, the Vauxhall Nine Elms regeneration area has taken vast strides forward: funding has been committed by Central Government for the extension of the Northern Line; Battersea Power Station has been acquired by Malaysian investors, who sold over 800 apartments within two weeks of launch; over 350 apartments have been sold at Riverlight, some two years ahead of completion; Ballymore has sold over 500 apartments two years ahead of completion; the US Embassy site has begun construction; and the Dutch Embassy is reported to be relocating close by.

RESPONSIBILITY

The Group's strategic and cultural commitment to a sustainable ethos of corporate, social and environmental responsibility is known to all staff. The Directors actively encourage its integration into the business by employees across the Group as explained further in this document.

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 Group is categorised as an intensive energy user thus qualifying for participation in the CRC Energy Efficiency Scheme (CRC).

The Board acknowledges the Group's impact on society and the environment, and through its actions seeks to either both minimise and mitigate them, or to harness them in order to affect positive change in keeping with the Group's "Green Charter". In order to achieve this, the Group employs a dedicated full-time Sustainability Manager.

SUSTAINABILITY GREEN CHARTER

The Group seeks to promote sustainability through affecting 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, customers, suppliers and other stakeholders, to promote and further the principles on which it is based

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 will report annually. For 2013, these comprise:

- Corporate
  - Disclosure of the Group's environmental performance to the GRESB sustainability benchmarking scheme
  - Increase our engagement with occupiers by providing portal access to automated and instantaneous energy consumption data
- 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 2012
  - Further reduction of CO_2 emissions by the UK portfolio of 5%
  - Use of the SKA framework and assessment scheme for fit-outs

Landshut 4

Our recently completed development of Landshut Phase 4 near Munich has received a prestigious Silver Award from the German Sustainable Building Council. CLS was asked by a long-term customer to build a new wing for up to 400 staff, which provided at least a 10% saving in its occupation costs. The building consists of 5,400 sq m of lettable space, including a canteen for approximately 1,100 employees.

Energy saving features incorporated into the Landshut Phase 4 design included:

- Integration into a district heating network
- Natural ventilation reducing the energy consumption significantly
- Motion sensor activated lighting throughout the property
- A high level of thermal insulation
- Passive solar protection through, for example, exterior blinds
- Preservation of existing trees and planting of new ones to shade the building, further reducing the cooling required over the summer
- Prefabricated elements used extensively during construction which saved energy, manpower and material, restricting the construction period to only eight months

Buspace Studios

In August 2012 we installed a 43.75kWp (296m^2) photovoltaic array on the roof of Buspace Studios in London and totally replaced the lighting in the common parts with energy efficient fittings. Buspace has become our first building with zero net emissions for the common parts, reception and management office. This is the first time a building in our London portfolio has made use of renewable energy, and we intend to replicate its success elsewhere across the portfolio.

2012 ACHIEVEMENTS

In 2012 we have made significant progress against our corporate, social and environmental goals, and we have accomplished the following:

Corporate

- Successfully completed the first internal cycle of a plan-do-check-act approach to the Group Green Charter
- Completed the 2012 GRESB sustainability benchmarking survey; the Group was assessed as ranking 8th out of an undisclosed peer group of 18 competitors
- Introduced fortnightly reporting to the Board by the Sustainability Manager with enhanced reporting every quarter
- A new bonus scheme directly linking executive bonuses to Company performance in line with the proposed BIS regulations is to be proposed at the AGM in April 2013

Social

- Provided material support to the Vauxhall One Business Improvement District ("BID") committee in launching a BID in Vauxhall to benefit the local business environment
- Collaborated with Vauxhall Gardens Community Centre: an additional 54 sq m (9%) was added to the design for their new purpose-built demise larger than the original design; advised the Centre on how it can generate revenue in order to be able to fund further community services and operate more sustainably
- Provided experience and research project opportunities to five young people ranging from a sixth form work experience to a post-graduate placement
- Introduced a Give As You Earn scheme to allow employees to donate money to charity through their salary
- Raised our total charitable contributions for the year to £9,955 (2011: £2,731) by events such as a Christmas Jumper Day, the Property Triathlon and the Land Aid Fun Run, and by direct donations from the Company

Environmental

- Our Clifford's Inn refurbishment is part of the pre-commercial trial of the BREEAM for Refurbishments sustainability assessment scheme
- The SKA sustainability assessment method is being used for the refurbishment of three floors and the reception at Falcon House
- Like for like reduction in energy usage from 2011 of 4% for electricity and 25% for gas
- reduced waste going to landfill from the UK portfolio to zero
- Our paper recycling scheme at all of the Group's offices has continued to reduce waste, saving the equivalent of 88 trees and 10,150kg of CO_2

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 are 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.

EPRA SUSTAINABILITY PERFORMANCE MEASURES

The tables below outline the performance indicators which the EPRA Sustainability Reporting Committee has identified as being core to sustainability and which should be reported by members where data is available.

The offices at 86 Bondway ("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	HQ	London	France	Units
Energy	Total energy consumption from grid electricity	162,874	10,850,657*	3,436,091†	kWh
	Total energy consumption from district heating and cooling	–	–	442,734	kWh
	Total energy consumption from fuels	–	10,140,957	444,980	kWh
Greenhouse gas emissions	Total direct emissions	–	1,862	92†	Metric tonnes CO_2e
	Total indirect emissions	85	5,692	316†	Metric tonnes CO_2e
	Total indirect emissions from district heating	–	–	101†	Metric tonnes CO_2e
Water**	Total water withdrawn by source	Data not available	42,265	24,042	m^3
Waste	Total weight of waste by disposal route	7.42 recycled	254.96 energy from waste, 246.26 recycled	Data not available	Metric tonnes
	Percentage of waste by disposal route	100% recycled	51% energy from waste, 49% recycled	Data not available	Proportion by weight (%)

TABLE 2 – SUSTAINABILITY PERFORMANCE – INTENSITY MEASURES

Sustainability Performance Measure	HQ	London	France	Intensity indicator
Building energy intensity	182.79	359.97	114.20†	$kWh/m^2/year$
Greenhouse gas intensity from building energy	95.90	129.54	14.81†	$kg\ CO_2/m^2/year$
Building water intensity	Unknown	0.72	0.70	$m^3/m^2/year$

TABLE 3 – SUSTAINABILITY PERFORMANCE – REFRIGERANT GASSES

Sustainability Performance Measure	HQ	London	Unit
Refrigerant gas emissions	2,318	105,006	Kg CO_2 (equivalent)
Refrigerant gas emissions intensity	2.6	1.8	Kg CO_2 (equivalent) $/m^2/year$

* Of which 100% is supplied on renewable energy tariffs. This figure includes 6,215,958 kWh consumed by occupiers but which flows through a landlord's meter. The Group's annual operating consumption was 4,634,699 kWh.

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

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

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: • Cyclical downturn in property market • Inappropriate buy/sell/hold decisions	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.
• 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 7.2 years and the Group's largest occupier concentration is with the Government sector (39.6%).
• 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: • Underperformance of portfolio • Insolvency of bond issuer	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.
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
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 21 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 21 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 7.2 years and the Group's largest customer concentration is with the Government sector (39.6%). 65% 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

COST-EFFECTIVE OFFICES

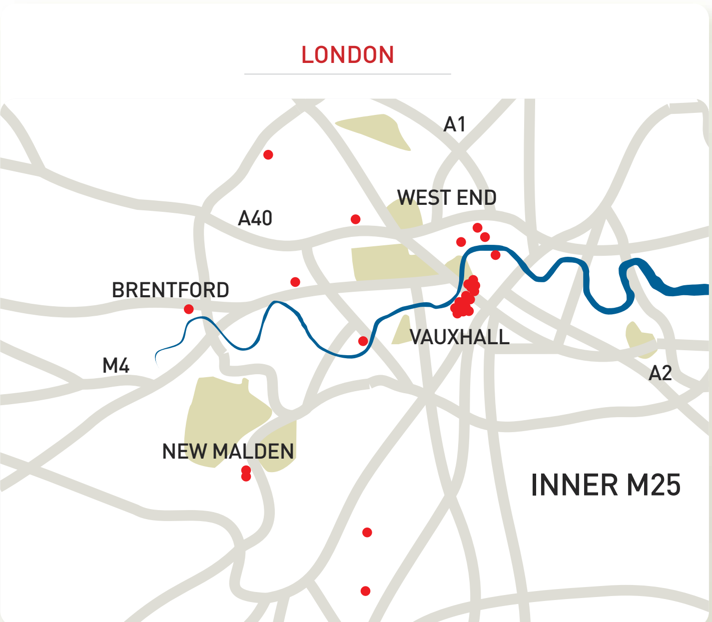
LONDON

at 31 December 2012	Tenure	Area sq m	Use
London EC4			
Clifford's Inn, Fetter Lane	Freehold	3,042	Offices
London SE1			
Westminster Tower, 3 Albert Embankment	Freehold	4,458	Offices
Fielden House, 28/42 London Bridge Street*	Freehold	776	Offices
London SW6			
Quayside, William Morris Way	Freehold	3,064	Offices
London SW8			
Cap Gemini House, 95 Wandsworth Rd & 72/78 Bondway & 22 Miles Street	Freehold	10,427	Offices/Industrial
80/84 Bondway	Freehold	1,622	Offices
86 Bondway, SW8†	Freehold	891	Offices
18/20 Miles Street	Freehold	152	Offices
101/103/107 Wandsworth Road	Freehold	488	Residential
131/137 Wandsworth Road	Freehold	1,546	Offices
London 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
London WC1			
214/236 Grays Inn Road	Freehold	26,295	Offices
London WC2			
Ingram House, 13/15 John Adam Street	Freehold	1,308	Offices/Residential
London NW10			
Chancel House, Neasden Lane	Freehold	6,940	Offices
London W6			
Cambridge House, 100 Cambridge Grove	Freehold	6,712	Offices
London W10			
Buspace Studios, 10 Conlan Street	Freehold	3,006	Studios/Workshops/ Offices
Brentford			
Great West House, Great West Road, TW8	Freehold	14,239	Offices
Coulsdon			
Sentinel House, 163 Brighton Road, CR5	Freehold	3,411	Offices
Hounslow			
115/123 Staines Road, TW3	Freehold	2,353	Offices
125/135 Staines Road, TW3	Freehold	2,340	Offices
New Malden			
CI Tower, High Street, KT3	Freehold	7,543	Offices
Apex Tower, High Street, KT3	Freehold	10,217	Offices/Retail
Wallington			
Crosspoint House, 28 Stafford Road, SM6	Freehold	1,963	Offices
Ipswich			
Zest Nightclub, Princes Street, IP1	Freehold	1,951	Leisure
		137,753	

* Share of joint venture
† Owner-occupied

FRANCE AND LUXEMBOURG

at 31 December 2012	Tenure	Area sq m	Use
Paris			
48 Rue Croix des Petits Champs, 75001	Freehold	1,800	Offices
20/22 Rue des Petits Hôtels, 75010	Freehold	2,080	Offices
18 Rue Stephenson, 75018	Freehold	563	Offices
Le Sully, Ilôt 2, Rue Georges Bizet, 78200 Mantes la Jolie	Freehold	2,798	Offices
95/97 Bis Rue de Bellevue, 92100 Boulogne	Freehold	2,477	Offices
16 Rue de Solférino, 92100 Boulogne	Freehold	1,020	Offices
58 Avenue Général Leclerc, 92100 Boulogne	Freehold	525	Offices
Le Quatuor, 168 Avenue Jean Jaurès, 92120 Montrouge	Freehold	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	6,599	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	2,171	Offices
7 Rue Eugène et Armand Peugeot, 92500 Rueil-Malmaison	Freehold	7,357	Offices
Lyon			
Forum, 27/33 Rue Maurice Flandin, 69003	Freehold	6,806	Offices
D'Aubigny, 27 Rue de la Villette, 69003	Leasehold	4,314	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	5,223	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
		96,244	



SCHEDULE OF GROUP PROPERTIES CONTINUED

GERMANY

at 31 December 2012	Tenure	Area sq m	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	2,958	Offices
Hamburg			
Fangdieckstrasse 75, 75a, b, 22547	Freehold	13,093	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	1,993	Offices
Berlin			
Rudowerchausee 12, D-12489, Adlershofer Tor	Freehold	19,992	Offices/Retail
Bismarckstrasse 105 & Leibnitzstrasse 11/13, Charlottenburg	Freehold	6,045	Offices
Bochum			
Hans-Böckler-Strasse 19, 44787	Freehold	24,828	Offices
Düsseldorf			
Schanzenstrasse 76, D-40549	Freehold	3,095	Residential
Landshut			
1, 3, 5 E.on Allee, Roider-Jackl-Strasse & 1 Kiem-Pauli-Strasse	Freehold	16,054	Offices
Süderhastedt			
Dorfstrasse 14, 25727	Freehold	1,185	Nursing home
		144,991	

SWEDEN

at 31 December 2012	Tenure	Area sq m	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 2012		**424,342**	

PROPERTY PORTFOLIO

RENTAL DATA

	Gross rental income for the year £m	Net rental income for the year £m	Lettable space sq m	Contracted rent at year end £m	ERV at year end £m	Contracted rent subject to indexation £m	Vacancy rate at year end %
London	27.5	26.8	136,504	29.1	27.4	5.4	2.3%
France	18.5	18.5	96,244	18.7	17.8	18.7	3.8%
Germany	13.9	13.1	144,991	14.1	14.5	14.1	7.4%
Sweden	6.2	4.5	45,354	6.4	5.7	6.4	1.7%
Total Portfolio	**66.1**	**62.9**	**423,093**	**68.3**	**65.4**	**44.6**	**3.8%**

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

VALUATION DATA

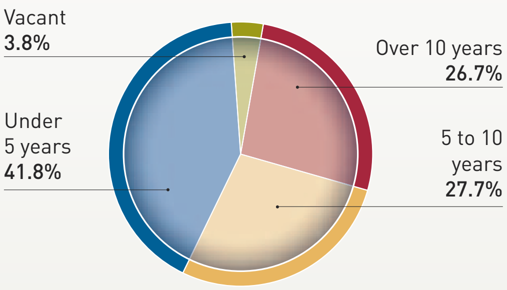
		Valuation movement in the year						
	Market value of property £m	Underlying £m	Foreign exchange £m	Net initial yield(1) %	EPRA topped up net initial yield(2) %	Reversion %	Over-rented %	True equivalent yield %
London	437.5	19.8	–	6.6%	6.3%	3.0%	11.4%	6.9%
France	239.6	(3.5)	(6.6)	7.7%	7.3%	0.8%	9.6%	7.1%
Germany	197.4	0.1	(5.3)	7.0%	6.6%	0.9%	6.0%	6.0%
Sweden	60.0	(0.2)	0.8	7.5%	7.1%	2.6%	14.7%	9.4%
Total Portfolio	**934.5**	**16.2**	**(11.1)**	**7.0%**	**6.6%**	**1.9%**	**10.1%**	

(1) Based on contracted rent less non-recoverable service charges and before adding purchasers' costs to investment property values; if based on passing rent, net initial yield would be 6.8%
(2) Based on contracted rent less non-recoverable service charges and after adding purchasers' costs to investment property values; if based on passing rent, EPRA net initial yield would be 6.5%

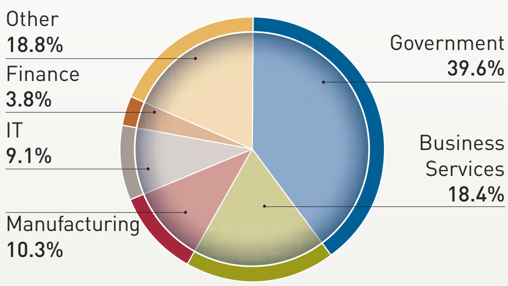
LEASE DATA

	Average lease length		Passing rent of leases expiring in:				ERV of leases expiring in:			
	To break years	To expiry years	Year 1 £m	Year 2 £m	Year 3 to 5 £m	After year 5 £m	Year 1 £m	Year 2 £m	Year 3 to 5 £m	After year 5 £m
London	7.6	8.4	2.1	1.2	6.9	18.9	2.2	1.3	6.5	16.6
France	2.4	5.0	0.9	1.7	5.5	10.6	0.8	1.4	5.0	9.9
Germany	8.9	9.0	0.4	1.6	4.6	7.5	0.3	1.5	4.3	7.3
Sweden	3.5	3.5	0.2	–	4.6	1.6	0.2	–	3.7	1.6
Total Portfolio	**6.1**	**7.2**	**3.6**	**4.5**	**21.6**	**38.6**	**3.5**	**4.2**	**19.5**	**35.4**

RENT BY LEASE LENGTH



RENT BY SECTOR



DIRECTORS' REPORT

for the year ended 31 December 2012

The Directors present their annual report and the audited financial statements for the year ended 31 December 2012. The Chairman's Statement, Business Review and Corporate Governance Report form part of this report and should be read in conjunction with it.

PRINCIPAL ACTIVITIES

The principal activities of the Group during the year were the investment in, and the development and management of, commercial properties in London, France, Germany and Sweden, and in other investments.

REVIEW OF BUSINESS

The group statement of comprehensive income for the year is set out on page 48.

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, Business Review and Property Portfolio on pages 4 to 29 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 Business Review on pages 8 to 17 and in note 25 to the group financial statements. Risk management objectives are also detailed in note 25 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 33 to 38.

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 39 to 45. Related party transactions are shown in note 35.

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

Executive Directors

Sten A Mortstedt, aged 73, 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 68, 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 29.9% 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 16.64% of its issued share capital.

Richard J S Tice, aged 48, joined the Company in 2010 as Deputy Chief Executive Officer and was appointed Chief Executive Officer on 1 January 2011. 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. His property experience covers commercial and residential investment as well as development, together with banking, hedging, debt restructuring and distressed debt trading.

John H Whiteley, aged 54, 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 53, 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 53, joined the Board in 2008. He is a Director of Kitewood Estates Limited, a property investment and development company active in London and south-east England, and has over 20 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.

Christopher P Jarvis FRICS, aged 57, 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 68, 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 28, 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 Hotèliere de Lausanne, Switzerland.

Brigith Terry, aged 69, 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 62, 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.

As explained in the Corporate Governance Report on page 35, 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 2011 as set out in a Circular dated 16 March 2012 for the purchase of 1 in 42 shares at 735 pence per share was completed on 27 April 2012. It returned £7.9 million to shareholders, equivalent to 17.5 pence per share.

The interim distribution for 2012 as set out in a Circular dated 24 August 2012 for the purchase of 1 in 76 shares at 805 pence per share was completed on 26 September 2012. It returned £4.6 million to shareholders, equivalent to 10.6 pence per share.

A final distribution for 2012 will be put to shareholders in March 2013 for the purchase of 1 in 46 shares at a price of 900 pence per share which, if approved, will return a further £8.5 million to shareholders, equivalent to 19.6 pence per share.

PURCHASE OF THE COMPANY'S SHARES

As described above, and under the relevant authority granted at the 2012 Annual General Meeting, during the year the Company made two tender offer purchases totalling 1,647,735 ordinary shares at a cost of £12.5 million. Of these, 1,070,324 ordinary shares were purchased on 27 April 2012 at 735 pence per share and 577,411 ordinary shares were purchased on 26 September 2012 at 805 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 2013 Annual General Meeting to give the Company authority to make market purchases of up to 4,330,587 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 4,330,587 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 2,847,626 ordinary shares.

SHARE CAPITAL

Changes in share capital are shown in note 26 to the group financial statements. At 31 December 2012, and at the date of this report, the Company's issued share capital consisted of 48,108,979 ordinary shares of 25 pence each, of which 4,803,103 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 43,305,876, 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 2012 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 options over 300,000 ordinary shares outstanding under these schemes at the year end and as at the date of this report (2011: 300,000 ordinary shares). Upon a change of control, option holders under these schemes have directly exercisable rights. Details of outstanding options under these schemes are shown on page 44 of the Remuneration Report.

Details of the Directors' interests in shares are shown in the Remuneration Report on page 45.

PROPERTY PORTFOLIO

A valuation of all the properties in the Group as at 31 December 2012 was carried out by Lambert Smith Hampton for London, Jones Lang Lasalle for France, Colliers International for Germany, and CB Richard Ellis for Sweden, which produced an aggregate market value of £934.5 million (2011: £902.1 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 33 to 38 and forms part of this report.

EMPLOYEES, ENVIRONMENTAL AND SOCIAL ISSUES

The Group's policies on employment, environmental and social issues, including charitable donations, are summarised in the Corporate Social and Environmental Responsibility Report on pages 20 to 23. No political donations were made during 2012.

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.

SUPPLIER PAYMENT POLICY

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts and seeks to comply with the payment terms whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. At the year end Group trade creditors were owed the equivalent of 19 days' purchases based on the year as a whole (2011: 20 days). The Company had no trade creditors (2011: nil).

AUDITOR

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

2013 ANNUAL GENERAL MEETING

The 2013 Annual General Meeting will be held on Wednesday, 17 April 2013. 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 Group'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 Group'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 24 and 25. The Group's business activities, and the factors likely to affect its future development and performance, are set out in the Business Review on pages 8 to 17. The financial position of the Group, its liquidity position and borrowing facilities are described in the Business Review and in notes 23 and 25 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 2013

CORPORATE GOVERNANCE

CHAIRMAN'S INTRODUCTION

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

As a Board, and under my Chairmanship, 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.

We have worked hard during the year to address certain governance issues surrounding executive remuneration and we thank our largest shareholders for their constructive comments which we have taken on board in shaping our remuneration policy.

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.

During the Board's evaluation process, we noted 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 June 2010, the UK Financial Services Authority ("FSA") Listing Rules and the FSA's Disclosure and Transparency Rules. The Board notes the revised UK Corporate Governance Code issued in September 2012 (the "Code") and has decided to adopt it for the year under review, where practicable.

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 2012 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 and the capital structure of major transactions. 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 appraised of the views of shareholders, analysts and potential investors by the Company's advisers.

Report of the Directors
Property Portfolio
Governance
Accounts
Other Information

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
Christopher Jarvis	4/4
Thomas Lundqvist	4/4
Jennica Mortstedt	4/4
Brigith Terry	4/4
Thomas Thomson	4/4

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

Insurance

The Company has arranged insurance cover 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

There is 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 has been reviewed by the Board.

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.

During the year the Executive Chairman conferred with the Non-Executive Directors without the other Executive Directors present. 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.

A formal meeting of the Non-Executive Directors and the Executive Chairman took place during the year to discuss 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

The Board comprises four Executive Directors, including the Executive Chairman, and seven Non-Executive Directors, three of which the Board has determined to be independent for the purposes of the Code.

Their biographies can be found on pages 30 and 31.

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. As the Company was not a constituent of the FTSE 350 and had three independent non-executive directors, it was compliant in the year 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, 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 has served on the Board for more than nine years. Miss Mortstedt is the niece of the Executive Chairman and Mr Lundqvist is the Vice Chairman of the Sten Mortstedt Family and Charity Trust. Mr Crawley has a close family tie with the Executive Chairman by way of marriage. Mr Thomson has served on the Board for more than nine years from the date of his first election.

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.

Following its annual board evaluation and having had regard to stakeholder feedback the Board reviewed its balance of skills, knowledge and experience. It considered the composition of the Board now 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 gender 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.

No appointments were made during the period under review and therefore no external consultancy was retained.

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 an extensive 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 key areas and also provided an opportunity to raise any other issues outside of these. 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 which had benefited the Group.

The key themes arising from this year's evaluation, which will form an action plan for 2013 are succession planning; a separate meeting set aside to discuss future strategy; an annual meeting to form part of the last Board meeting of the year with only the Non-Executive Directors and the Executive Chairman present; and greater communication with key employees.

In addition, following the comprehensive performance review of the Executive Chairman that took place at the Non-Executive Directors' meeting, the Senior Independent Director subsequently 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 prohibitive 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 impact of proposals on 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 Ms Terry's induction process, she met with the Head of Property in each of London, 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, all Directors will be seeking re-election at the forthcoming Annual General Meeting and their details are contained in the Directors' Report on pages 30 and 31.

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 46 and 47.

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 as follows:

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.

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. Three-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 6 to 7 is the description of 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 24 and 25.

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 39 to 45.

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, and investor seminars during the year. 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 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 our financial relations advisor, and all such reports are circulated to the Board. Coverage of the Company by analysts is also circulated to the Board. Consequently, all Directors develop an understanding of the views of institutional shareholders and commentators.

Investor seminars and analyst presentations, including those 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 2012 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 53.5% interest referred to in the Directors' Remuneration Report on page 45, as at 1 March 2013 the Company has been notified of the following interests above 3% in the Company's issued share capital:

	No. of shares	%
Bengt Mörtstedt	3,204,165	7.4%
F&C Asset Management plc	2,601,305	6.0%

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 following a takeover bid 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 or takeover bid.

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.

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 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 the 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; and
- the Business 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.

This statement of responsibilities was approved by the Board on 4 March 2013.

By order of the Board

David Fuller BA FCIS
Company Secretary

4 March 2013

REMUNERATION COMMITTEE REPORT

for the year ended 31 December 2012

Remuneration Committee members	Meetings attended/eligible to attend
Christopher Jarvis (Chairman)	3/3
Malcolm Cooper	3/3

The role of the Remuneration Committee is:

- to determine the pay and benefits of the Executive Directors
- to determine the structure of the PIP and set its parameters
- to determine the awards under the PIP
- to determine the fees payable to the Executive Chairman
- to determine the grant of options under the Company's Executive Share Option Scheme and Company Share Option Plan
- to perform all of the above by reference to the pay and benefits of other employees and market conditions
- to review the Remuneration Report

LETTER FROM THE CHAIRMAN OF THE REMUNERATION COMMITTEE

2012 has been a very constructive and progressive year for the Group's remuneration policy for Executive Directors.

As explained in last year's report, in 2011, with advice from remuneration consultants, PwC, we undertook a detailed review of our Executive Directors' remuneration structure, which included a comprehensive consultation process with our ten largest shareholders. Based on the results of this review we replaced the discretionary bonus scheme in 2012 with a Performance Incentive Plan ("PIP"), for which we will seek formal shareholder approval at the AGM in 2013. In designing the PIP, we followed the views of shareholders who sought an equal split between the paid element of the bonus and the deferred amount, and we withdrew the Exceptional Bonus Plan. We believe that the PIP is in line with the proposed regulations of the Department for Business Innovation and Skills with a clear link between Company performance and pay, and will promote the long-term success of the Company.

In light of evolving best practice and the wider discussions on executive remuneration, including the proposed regulations issued by the Department for Business Innovation and Skills in June 2012, the Committee has aligned this year's Remuneration Report with those proposals, including splitting the report into a Policy Report and an Implementation Report.

We want to ensure that our shareholders are able to have their say about executive remuneration and should any shareholder wish to contact me on any aspect of our remuneration policy, please email me at remcom@clsholdings.com

Christopher Jarvis
Chairman
Remuneration Committee

PART 1: POLICY REPORT

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

Executive Directors

Consistent with this policy, emoluments awarded to Executive Directors are intended to be competitive. This is designed to incentivise Executive Directors and to align their interests with those of shareholders.

Key components of Executive Remuneration

	Purpose and Link to Strategy	Operation	Opportunity	Performance Matrix	Changes in Year
Base Salary	To attract and retain the best employees Reflects the role and previous experience	Reviewed annually Based on Group and personal performance Increases based on average salary increases of staff Benchmarked against peer group of similar sized property companies	Maximum annual increase in line with market	None	All Executive Directors salaries increased by 2% (see table below)
Benefits	To attract and retain the best employees	Private medical insurance, life insurance, income protection, gym contribution and staff lunch provision	Full cost of annual benefits £35,300	None	None
Annual Bonus	Incentivise performance on an annual basis against key financial targets and personal objectives Align Group performance and strategic goals with executive bonuses	3 year plan KPI-based performance targets, tailored to specific areas of Group performance Committee sets performance thresholds at the beginning of each plan year 50% of bonus deferred, of which 50% is subject to risk adjustment in the following year if targets are not met Deferred balance linked to share price and 50% is paid out each plan year	Maximum of 150% for CEO and EVC Maximum of 100% for CFO	(see PIP section below)	Introduced in 2012
Pensions	Part of overall retention strategy	Money Purchase Scheme	5% individual contribution 5% Company contribution	None	None

Executive Directors' Salaries

The annual increase in basic salaries for Executive Directors from 1 January 2013 was set at approximately 2% in line with the Committee's policy to have regard to the pay and employment conditions throughout the Group.

	2013 £	2012 £	Uplift %
Sten Mortstedt	229,500	225,000	2
Henry Klotz	224,145	219,750	2
Richard Tice	212,262	208,100	2
John Whiteley	195,840	192,000	2

Directors' Service Contracts

Each of the Executive Directors has a service contract of no fixed term, except for Mr Klotz. As approved at the 2011 Annual General Meeting, Mr Klotz's service contract as Executive Vice Chairman began on 1 January 2011 and expires on 31 December 2013. If the Company exercises the right to terminate Mr Klotz's contract early, the Company would make a payment to Mr Klotz equivalent to the amount due under the unexpired term. There is no provision in the contracts of Mr Mortstedt, 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.

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 [1]	Executive	1 January 2011	n/a
Richard Tice	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
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) Fixed-term contract to 31 December 2013

Non-Executive Directors

The remuneration of the Non-Executive Directors is reviewed and determined by the Executive Directors. It consists of fees for services to the Board and any additional services such as chairing or being a member of a Board committee. The Senior Independent Director receives an additional fee.

The Non-Executive Directors' fees are deemed to be appropriate for the Company's size and complexity although this is kept under review by the Executive Directors.

During the year, fees for non-executive directors were:

Board fee:	£15,000
Senior Independent Director:	£5,000
Committee chairmanship:	£8,000
Committee membership:	£5,000

There is no change to these fees for 2013.

PART 2: IMPLEMENTATION REPORT

For the year ended 31 December 2012, the Group's policy on remuneration was implemented as set out below.

Directors' Remuneration (audited)

The remuneration received by the Directors was as follows:

	Notes	2012 Salary or Fee as a Director £000	2012 Other fees £000	2012 Benefits in kind £000	2012 Pension Contribution £000	2012 Performance Related Bonus[1] £000	2012 Total Remuneration £000	2011 Total Remuneration £000
Executive								
Sten Mortstedt *(Executive Chairman)*		**225**	**375**	**–**	**–**	**–**	**600**	554
Henry Klotz *(Executive Vice Chairman)*		**220**	**28**	**8**	**–**	**275**	**531**	502
Richard Tice *(Chief Executive Officer)*	(2)	**208**	**–**	**4**	**10**	**261**	**483**	417
John Whiteley *(Chief Financial Officer)*		**192**	**–**	**5**	**10**	**159**	**366**	281
Non-Executive								
Malcolm Cooper		**33**	**–**	**–**	**–**	**–**	**33**	35
Joseph Crawley		**15**	**–**	**–**	**–**	**–**	**15**	17
Christopher Jarvis		**28**	**–**	**–**	**–**	**–**	**28**	30
Thomas Lundqvist	(3)	**15**	**9**	**–**	**–**	**–**	**24**	22
Jennica Mortstedt		**15**	**–**	**–**	**–**	**–**	**15**	15
Brigith Terry		**15**	**–**	**–**	**–**	**–**	**15**	6
Thomas Thomson	(3)	**15**	**2**	**–**	**–**	**–**	**17**	23
2012		**981**	**414**	**17**	**20**	**695**	**2,127**	**1,902**
2011		912	427	14	19	530	1,902	

Notes

(1) Subject to shareholder approval of the Performance Incentive Plan

(2) Mr Tice was awarded a £200,000 performance-related annual discretionary bonus for the year ended 31 December 2011, of which £160,000 was paid into his SIPP by the Company on his behalf. The figure for 2011 has been restated from Pension Contributions to Performance Related Bonus for ease of comparison.

(3) Messrs Lundqvist and Thomson received a fee of £125 per hour for special projects.

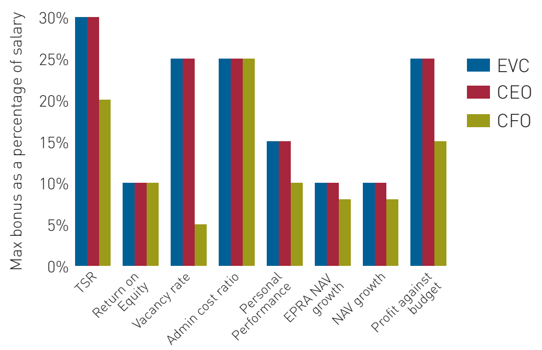
Other Fees

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 £18,926 (2011: £20,715) in respect of his role as Non-Executive Chairman of Catena AB and £9,463 (2011: £9,607) as Non-Executive Director of Note AB. Both Thomas Lundqvist and Thomas Thomson received hourly fees for specific projects undertaken, subject to the agreement of the Chief Executive Officer or Executive Chairman.

Performance Incentive Plan

The Executive Vice Chairman, Chief Executive Officer and Chief Financial Officer participate in the PIP; the Executive Chairman does not participate in it as the Committee consider that the size of his shareholding in the Company gives an adequate overall link to performance. The annual bonus award under the PIP is calculated by reference to eight Key Performance Indicators ("KPIs"), which reflect areas of the Group's business. The maximum potential award in any one year for the Executive Vice Chairman and the Chief Executive Officer, is 150% of salary, and for the Chief Financial Officer, 100%. Each KPI is allocated a proportion of the maximum potential available, depending on the relevance to the participant.

KPI ALLOCATION



The Committee set the targets against each KPI based on stretching criteria, and having regard to past performance, the current economic climate and achievement of the Group's strategy.

No bonus vests below the Bonus/Forfeiture Threshold and full vesting is achieved at Maximum Performance. There is a linear sliding scale between the Bonus/Forfeiture Threshold and Maximum Performance.

KPI Targets

Key Performance Indicator	Performance Vesting					
	Maximum Forfeiture	Bonus/ Forfeiture Threshold	On Target Performance	Good Performance	Maximum Performance	**2012 Achievement**
1. Total Shareholder Return	5%	7%	12%	14%	16%	**29.7%**
2. Effective management of the balance sheet (ROE)	5%	7%	12%	16%	20%	**16.9%**
3. Vacancy rate	10%	8%	5%	4%	3%	**3.8%**
4. Administration cost ratio (as % of Net Rental)	20%	17.5%	14%	13%	12%	**16.3%**
5. Personal Performance	2	2.5	4	4.5	5	**n/a***
6. EPRA NAV Growth	0%	5%	7.5%	8.8%	10%	**17.4%**
7. NAV Growth	0%	5%	7.5%	8.8%	10%	**17.4%**
8. Core Profit over Budget	-5%	0%	7.5%	8.8%	10%	**5.4%**

Annual bonus contribution is earned on a linear basis from the start to the finish of the performance range for a given KPI; the points in the above table are indicative, having been rounded for clarity.

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

KPI Results

As a result of the performance of the Group, the participating Executives received the following amounts:

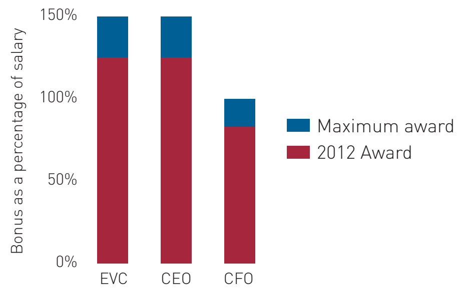
Key Performance Indicators	**Performance Breakdown (£)**		
	EVC	**CEO**	**CFO**
1. Total Shareholder Return	**65,925**	**62,430**	**38,400**
2. Effective management of the balance sheet (ROE)	**18,597**	**17,610**	**16,248**
3. Vacancy rate	**49,664**	**47,031**	**8,832**
4. Administration cost ratio (as % of Net Rental)	**41,268**	**39,081**	**36,058**
5. Personal Performance	**26,370**	**24,972**	**15,360**
6. EPRA NAV Growth	**21,975**	**20,810**	**14,400**
7. NAV Growth	**21,975**	**20,810**	**14,400**
8. Core Profit over Budget	**29,431**	**27,871**	**15,429**
2012 Total Bonus	**275,205**	**260,615**	**159,127**
Bonus as a % of salary	**125.2%**	**125.2%**	**82.9%**
Bonus Achieved as a % of Total Available Bonus	**83.5%**	**83.5%**	**82.9%**

Of the total bonus above, 50% will be paid in cash and the balance in deferred shares. 50% of any pool balance from previous years will be released in the two subsequent years remaining of the PIP's operation.

The Committee has the discretion to override the provisions of the PIP, but did not do so for 2012.

The PIP and related awards for 2012 will be subject to shareholder approval at the AGM in April 2013.

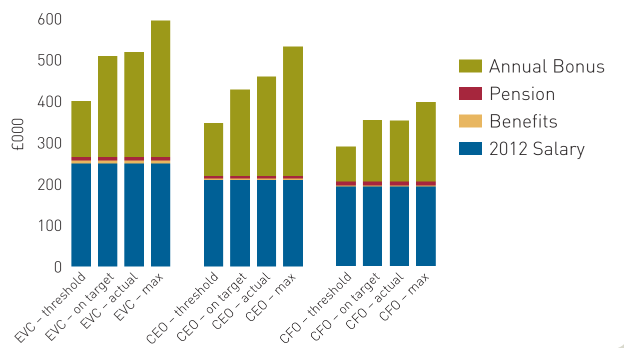
2012 AWARDS AGAINST MAXIMUM AWARD



Actual Performance Against Targets

The elements of remuneration actually paid or awarded to the Executive Vice Chairman, Chief Executive Officer and Chief Financial Officer are set out below, against what would have been paid had performance merely achieved the threshold to merit a bonus, the bonus had performance been on target, and the maximum payable as a bonus:

COMPONENTS OF EXECUTIVE REMUNERATION



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 (2011: one). Participants are required to contribute 5% of basic UK salary (2011: 5%), which is matched by a contribution from the Company of 5% (2011: 5%). The Company contributes 5% of salary towards Richard Tice's Self Invested Personal Pension (SIPP) in lieu of contributions to the Company pension scheme. The Executive Chairman is not a member of the Company pension scheme. The Executive Vice Chairman is a deferred member of the scheme.

Long-Term Incentive Plan

The Company does not operate a long-term incentive plan. The Committee considers that the introduction of the PIP should provide an adequate long-term incentive. However, it will continue to review its policy on LTIPs annually.

Payments for Loss of Office

There was no payment for loss of office for any director of the Company during the year.

Share Options (audited)

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). 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.

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. 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.

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.

In line with the Committee's policy to attract, retain and incentivise high calibre staff, on joining the Company in 2010, the Remuneration Committee granted Richard Tice options over 300,000 Ordinary Shares at an option price of £4.70, of which 6,382 were granted under the CSOP and 293,618 under the USOS.

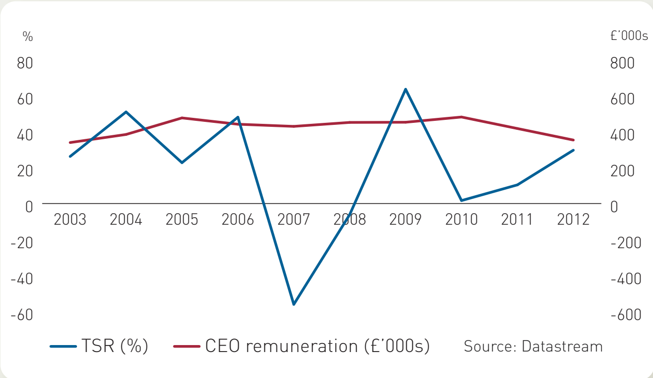
The earliest date of exercise of these share options granted under each scheme is 11 March 2013 and is conditional upon the satisfaction of the appropriate, non-market-based performance criterion of the growth in net assets of the Group being at least equivalent to the growth of the IPD All Properties Capital Growth Index over three years from the date of grant. Whilst current corporate governance requirements prefer stepped vesting conditions, the Committee considered it essential to grant this award to ensure Mr Tice joined the Company. If not exercised, these options will expire on 10 March 2017.

No other Directors held or were granted options over shares in the Company during the year and none of the terms or conditions of the share options was varied during the year.

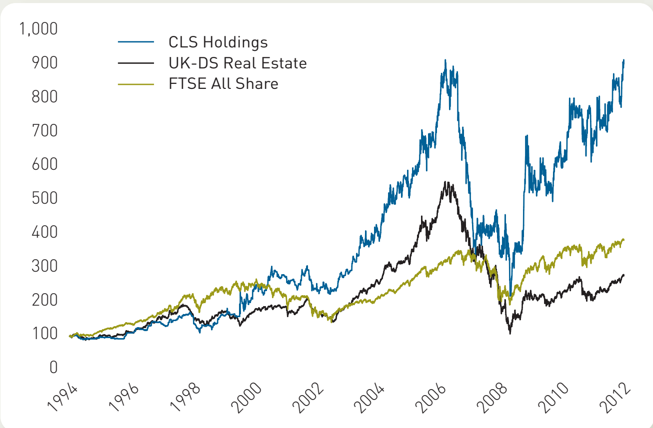
The highest mid-market share price in the year was 779.5 pence, the lowest 560.0 pence, and the average was 659.6 pence. The closing share price on 31 December 2012 was 765.0 pence.

Comparison of Overall Performance and Pay

The graph below shows the Total Shareholder Return ("TSR") performance of the Company and the total pay for the Chief Executive Officer.



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.



Directors' Interests in Shares

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

	At 31 December 2012 Ordinary shares of 25p	At 31 December 2011 Ordinary shares of 25p
Sten Mortstedt	**23,170,345**	23,978,169
Henry Klotz	**11,395**	11,395
Richard Tice	**263,425**	258,732
John Whiteley	**12,000**	10,000
Malcolm Cooper	**4,457**	4,648
Joseph Crawley	**–**	–
Christopher Jarvis	**–**	–
Thomas Lundqvist	**80,110**	79,220
Jennica Mortstedt	**–**	–
Brigith Terry	**–**	–
Thomas Thomson	**105,751**	110,582

All of the above interests in shares were held beneficially for the Directors. The shares in which Sten Mortstedt is beneficially interested are held in trust and include shares held in the name of, beneficially owned by, and held in trust for, Mrs K Mortstedt. There have been no changes to the interests of the Directors since 31 December 2012.

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: 40% (2011: 31%)
Richard Tice: 968% (2011: 748%)
John Whiteley: 48% (2011: 31%)

The Executive Chairman Sten Mortstedt controls or has a beneficial interest in shares which is very substantially in excess of the minimum requirement.

Shareholder Voting

At the 2012 AGM, following the Remuneration Review and shareholder consultation on the PIP, the Directors' Remuneration Report achieved 88.2% (2011: 84.3%) in favour, 5.7% (2011: 13.9%) against and 6.1% (2011: 1.8%) withheld.

On behalf of the Board

Christopher Jarvis
Chairman
Remuneration Committee

4 March 2013

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 oversee the relationship with the external auditor and monitor its independence, objectivity and effectiveness during the audit process
- to review the potential need for an internal audit function
- to review the Group's policy on whistleblowing, and the policy on the supply of non-audit services by the external auditor
- to report to the Board on how it has discharged its responsibilities

Mr Cooper was 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. The Company Secretary acts as Secretary to the Committee.

LETTER FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

It has been business as usual for the Committee during the year.

The Committee reviewed the Annual Report and Accounts and the Half-Yearly Financial Report, focusing on key areas of judgement and complexity, critical accounting policies and any changes required to them. Following these reviews, the Committee was able to recommend to the Board that, taken as a whole, the reports were fair, balanced and understandable. The Committee concluded that there was sufficient information in those reports for shareholders to assess the Group's performance, business model and strategy.

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. I am pleased to report that at both the half and the full year, there were no issues of a material nature which needed to be addressed.

The Committee discussed the way in which the full and half year audit process had been undertaken and, separately, sought the views of senior management. As a result the Committee concluded that the audit strategy had been met, and that key accounting and auditing judgments had been identified and satisfactory answers to the Committee's questions had been given. The Committee's conclusions were reported to the Board and it was agreed that Deloitte LLP would be asked to continue as the Company's Auditor at the forthcoming AGM.

During the year, the Committee paid particular attention to reviewing the Group's key risks, and ensuring that they had been adequately identified and mitigated. One such key risk was the methodology behind the valuation of the Group's corporate bond portfolio, so as to ensure its value was accurately reflected based on the most recent available data. Based on the market evidence that was collated, we concluded that the valuation was appropriate.

The Committee also met with the Group's valuers, Lambert Smith Hampton, Colliers International and Jones Lang LaSalle, to discuss and question the methodology used for the bi-annual valuations of the Group's properties. We were satisfied with their explanations.

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. There were no issues that we felt were required to bring to the Board's attention. For the size and complexity of the Group the composition of the Committee was considered appropriate and in compliance with the Code.

In order to keep up to date with technical developments, the Committee will be receiving further training during 2013 with the support from our external auditors, the Chief Financial Officer and Group Financial Controller.

EXTERNAL AUDIT

The external audit was last put out to tender in 2007 when the current auditor, Deloitte LLP, was appointed. In accordance with best practice, the lead audit partner was changed by rotation for 2012. There are no contractual obligations to restrict the Company's choice of external auditor. In accordance with provision C.3.7 of the Code, the Committee intends that the external audit contract be put out to tender at least every ten years.

INTERNAL AUDIT

Following its annual review, the Committee recommended to the Board not to establish an internal audit department 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 external auditor.

NON-AUDIT SERVICES POLICY

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 ensure 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:

- excluded;
- 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 £20,000 whichever is smaller); and
- permitted with approval from the Committee (individual projects with a fee in excess of £30,000 require the pre-approval of at least one member of the Committee).

The only non-audit service provided by the Company's Auditor during the year was work on the issue of the listed retail bond, for a fee of £7,000, which was approved by the Chief Financial Officer in accordance with the policy.

On behalf of the Board

Malcolm Cooper
Chairman
Audit Committee

4 March 2013

GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Continuing operations			
Group revenue		**80.2**	80.1
Net rental income	4	**62.9**	63.0
Income from non-property activities		**–**	0.8
Administration expenses		**(10.5)**	(12.1)
Other expenses		**(2.9)**	(2.2)
Group revenue less costs		**49.5**	49.5
Net movements on revaluation of investment properties	13	**16.2**	18.0
Net (loss)/gain on sale of corporate bonds and other investments		**(0.4)**	0.5
Profit on sale of subsidiaries and associates	33	**–**	2.2
Operating profit		**65.3**	70.2
Finance income	8	**10.6**	12.2
Finance costs	9	**(25.6)**	(47.7)
Share of profit of associates after tax	17	**5.8**	3.0
Profit before tax		**56.1**	37.7
Taxation	10	**(9.4)**	1.1
Profit for the year	6	**46.7**	38.8
Other comprehensive income			
Foreign exchange differences		**(2.6)**	(5.0)
Fair value gains/(losses) on corporate bonds and other investments	18	**19.7**	(16.0)
Fair value losses/(gains) taken to (loss)/gain on sale of corporate bonds and other investments	18	**4.0**	(0.8)
Deferred tax on net fair value gains on corporate bonds and other investments	22	**(5.9)**	4.6
Revaluation of owner-occupied property	14	**0.1**	0.3
Total comprehensive income for the year		**62.0**	21.9
Profit attributable to:			
Owners of the Company		**46.7**	37.5
Non-controlling interests		**–**	1.3
Profit for the year		**46.7**	38.8
Total comprehensive income attributable to:			
Owners of the Company		**62.0**	20.6
Non-controlling interests		**–**	1.3
Total comprehensive income for the year		**62.0**	21.9
Earnings per share from continuing operations attributable to the owners of the Company during the year (expressed in pence per share)			
Basic	11	**106.0**	82.0
Diluted	11	**105.8**	81.9

The notes on pages 52 to 81 are an integral part of these group financial statements.

GROUP BALANCE SHEET

At 31 December 2012

	Notes	2012 £m	2011 £m
Non-current assets			
Investment properties	13	**934.5**	902.1
Property, plant and equipment	14	**2.8**	2.7
Goodwill and other intangible assets	16	**1.1**	1.1
Investments in associates	17	**33.3**	24.1
Other investments	18	**129.9**	87.8
Derivative financial instruments	24	**0.2**	1.5
Deferred tax	22	**8.7**	17.7
		1,110.5	1,037.0
Current assets			
Trade and other receivables	19	**17.0**	11.6
Derivative financial instruments	24	**0.6**	0.4
Cash and cash equivalents	20	**97.6**	55.3
		115.2	67.3
Total assets		**1,225.7**	1,104.3
Current liabilities			
Trade and other payables	21	**(33.0)**	(30.4)
Current tax		**(3.6)**	(1.2)
Borrowings	23	**(135.6)**	(151.2)
Derivative financial instruments	24	**(0.4)**	(0.1)
		(172.6)	(182.9)
Non-current liabilities			
Deferred tax	22	**(77.8)**	(75.0)
Borrowings	23	**(549.4)**	(469.8)
Derivative financial instruments	24	**(8.8)**	(9.1)
		(636.0)	(553.9)
Total liabilities		**(808.6)**	(736.8)
Net assets		**417.1**	367.5
Equity			
Share capital	26	**12.0**	12.5
Share premium	28	**71.5**	71.5
Other reserves	29	**101.8**	86.0
Retained earnings		**231.8**	197.5
Total equity		**417.1**	367.5

The financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 4 March 2013 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr E H Klotz
Director

The notes on pages 52 to 81 are an integral part of these group financial statements.

GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Notes	Attributable to the owners of the Company: Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total £m
At 1 January 2012		**12.5**	**71.5**	**86.0**	**197.5**	**367.5**	**–**	**367.5**
Arising in 2012:								
Total comprehensive income for the year		**–**	**–**	**15.3**	**46.7**	**62.0**	**–**	**62.0**
Purchase of own shares	26	**(0.5)**	**–**	**0.5**	**(12.5)**	**(12.5)**	**-**	**(12.5)**
Expenses thereof		**–**	**–**	**–**	**(0.1)**	**(0.1)**	**–**	**(0.1)**
Employee share option schemes	7	**–**	**–**	**–**	**0.2**	**0.2**	**–**	**0.2**
Total changes arising in 2012		**(0.5)**	**–**	**15.8**	**34.3**	**49.6**	**–**	**49.6**
At 31 December 2012		**12.0**	**71.5**	**101.8**	**231.8**	**417.1**	**–**	**417.1**

	Notes	Attributable to the owners of the Company: Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total £m
At 1 January 2011		12.9	71.5	102.5	171.6	358.5	(1.3)	357.2
Arising in 2011:								
Total comprehensive income for the year		–	–	(16.9)	37.5	20.6	1.3	21.9
Purchase of own shares	26	(0.4)	–	0.4	(11.7)	(11.7)	–	(11.7)
Expenses thereof		–	–	–	(0.1)	(0.1)	–	(0.1)
Employee share option schemes	7	–	–	–	0.2	0.2	–	0.2
Total changes arising in 2011		(0.4)	–	(16.5)	25.9	9.0	1.3	10.3
At 31 December 2011		12.5	71.5	86.0	197.5	367.5	–	367.5

The notes on pages 52 to 81 are an integral part of these group financial statements.

GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2012

	Notes	2012 £m	2011 £m
Cash flows from operating activities			
Cash generated from operations	30	**54.3**	54.1
Interest paid		**(22.5)**	(26.1)
Income tax refunded/(paid)		**0.1**	(2.9)
Net cash inflow from operating activities		**31.9**	25.1
Cash flows from investing activities			
Purchase of investment property		**(13.1)**	(7.2)
Capital expenditure on investment property		**(13.5)**	(13.2)
Interest received		**8.2**	6.9
Purchase of corporate bonds		**(65.6)**	(54.5)
Proceeds from sale of corporate bonds		**45.8**	31.8
Purchase of equity investments		**(0.6)**	(7.6)
Dividends received from equity investments		**0.1**	–
Proceeds from sale of equity investments		**0.6**	7.2
Purchase of interests in associate undertakings		**(4.1)**	(0.2)
Loans to associate undertakings		**(4.5)**	–
Distributions received from associate undertakings		**0.8**	19.9
Income/(costs) on foreign currency transactions		**0.3**	(1.4)
Costs of corporate disposals		**(0.8)**	(1.8)
Purchases of property, plant and equipment		**(0.2)**	(0.2)
Net cash outflow from investing activities		**(46.6)**	(20.3)
Cash flows from financing activities			
Purchase of own shares		**(12.6)**	(11.8)
New loans		**223.3**	174.2
Issue costs of new loans		**(2.4)**	(2.8)
Repayment of loans		**(151.7)**	(132.2)
Purchase or cancellation of derivative financial instruments		**(0.1)**	(25.9)
Net cash inflow from financing activities		**56.5**	1.5
Cash flow element of net increase in cash and cash equivalents		**41.8**	6.3
Foreign exchange gain		**0.5**	0.7
Net increase in cash and cash equivalents		**42.3**	7.0
Cash and cash equivalents at the beginning of the year		**55.3**	48.3
Cash and cash equivalents at the end of the year	20	**97.6**	55.3

Interest received has been included in cash flows from investing activities as the majority of it arises from investing in corporate bonds. Previously, interest received was disclosed in cash flows from operating activities.

The notes on pages 52 to 81 are an integral part of these group financial statements.

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 London, 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 32 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 two standards and guidance for the first time, none of which has had a material effect on the results for the year:

- Amendments to IAS 1 – *Presentation of items of other comprehensive income*
- Amendments to IAS 12 – *Deferred Tax: Recovery of Underlying Assets*

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:

- IAS 28 – *Investments in associates and joint ventures (2011)*
- IFRS 9 – *Financial Instruments*
- IFRS 10 – *Consolidated financial statements*
- IFRS 11 – *Joint arrangements*
- IFRS 12 – *Disclosure of interests in other entities*
- IFRS 13 – *Fair value measurement*
- Improvements 2011 – *Improvements to IFRSs 2010*
- ED/2011/6 – *Revenue from contracts with customers*
- ED/2012/1 – *Annual improvements to IFRS 2010/12 Cycle*

These pronouncements, when applied, either will result in changes to presentation and disclosure, or are not expected to have a material impact on the financial statements.

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.

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 London 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.

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 – London
France
Germany
Sweden

Other Investments

There are no transactions between the operating segments.

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

	Investment Property					
	London £m	France £m	Germany £m	Sweden £m	Other Investments £m	Total £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 movements on revaluation of investment properties	**19.8**	**(3.5)**	**0.1**	**(0.2)**	**–**	**16.2**
Net loss on sale of corporate bonds and other investments	**–**	**–**	**–**	**–**	**(0.4)**	**(0.4)**
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**
Taxation	**(5.2)**	**(3.5)**	**(0.7)**	**–**	**–**	**(9.4)**
Segment profit after tax	**25.7**	**5.2**	**6.1**	**2.7**	**12.1**	**51.8**
Central administration expenses						**(5.1)**
Profit for the year						**46.7**

The Group's results for the year ended 31 December 2011 by operating segment were as follows:

	Investment Property					
	London £m	France £m	Germany £m	Sweden £m	Other Investments £m	Total £m
Rental income	26.5	19.1	14.4	6.2	–	66.2
Other property-related income	0.8	0.1	–	–	–	0.9
Service charge income	4.2	5.2	2.5	0.3	–	12.2
Service charges and similar expenses	(5.9)	(5.5)	(3.3)	(1.6)	–	(16.3)
Net rental income	25.6	18.9	13.6	4.9	–	63.0
Income from non-property activities	–	–	–	–	0.8	0.8
Administration expenses	(1.9)	(1.5)	(1.1)	(0.4)	(1.7)	(6.6)
Other expenses	(1.0)	(0.5)	(0.6)	(0.1)	–	(2.2)
Group revenue less costs	22.7	16.9	11.9	4.4	(0.9)	55.0
Net movements on revaluation of investment properties	10.2	4.9	2.0	0.9	–	18.0
Net gain on sale of corporate bonds and other investments	–	–	–	–	0.5	0.5
Profit on sale of subsidiaries and associates	–	–	–	1.8	0.4	2.2
Segment operating profit	32.9	21.8	13.9	7.1	–	75.7
Finance income	0.3	0.1	–	–	11.8	12.2
Finance costs	(30.3)	(7.9)	(7.1)	(1.6)	(0.8)	(47.7)
Share of profit of associates after tax	–	–	–	–	3.0	3.0
Segment profit before tax	2.9	14.0	6.8	5.5	14.0	43.2
Taxation	7.7	(4.4)	(0.4)	(2.2)	0.4	1.1
Segment profit after tax	10.6	9.6	6.4	3.3	14.4	44.3
Central administration expenses						(5.5)
Profit for the year						38.8

Other segment information:

	Assets		Liabilities		Capital expenditure	
	2012 £m	2011 £m	**2012 £m**	2011 £m	**2012 £m**	2011 £m
Investment Property						
London	**463.5**	435.5	**358.7**	304.9	**19.9**	12.6
France	**247.0**	252.9	**207.5**	212.9	**1.4**	1.8
Germany	**202.5**	201.1	**144.4**	147.2	**5.5**	4.0
Sweden	**62.9**	65.2	**40.2**	42.0	**0.7**	2.5
Other investments	**249.8**	149.6	**57.8**	29.8	**–**	–
	1,225.7	1,104.3	**808.6**	736.8	**27.5**	20.9

Included within the assets of other investments are investments in associates of £33.3 million (2011: £24.1 million).

5 ADMINISTRATION COST RATIO

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

	2012 £m	2011 £m
Administration expenses of the operating segments	**5.4**	6.6
Central administration expenses	**5.1**	5.5
Total administration expenses of the Group	**10.5**	12.1
Less: non-recurring element thereof	**–**	(0.7)
Less: administration expenses of Other Investments	**(0.5)**	(1.7)
Property-related and central administration expenses	**10.0**	9.7
Net rental income	**62.9**	63.0
Administration cost ratio	**15.9%**	15.4%

6 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

	2012 £m	2011 £m
Auditor's remuneration		
Fees payable to the Company's auditor for the audit of the parent company and group accounts	**0.2**	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	**0.2**	0.2
Employee benefits expense (note 7)	**6.6**	7.8

7 EMPLOYEE BENEFITS EXPENSE

	2012 £m	2011 £m
Wages and salaries	**5.0**	5.4
Social security costs	**0.7**	0.8
Pension costs – defined contribution plans	**0.2**	0.4
Other employee-related expenses	**0.7**	1.2
	6.6	7.8

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 39 to 45.

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

	2012			2011		
	Property number	Other operations number	Total number	Property number	Other operations number	Total number
Male	**30**	**–**	**30**	24	6	30
Female	**35**	**–**	**35**	31	2	33
	65	**–**	**65**	55	8	63

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 can 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 44.

The movement in share options during the year was:

	2012		2011	
	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	**–**		–	
Outstanding at the end of the year	**300,000**	**470p**	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 has been estimated using the historical volatility of the share price over a four year period. The expected life of the options has been adjusted, based on management's best estimate, for the effects of behavioural considerations and exercise restrictions. The Group recognised an expense of £0.2 million (2011: £0.2 million) relating to equity-settled share-based transactions in the year and a corresponding increase to equity.

8 FINANCE INCOME

	2012 £m	2011 £m
Interest income	**9.9**	9.2
Other finance income	**0.1**	2.3
Foreign exchange variances	**0.6**	0.7
	10.6	12.2

9 FINANCE COSTS

	2012 £m	2011 £m
Interest expense		
Bank loans	**15.4**	21.2
Debenture loans	**4.7**	4.7
Unsecured bonds	**2.8**	1.2
Amortisation of loan issue costs	**1.3**	2.1
Total interest costs	**24.2**	29.2
Less interest capitalised on development projects	**(0.1)**	–
	24.1	29.2
Movement in fair value of derivative financial instruments		
Interest rate swaps: transactions not qualifying as hedges	**0.2**	14.2
Interest rate caps: transactions not qualifying as hedges	**1.3**	4.3
	25.6	47.7

10 TAXATION

	2012 £m	2011 £m
Current tax charge/(credit)	**2.3**	(1.2)
Deferred tax charge (note 22)	**7.1**	0.1
	9.4	(1.1)

A deferred tax charge of £5.9 million (2011: credit of £4.6 million) was recognised directly in equity (note 22).

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:

	2012 £m	2011 £m
Profit before tax	**56.1**	37.7
Tax calculated at domestic tax rates applicable to profits in the respective countries	**13.9**	10.1
Expenses not deductible for tax purposes	**(0.7)**	(0.1)
Tax effect of unrecognised profits in associates and joint ventures	**(1.2)**	(0.8)
Adjustment in respect of indexation allowance on London properties	**(3.0)**	(4.6)
Other deferred tax adjustments	**(0.9)**	(1.6)
Deferred tax assets not recognised	**0.1**	(0.8)
Adjustment in respect of prior periods	**1.2**	(3.3)
Tax charge/(credit) for the year	**9.4**	(1.1)

The weighted average applicable tax rate of 24.9% (2011: 26.7%) 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	2012 £m	2011 £m
Profit for the period attributable to the owners of the Company	**46.7**	37.5
Revaluation gains on investment properties	**(16.2)**	(18.0)
Profit on sale of subsidiaries and associates	**–**	(2.2)
Net loss/(gain) on sale of corporate bonds and other investments	**0.4**	(0.5)
Change in fair value of derivative financial instruments	**1.5**	18.5
Deferred tax relating to the above adjustments	**2.0**	0.5
Adjustments in respect of associates	**(5.6)**	(3.8)
Non-recurring finance income	**–**	(2.3)
EPRA earnings	**28.8**	29.7

Weighted average number of ordinary shares	2012 Number	2011 Number
Weighted average number of ordinary shares in circulation	**44,072,410**	45,738,600
Dilutive share options†	**85,002**	67,542
Diluted weighted average number of ordinary shares	**44,157,412**	45,806,142

Earnings per Share	2012 Pence	2011 Pence
Basic	**106.0**	82.0
Diluted	**105.8**	81.9
EPRA	**65.3**	64.9

† 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 movements on fair value of investment properties, and associated deferred tax. 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	2012 £m	2011 £m
Basic net assets	**417.1**	367.5
Dilutive impact of share options	**1.4**	1.4
Diluted net assets	**418.5**	368.9
Adjustment to increase fixed rate debt to fair value, net of tax	**(23.9)**	(23.7)
Goodwill as a result of deferred tax	**(1.1)**	(1.1)
EPRA triple net assets	**393.5**	344.1
Deferred tax on property and other non-current assets	**74.6**	67.9
Fair value of derivative financial instruments	**8.4**	7.3
Adjustment to decrease fixed rate debt to book value, net of tax	**23.9**	23.7
Adjustments in respect of associates	**3.0**	1.9
EPRA net assets	**503.4**	444.9

Number of ordinary shares	2012 Number	2011 Number
Number of ordinary shares in circulation	**43,305,876**	44,953,611
Dilutive share options	**300,000**	300,000
Diluted number of ordinary shares	**43,605,876**	45,253,611

Net Assets Per Share	2012 Pence	2011 Pence
Basic	**963.1**	817.5
Diluted	**959.7**	815.2
EPRA	**1,154.4**	983.1
EPRA triple net	**902.5**	760.4

13 INVESTMENT PROPERTIES

	London £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**

	London £m	France £m	Germany £m	Sweden £m	Total £m
At 1 January 2011	375.0	248.7	196.5	56.7	876.9
Acquisitions	6.4	–	0.8	–	7.2
Capital expenditure	6.1	1.7	3.2	2.5	13.5
Net movement on revaluation of investment properties	10.2	4.9	2.0	0.9	18.0
Rent-free period debtor adjustments	0.3	–	–	(0.1)	0.2
Exchange rate variances	–	(7.0)	(5.4)	(1.3)	(13.7)
At 31 December 2011	398.0	248.3	197.1	58.7	902.1

The investment properties (and the owner-occupied property detailed in note 14) were revalued at 31 December 2012 to their fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by external, professionally qualified valuers as follows:

London: Lambert Smith Hampton

France: Jones Lang LaSalle

Germany: Colliers International

Sweden: CB Richard Ellis

Investment properties included leasehold properties with a carrying amount of £18.3 million (2011: £19.1 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 (2011: £nil).

14 PROPERTY, PLANT AND EQUIPMENT

	2012 £m	2011 £m
Cost or valuation		
At 1 January	**4.0**	5.4
Additions	**0.2**	0.2
Disposals	**(0.4)**	(1.9)
Revaluation	**0.1**	0.3
At 31 December	**3.9**	4.0
Accumulated depreciation and impairment		
At 1 January	**(1.3)**	(2.8)
Depreciation charge	**(0.2)**	(0.2)
Disposals	**0.4**	1.7
At 31 December	**(1.1)**	(1.3)
Net book value		
At 31 December	**2.8**	2.7

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

15 JOINT VENTURES

At 31 December 2012 the Group had a one-third interest (2011: one-third) in the issued ordinary share capital of Fielden House Investment Limited, a company incorporated in England and Wales, which had a coterminous year end to that of the Group.

The principal activity of Fielden House Investment Limited is investment in, and management and development of, commercial property.

The following amounts represent the Group's share of the assets and liabilities, and of the income and expenditure of Fielden House Investment Limited which are included in the balance sheet and statement of comprehensive income of the Group:

	2012 £m	2011 £m
Assets		
Non-current assets	**2.7**	2.3
Current assets	**0.2**	0.1
	2.9	2.4
Liabilities		
Current liabilities	**(0.1)**	(0.1)
Non-current liabilities	**(2.0)**	(2.3)
	(2.1)	(2.4)
Net assets	**0.8**	–
Income	**0.2**	0.2
Expenses	**(0.2)**	(0.2)
Profit after tax	**–**	–

16 GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 1 January 2012 and 31 December 2012	**1.1**	**–**	**1.1**
Amortisation			
At 1 January 2012 and 31 December 2012	**–**	**–**	**–**
Net book value			
At 31 December 2012	**1.1**	**–**	**1.1**

	Goodwill £m	Other intangibles £m	Total £m
Cost			
At 1 January 2011	18.6	7.2	25.8
Disposals	(17.5)	(7.2)	(24.7)
At 31 December 2011	1.1	–	1.1
Amortisation			
At 1 January 2011	(17.5)	(7.2)	(24.7)
Disposals	17.5	7.2	24.7
At 31 December 2011	–	–	–
Net book value			
At 31 December 2011	1.1	–	1.1

Goodwill comprised £0.8 million (2011: £0.8 million) on the acquisition of a French property portfolio in 2004 and £0.3 million (2011: £0.3 million) on a German property acquisition in 2005. All other goodwill and other intangibles (relating to trade names, technology, customer relationships, capitalised development and other costs), which had been fully written down, related to the Wyatt Media Group, which was sold in 2011, as described in note 33.

Impairment review 2012 and 2011

Goodwill was reviewed for impairment at 31 December 2012 and at 31 December 2011 using the key assumptions set out below. No adjustment for impairment was required.

Key assumptions:

Unamortised goodwill at 31 December 2012 and at 31 December 2011 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 (2011: £0.1 million).

17 INVESTMENTS IN ASSOCIATES

	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**

	Net assets £m	Goodwill £m	Total £m
At 1 January 2011	33.8	6.8	40.6
Additions	0.7	1.4	2.1
Disposals	–	(1.5)	(1.5)
Share of profit of associates after tax	3.0	–	3.0
Dividends received	(19.9)	–	(19.9)
Exchange rate differences	(0.2)	–	(0.2)
At 31 December 2011	17.4	6.7	24.1

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

At 31 December 2012	Catena AB £m	Bulgarian Land Development Plc £m	Other associates £m	Total £m
Interest held in ordinary share capital	***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**
Market value of interest	**20.7**	**n/a**	**n/a**	

At 31 December 2011	Catena AB £m	Bulgarian Land Development Plc £m	Other associates £m	Total £m
Interest held in ordinary share capital	*29.9%*	*48.3%*	*various*	
Revenues	0.8	0.6	0.6	2.0
Share of profit/(loss) of associates after tax	3.7	(0.5)	(0.2)	3.0
Assets	19.9	9.3	0.8	30.0
Liabilities	(11.5)	(0.6)	(0.5)	(12.6)
Net assets	8.4	8.7	0.3	17.4
Goodwill	5.1	–	1.6	6.7
Investments in associates	13.5	8.7	1.9	24.1
Market value of interest	17.8	n/a	n/a	

17 INVESTMENTS IN ASSOCIATES CONTINUED

Catena AB

At 31 December 2012 the Group had a 29.9% (2011: 29.9%) interest in Catena AB, a listed Swedish property company. Henry Klotz, Executive Vice Chairman of the Company, is the Non-Executive Chairman of Catena AB.

Bulgarian Land Development Plc

At 31 December 2012 the Group had a 48.3% (2011: 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

As described in note 33, on 31 May 2011 the Group sold the remaining operating subsidiaries and certain associates of the Wyatt Media Group. The entities were acquired by Nyheter 24 (a Swedish on-line news and media business) in exchange for a 20% interest in the enlarged Nyheter 24 group. The fair value of the Group's interest in Nyheter 24 was determined on acquisition to be £1.9 million. Henry Klotz, Executive Vice Chairman of the Company, was appointed to the board of Nyheter 24.

The Group retains an associate interest in one former associate of the Wyatt Media Group.

On 12 January 2012, the Group acquired a 16.6% 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, was appointed to the board of Cood.

Impairment

2012

In assessing the carrying value of Catena AB, management considered it was not impaired as 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 to date, including the payment of a dividend, support the fair value.

2011

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 £4.3 million at 31 December 2011.

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 2011. Accordingly there was no requirement to provide for further impairment in the carrying value of the Group's interest in BLD at 31 December 2011.

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 2011.

18 OTHER INVESTMENTS

	Investment type	Destination of Investment	2012 £m	2011 £m
Available-for-sale financial investments carried at fair value	Listed corporate bonds	UK	**73.2**	56.0
		Eurozone	**21.7**	12.2
		Other	**32.4**	16.9
			127.3	85.1
	Listed equity securities	UK	**0.3**	0.5
		Sweden	**1.7**	1.6
		Other	**0.2**	0.1
	Unlisted investments	Sweden	**0.3**	0.4
	Government securities	UK	**0.1**	0.1
			129.9	87.8

The movement of other 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 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**

	Level 1 Quoted market prices £m	Level 2 Observable market data £m	Level 3 Other valuation methods* £m	Total £m
At 1 January 2011	3.1	78.1	0.4	81.6
Additions	7.6	54.5	–	62.1
Disposals	(7.7)	(31.1)	–	(38.8)
Fair value movements recognised in reserves on available-for-sale assets	(0.4)	(15.6)	–	(16.0)
Fair value movements recognised in profit before tax on available-for-sale assets	(0.1)	(0.7)	–	(0.8)
Exchange rate variations	(0.2)	(0.1)	–	(0.3)
At 31 December 2011	2.3	85.1	0.4	87.8

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

Corporate Bond Portfolio
At 31 December 2012

Sector	Banking	Insurance	Building Societies	Financials	Other	Total
Value	£29.3m	£42.8m	£8.7m	£7.3m	£39.2m	£127.3m
Running yield	8.5%	7.5%	8.7%	7.0%	8.9%	8.2%
Issuers	KBC	Brit	Yorkshire	Man Group	TUI	
	RBS	AXA	Nationwide	Aberdeen AM	Fiat	
	HBoS	Aviva			SAS	
	Lloyds	Generali			Boparan	
	Investec	Irish Life			Europcar	
	Dresdner	Swiss Re			Telefonica	
	SNS Bank*	Swiss Life			Swissport	
	Rothschild	Direct Line			Alliance Oil	
	Danske Bank*	RL Finance			Lottomatica	
		Phoenix Life			Norske Skog	
		Legal & General			Corral Finans	
		Friends Provident			Thomas Cook	
					British Airways	
					Renewable Energy Corp	

* Less than £0.3 million market value.

19 TRADE AND OTHER RECEIVABLES

	2012 £m	2011 £m
Current		
Trade receivables	**3.0**	3.6
Prepayments	**0.9**	0.5
Accrued income	**6.8**	5.2
Other debtors	**6.3**	2.3
	17.0	11.6

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 (2011: none). No trade and other receivables were interest-bearing.

Included within other debtors is £5.0 million (2011: £0.5 million) due after more than one year.

20 CASH AND CASH EQUIVALENTS

	2012 £m	2011 £m
Cash at bank and in hand	**96.8**	25.7
Short-term bank deposits	**0.8**	29.6
	97.6	55.3

At 31 December 2012, Group cash at bank and in hand included £6.8 million (2011: £5.8 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:

At 31 December 2012	**Cash at bank and in hand £m**	**Short-term deposits £m**	**Total £m**
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**

At 31 December 2011	Cash at bank and in hand £m	Short-term deposits £m	Total £m
Sterling	10.1	5.2	15.3
Euro	13.6	0.4	14.0
Swedish Krona	2.0	24.0	26.0
	25.7	29.6	55.3

21 TRADE AND OTHER PAYABLES

	2012 £m	2011 £m
Current		
Trade payables	**1.6**	1.7
Social security and other taxes	**2.2**	1.9
Other payables	**7.4**	6.0
Accruals	**11.0**	11.4
Deferred income	**10.8**	9.4
	33.0	30.4

22 DEFERRED TAX

	2012 £m	2011 £m
Deferred tax assets:		
– after more than 12 months	**(8.7)**	(17.7)
Deferred tax liabilities:		
– after more than 12 months	**77.8**	75.0
	69.1	57.3

The movement in deferred tax was as follows:

	2012 £m	2011 £m
At 1 January	**57.3**	63.3
Charged in arriving at profit after tax	**7.1**	0.1
Charged/(credited) to other comprehensive income	**5.9**	(4.6)
Exchange rate variances	**(1.2)**	(1.5)
At 31 December	**69.1**	57.3

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 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 assets	Tax losses £m	Other £m	Total £m
At 1 January 2011	(5.1)	(6.1)	(11.2)
(Credited)/charged in arriving at profit after tax	(5.5)	2.0	(3.5)
Credited to other comprehensive income	–	(3.1)	(3.1)
Exchange rate variances	–	0.1	0.1
At 31 December 2011	(10.6)	(7.1)	(17.7)

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 liabilities	UK capital allowances £m	Fair value adjustments to investment properties £m	Other £m	Total £m
At 1 January 2011	10.2	62.3	2.0	74.5
(Credited)/charged in arriving at profit after tax	(0.5)	3.8	0.3	3.6
Credited to other comprehensive income	–	–	(1.5)	(1.5)
Exchange rate variances	–	(1.6)	–	(1.6)
At 31 December 2011	9.7	64.5	0.8	75.0

22 DEFERRED TAX CONTINUED

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2012 the Group did not recognise deferred tax assets of £8.2 million (2011: £7.2 million) in respect of losses amounting to £33.2 million (2011: £27.9 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 2013 the UK corporation tax rate reduces from 25% to 23%. As this has been substantively enacted at the balance sheet date the UK deferred tax assets and liabilities have been calculated at a rate of 23%. The impact on net assets for 2012 as a result of this change was an increase of £1.0 million. It is expected that UK tax rates will reduce to 22% by 1 April 2014. A further 1% fall in the rate of UK tax would increase net assets by £0.5 million, and increase profit after tax by £3.0 million.

23 BORROWINGS

At 31 December 2012	Current £m	Non-current £m	Total borrowings £m
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**

At 31 December 2011	Current £m	Non-current £m	Total borrowings £m
Bank loans	150.0	399.6	549.6
Debenture loans	1.2	31.8	33.0
Zero coupon note	–	10.9	10.9
Unsecured bonds	–	27.5	27.5
	151.2	469.8	621.0

Arrangement fees of £5.2 million (2011: £4.1 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 (2011: 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% (2011: 0.8% and 1.8%) and floating rate margins range between 0.8% and 3.8% (2011: 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 (2011: £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.

Loan covenants

There were no covenant breaches at 31 December 2012 or at 31 December 2011.

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

At 31 December 2012	Bank loans £m	Debenture loans £m	Zero coupon note £m	Unsecured bonds £m	Total £m
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**
	552.9	**31.8**	**12.1**	**93.4**	**690.2**
Unamortised issue costs	**(3.8)**	**–**	**–**	**(1.4)**	**(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**

At 31 December 2011	Bank loans £m	Debenture loans £m	Zero coupon note £m	Unsecured bonds £m	Total £m
Within one year or on demand	151.0	1.2	–	–	152.2
More than one but not more than two years	71.9	1.3	–	–	73.2
More than two but not more than five years	199.4	5.0	–	28.0	232.4
More than five years	130.9	25.5	10.9	–	167.3
	553.2	33.0	10.9	28.0	625.1
Unamortised issue costs	(3.6)	–	–	(0.5)	(4.1)
Borrowings	549.6	33.0	10.9	27.5	621.0
Less amount due for settlement within 12 months	(150.0)	(1.2)	–	–	(151.2)
Amounts due for settlement after 12 months	399.6	31.8	10.9	27.5	469.8

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

	At 31 December 2012		At 31 December 2011	
	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	**7.5**	**8.5**	9.6	11.1
Euro	**5.1**	**1.6**	5.1	2.3

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

	At 31 December 2012			At 31 December 2011		
	% 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	**33**	**3.0**	**2.9**	66	3.7	2.2
Euro	**79**	**3.1**	**2.9**	75	3.2	3.8
Swedish Krona	**44**	**2.6**	**0.9**	53	2.6	1.9
Other	**–**	**n/a**	**n/a**	–	n/a	n/a

23 BORROWINGS CONTINUED

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

At 31 December 2012	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
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**

At 31 December 2011	Fixed rate financial liabilities £m	Floating rate financial liabilities £m	Total £m
Sterling	60.2	183.5	243.7
Euro	73.2	239.6	312.8
Swedish Krona	–	58.7	58.7
Other	–	5.8	5.8
	133.4	487.6	621.0

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

	Carrying amounts		Fair values	
	2012 £m	2011 £m	**2012 £m**	2011 £m
Current borrowings	**135.6**	151.2	**136.1**	151.2
Non-current borrowings	**549.4**	469.8	**579.8**	501.1
	685.0	621.0	**715.9**	652.3

Arrangement fees of £5.2 million (2011: £4.1 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:

	2012 £m	2011 £m
Floating rate:		
– expiring within one year	**21.9**	0.6
– expiring after one year	**12.9**	–
	34.8	0.6

24 DERIVATIVE FINANCIAL INSTRUMENTS

	2012 Assets £m	**2012 Liabilities £m**	2011 Assets £m	2011 Liabilities £m
Non-current				
Interest rate swaps	**–**	**(8.8)**	–	(9.1)
Interest rate caps	**0.2**	**–**	1.5	–
	0.2	**(8.8)**	1.5	(9.1)
Current				
Interest rate swaps	**–**	**(0.4)**	–	–
Currency options	**0.6**	**–**	0.4	–
Forward foreign exchange contracts	**–**	**–**	–	(0.1)
	0.6	**(0.4)**	0.4	(0.1)
	0.8	**(9.2)**	1.9	(9.2)

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 2012 was £48.4 million (2011: £50.0 million). The average period to maturity of these interest rate swaps was 3.1 years (2011: 4.1 years).

Forward foreign exchange contracts

The Group uses forward foreign exchange contracts from time to time to add certainty to, and to minimise the impact of foreign exchange movements on, committed cash flows. At 31 December 2012 the Group had £9.9 million of outstanding net foreign exchange contracts (2011: £19.9 million).

Currency options

The Group uses currency options from time to time to hedge the foreign exchange risk relating to the translation of the Group's net investment in overseas subsidiaries. At 31 December 2012 the Group had no currency options (2011: €90.0 million in exchange for sterling at an average exchange rate of £1:€1.2876).

25 FINANCIAL INSTRUMENTS

Categories of financial instruments

Financial assets of the Group comprise: interest rate caps; foreign currency options and 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; 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.

25 FINANCIAL INSTRUMENTS CONTINUED

The gearing ratio at the year end was as follows:

	2012 £m	2011 £m
Debt	**690.2**	625.1
Liquid resources	**(224.9)**	(140.4)
Net debt	**465.3**	484.7
Equity	**417.1**	367.5
Net debt to equity ratio	**112%**	132%

Debt is defined as long and short-term borrowings before unamortised issue costs as detailed in note 23. 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 2012 the Group was subject to a minimum equity ratio of total equity to total assets of 22.5% imposed by unsecured bonds of £92.0 million (2011: £27.5 million). The Group was also restricted from making distributions to shareholders if to so would reduce net assets below £250 million, imposed by unsecured bonds of £64.1 million (2011: n/a). 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	2012 Statement of Comprehensive Income £m	2011 Statement of Comprehensive Income £m
Cash +50 basis points	**0.2**	0.3
Variable borrowings (including caps) +50 basis points	**(2.3)**	(1.9)
Cash -50 basis points	**(0.2)**	(0.3)
Variable borrowings (including caps) -50 basis points	**2.4**	2.0

(ii) Foreign exchange risk

The Group does not have any regular transactional foreign exchange exposure. However, it has operations in Europe which transact business denominated in euros and, to a lesser extent, in Swedish kronor. Consequently, there is currency exposure caused by translating 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	2012 Net assets £m	2012 Profit before tax £m	2011 Net assets £m	2011 Profit before tax £m
1% increase in value of sterling against the euro	**(1.3)**	**(0.1)**	(1.1)	(0.1)
1% increase in value of sterling against the Swedish krona	**(0.4)**	**(0.1)**	(0.7)	(0.1)
1% fall in value of sterling against the euro	**1.4**	**0.1**	1.1	0.1
1% fall in value of sterling against the Swedish krona	**0.4**	**0.1**	0.7	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	2012 Other Comprehensive Income £m	2011 Other Comprehensive Income £m
10% fall in value	**(13.0)**	(8.8)
10% increase in value	**13.0**	8.8

(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.

25 FINANCIAL INSTRUMENTS CONTINUED

At 31 December 2012 the Group held £129.9 million (2011: £87.8 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	2012 £m	2011 £m
Investment grade	**42.9**	27.0
Non-investment grade	**44.1**	20.7
Not rated	**42.9**	40.1
Total	**129.9**	87.8

(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 2012.

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 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)**	**–**	**–**	**–**

At 31 December 2011	Less than 1 year £m	1 to 2 years £m	2 to 5 years £m	Over 5 years £m
Non-derivative financial liabilities:				
Borrowings	152.2	73.2	232.4	167.3
Interest payments on borrowings†	22.2	17.3	39.3	25.8
Trade and other payables	30.4	–	–	–
Forward foreign exchange contracts:				
Cash flow hedges				
– Outflow	19.9	–	–	–
– Inflow	(19.9)	–	–	–

† 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.

26 SHARE CAPITAL

	Number					
	Ordinary shares in circulation	Treasury shares	Total ordinary shares	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
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**

	Number					
	Ordinary shares in circulation	Treasury shares	Total ordinary shares	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2011	46,588,244	4,793,000	51,381,244	11.7	1.2	12.9
Cancelled following tender offer	(1,624,530)	–	(1,624,530)	(0.4)	–	(0.4)
Purchase of own shares:						
– pursuant to market purchase	(10,103)	10,103	–	–	–	–
At 31 December 2011	44,953,611	4,803,103	49,756,714	11.3	1.2	12.5

Ordinary shares have a nominal value of 25 pence each.

27 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 16 March 2012 for the purchase of 1 in 42 shares at 735 pence per share was completed in April. It returned £7.9 million to shareholders, equivalent to 17.5 pence per share.

A tender offer by way of a Circular dated 24 August 2012 for the purchase of 1 in 76 shares at 805 pence per share was completed in September. It returned £4.6 million to shareholders, equivalent to 10.6 pence per share.

A further tender offer will be put to shareholders in April 2013 for the purchase of 1 in 46 shares at a price of 900 pence per share which, if approved, will return £8.5 million to shareholders, equivalent to 19.6 pence per share.

28 SHARE PREMIUM

	2012 £m	2011 £m
At 1 January and at 31 December	**71.5**	71.5

29 OTHER RESERVES

	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**

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Other reserves £m	Total £m
At 1 January 2011	20.8	51.4	2.2	28.1	102.5
Purchase of own shares:					
– cancellation pursuant to tender offer	0.4	–	–	–	0.4
Exchange rate variances	–	(5.0)	–	–	(5.0)
Available-for-sale financial assets:					
– net fair value losses in the year	–	–	(16.8)	–	(16.8)
– deferred tax thereon	–	–	4.6	–	4.6
Revaluation of owner-occupied property	–	–	0.3	–	0.3
At 31 December 2011	21.2	46.4	(9.7)	28.1	86.0

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.

30 CASH GENERATED FROM OPERATIONS

	2012 £m	2011 £m
Operating profit	**65.3**	70.2
Adjustments for:		
Net movements on revaluation of investment properties	**(16.2)**	(18.0)
Depreciation and amortisation	**0.2**	0.2
Profit on sale of subsidiaries and associates	**–**	(2.2)
Net loss/(gain) on sale of corporate bonds and other investments	**0.4**	(0.5)
Share-based payment expense	**0.2**	0.2
Non-cash rental income	**–**	(0.2)
Revaluation of currency options	**–**	0.1
Changes in working capital:		
Decrease in debtors	**0.8**	2.8
Increase in creditors	**3.6**	1.5
Cash generated from operations	**54.3**	54.1

31 CONTINGENCIES

At 31 December 2012 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.

32 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	2012 £m	2011 £m
More than one but not more than five years	**0.4**	0.5
More than five years	**0.4**	0.8
	0.8	1.3

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	2012 £m	2011 £m
Within one year	**66.6**	65.4
More than one but not more than five years	**213.1**	219.2
More than five years	**209.0**	225.8
	488.7	510.4

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

Other commitments

At 31 December 2012 the Group had contracted capital expenditure of £2.3 million (2011: £nil). There were no authorised financial commitments which were yet to be contracted with third parties (2011: none).

33 BUSINESS DISPOSALS

Wyatt Media Group

On 31 May 2011, the Group disposed of its interests in Wyatt Media Group, comprising five subsidiaries and two associates. All of the corporate entities sold were previously reported in the "Other Investments" division. The entities were disposed of in a share-for-share exchange with Nyheter 24 (a Swedish on-line news and media business) and the Group received a 20% interest in Nyheter 24 following the transaction. In addition the Group received a £0.5 million convertible loan note.

	£m
Net assets disposed of:	
Investments in associates	1.5
Property, plant and equipment	0.1
Trade and other receivables	0.4
Cash and cash equivalents	0.1
Trade and other payables	(0.5)
	1.6
Gain on disposal of subsidiaries and associates	0.5
Costs of disposal	0.3
Total consideration	2.4
Satisfied by:	
Convertible loan notes received	0.5
Shares in Nyheter 24 (note 17)	1.9
	2.4
Net cash inflow arising on disposal:	
Cash consideration	–
Cash and cash equivalents disposed of	(0.1)
	(0.1)

Profit on disposal of subsidiaries and associates	2012 £m	2011 £m
Disposal of the Wyatt Media Group	–	0.5
Release of provisions and guarantees in relation to corporate disposals made in prior years	–	1.7
	–	2.2

34 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*
Apex Tower Limited
Coventry House Limited
Endicott Sweden AB
Frères Peugeot SCI**
Great West House Limited
Grossglockner Sàrl*
Ingrove Limited
Kapellen Sàrl*
Museion Förvaltnings AB***
Naropere Sàrl*
New Printing House Square Limited
NYK Investments Limited
Spring Gardens Limited
Spring Mews Limited
Vänerparken Property Investment KB***
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 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.

35 RELATED PARTY TRANSACTIONS

Associates and Joint Ventures

A Group company provided accounting services to Bulgarian Land Development plc, an associate of the Group, for which a charge of £48,000 was made (2011: £48,000), of which £nil (2011: £15,000) remained outstanding at the balance sheet date.

In 2011, a Group company charged Catena AB, an associate of the Group, £74,700 for management services provided by Henry Klotz, the Executive Vice Chairman of CLS Holdings plc. In relation to this transaction £nil (2011: £74,700) remained outstanding at the balance sheet date.

At 31 December 2012, the Group had a convertible loan of £473,140 (2011: £466,905), 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.

The Group had a one-third interest in a joint venture, Fielden House Investment Limited, which owed a loan to a Group company of £350,000 (2011: £350,000). Interest of £8,774 (2011: £8,750), receivable on this loan at a rate of 2.0% above base rate, was accrued in the year. Accrued interest of £87,531 (2011: £78,757) remained outstanding at the balance sheet date.

On 12 January 2012, the Group acquired a 16.64% interest in Cood Investments AB ("Cood"), for £4.1 million, and also provided to Cood up to £8.0 million of lending facilities at market rates. This was a related party transaction as: first, the trust in which Sten Mortstedt, Executive Chairman of CLS Holdings plc, is beneficially interested (the "Trust") simultaneously acquired at the same price per share an 8.39% in, and provided lending facilities on the same terms to, Cood; and, second, Christer Sandberg, who is a director of certain Group companies, owned 7.5% of the enlarged equity of Cood. At the balance sheet date, loans to Cood from the Group were £4,525,110 (2011: £nil), and during the year interest of £42,920 (2011: £nil) was charged on these loans, of which £25,270 (2011: £nil) was outstanding at the balance sheet date. The Group also charged Cood fees of £44,555 (2011: £nil) relating to the arrangement of these loans. As a result of overpayment of these fees, a balance of £9,580 (2011: £nil) was owed to Cood at the balance sheet date.

Transactions with Directors

Distributions totalling £7,737,720 (2011: £6,718,039) 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 £37,270 (2011: £19,000), and in 2011 to another Group company, Förvaltnings AB Klio ("Klio"), at a cost of £19,000. At the balance sheet date Vänerparken had signed an agreement to lease the office space until 31 December 2014 at a cost of £37,270 per annum. Also, a company owned by Sten Morstedt purchased accountancy services from Vänerparken during the year amounting to £8,950 (2011: £5,000), and in 2011 from Klio for £5,000. In relation to all of these transactions, no balances were outstanding at the balance sheet date (2011: £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 39 to 45.

	2012 £000	2011 £000
Short-term employee benefits	**1,960**	1,735
Post-employment benefits	**20**	19
	1,980	1,754

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

We have audited the group financial statements of CLS Holdings plc for the year ended 31 December 2012 which comprise the group statement of comprehensive income, the group balance sheet, the group statement of changes in equity, the group statement of cash flows and the related notes 1 to 35. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities on pages 37 and 38, the Directors are responsible for the preparation of the group 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 group 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.

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 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.

OPINION ON FINANCIAL STATEMENTS

In our opinion the group financial statements:

- give a true and fair view of the state of the Group's affairs as at 31 December 2012 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

SEPARATE OPINION IN RELATION TO IFRSS AS ISSUED BY THE IASB

As explained in note 2 to the group financial statements, the Group in addition to complying with its legal obligation to apply IFRSs as adopted by the European Union, has also applied IFRSs as issued by the International Accounting Standards Board (IASB).

In our opinion the group financial statements comply with IFRSs as issued by the IASB.

OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial year for which the group financial statements are prepared is consistent with the group financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following:

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

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement contained within the Directors' Report in relation to going concern;
- the part of the Corporate Governance Statement relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the Board on directors' remuneration.

OTHER MATTER

We have reported separately on the parent company financial statements of CLS Holdings plc for the year ended 31 December 2012 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mark Beddy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London

4 March 2013

COMPANY BALANCE SHEET – UK GAAP

at 31 December 2012

	Notes	2012 £m	2011 £m
Fixed assets			
Investment in subsidiary undertakings	5	**150.4**	133.7
Current assets			
Trade and other receivables	6	**111.7**	49.4
Cash and cash equivalents		**11.2**	18.0
Total assets		**273.3**	201.1
Current liabilities			
Trade and other payables	7	**(2.0)**	(1.9)
Non-current liabilities			
Borrowings	8	**(92.2)**	(27.5)
Total liabilities		**(94.2)**	(29.4)
Net assets		**179.1**	171.7
Equity			
Called up share capital	9	**12.0**	12.5
Share premium	10	**71.5**	71.5
Other reserves	11	**26.3**	25.8
Profit and loss account	11	**69.3**	61.9
Shareholders' funds		**179.1**	171.7

These financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 4 March 2013 and were signed on its behalf by:

Mr S A Mortstedt
Director

Mr E H Klotz
Director

The notes on pages 84 to 87 are an integral part of these financial statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP

at 31 December 2012

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 32.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Investment in Group companies

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

2.2 Pension costs

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

2.3 Share capital

Ordinary shares are classified as equity.

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

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

2.4 Related party transactions

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

There were no other related party transactions during the year.

2.5 Foreign currency

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

3 PROFIT FOR THE FINANCIAL YEAR

As permitted by Section 408 of the Companies Act 2006, the Company's profit and loss account has not been presented in these financial statements. The Company's retained profit for the financial year was £20.0 million (2011: £50.4 million).

Audit fees for the Company were £0.2 million (2011: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Report on pages 39 to 45.

4 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 16 March 2012 for the purchase of 1 in 42 shares at 735 pence per share was completed in April. It returned £7.9 million to shareholders, equivalent to 17.5 pence per share.

A tender offer by way of a Circular dated 24 August 2012 for the purchase of 1 in 76 shares at 805 pence per share was completed in September. It returned £4.6 million to shareholders, equivalent to 10.6 pence per share.

A further tender offer will be put to shareholders in April 2013 for the purchase of 1 in 46 shares at a price of 900 pence per share which, if approved, will return £8.5 million to shareholders, equivalent to 19.6 pence per share.

5 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

	2012 £m	2011 £m
At 1 January	**133.7**	105.5
Additions	**17.1**	28.9
Disposals	**(0.4)**	–
Provision for impairment	**–**	(0.7)
At 31 December	**150.4**	133.7

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

	2012 £m	2011 £m
Current		
Amounts owed by subsidiary undertakings	**111.5**	49.4
Prepayments and accrued income	**0.2**	–
	111.7	49.4

7 TRADE AND OTHER PAYABLES

	2012 £m	2011 £m
Current		
Amounts owed to subsidiary undertakings	**0.1**	–
Accruals	**2.1**	2.1
Arrangement fees	**(0.2)**	(0.2)
	2.0	1.9

8 BORROWINGS

	2012 £m	2011 £m
Unsecured bonds	**93.4**	28.0
Arrangement fees	**(1.2)**	(0.5)
	92.2	27.5

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

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

9 CALLED UP SHARE CAPITAL

	Number					
	Ordinary shares in circulation	Treasury shares	Total ordinary shares	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
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**

	Number					
	Ordinary shares in circulation	Treasury shares	Total ordinary shares	Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
At 1 January 2011	46,588,244	4,793,000	51,381,244	11.7	1.2	12.9
Cancelled following tender offer	(1,624,530)	–	(1,624,530)	(0.4)	–	(0.4)
Purchase of own shares:						
– pursuant to market purchase	(10,103)	10,103	–	–	–	–
At 31 December 2011	44,953,611	4,803,103	49,756,714	11.3	1.2	12.5

Ordinary shares have a nominal value of 25 pence each.

10 SHARE PREMIUM

	2012 £m	2011 £m
At 1 January and at 31 December	**71.5**	71.5

11 PROFIT AND LOSS ACCOUNT AND OTHER RESERVES

	Other reserves			
	Capital redemption reserve £m	Other £m	Total £m	Profit and loss account £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**

	Other reserves			
	Capital redemption reserve £m	Other £m	Total £m	Profit and loss account £m
At 1 January 2011	20.8	4.6	25.4	23.3
Purchase of own shares	0.4	–	0.4	(11.7)
Expenses thereof	–	–	–	(0.1)
Profit for the year	–	–	–	50.4
At 31 December 2011	21.2	4.6	25.8	61.9

12 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2012 £m	2011 £m
Balance at 1 January	**171.7**	133.1
Profit for the year	**20.0**	50.4
Purchase of own shares	**(12.6)**	(11.8)
Balance at 31 December	**179.1**	171.7

13 CONTINGENCIES

At 31 December 2012 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 2012, the Company had no contracted capital expenditure (2011: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2011: £nil).

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

We have audited the parent company financial statements of CLS Holdings plc for the year ended 31 December 2012 which comprise the parent company balance sheet and the related notes 1 to 14. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Statement of Directors' Responsibilities on pages 37 and 38, the Directors are responsible for the preparation of the parent company 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 parent company 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.

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 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.

OPINION ON FINANCIAL STATEMENTS

In our opinion the parent company financial statements:

- give a true and fair view of the state of the parent company's affairs as at 31 December 2012;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 Directors' Report for the financial year for which the financial statements are prepared is consistent with the parent company financial statements.

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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 and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

OTHER MATTER

We have reported separately on the group financial statements of CLS Holdings plc for the year ended 31 December 2012.

Mark Beddy (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London

4 March 2013

FIVE YEAR FINANCIAL SUMMARY

31 December 2012

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Group revenue	**80.2**	80.1	79.1	76.3	81.6
Net rental income	**62.9**	63.0	59.7	57.7	64.6
Income from non-property activities	**–**	0.8	4.3	3.8	3.9
Administration expenses	**(10.5)**	(12.1)	(13.0)	(12.2)	(16.1)
Other expenses	**(2.9)**	(2.2)	(2.2)	(3.3)	(8.2)
Group revenue less costs	**49.5**	49.5	48.8	46.0	44.2
Net movements on revaluation of investment properties	**16.2**	18.0	30.1	(6.7)	(103.3)
(Loss)/gain on sale of corporate bonds and other investments	**(0.4)**	0.5	9.3	1.9	–
Profit on sale of investment properties	**–**	–	–	0.3	7.0
Profit/(loss) on sale of subsidiaries/joint venture/associates	**–**	2.2	–	–	(16.2)
Impairment of intangible fixed assets and goodwill	**–**	–	–	–	(22.0)
Operating profit/(loss)	**65.3**	70.2	88.2	41.5	(90.3)
Finance income	**10.6**	12.2	6.1	6.6	8.7
Finance costs	**(25.6)**	(47.7)	(31.1)	(32.1)	(51.7)
Share of profit/(loss) of associates after tax	**5.8**	3.0	7.7	2.5	(7.5)
Other non-recurring costs	**–**	–	–	–	(1.3)
Profit/(loss) before tax	**56.1**	37.7	70.9	18.5	(142.1)
Taxation	**(9.4)**	1.1	(10.8)	(1.1)	64.1
Profit/(loss) for the year	**46.7**	38.8	60.1	17.4	(78.0)
Share buy-backs paid and proposed	**13.1**	12.3	11.2	6.0	59.0
Net Assets Employed					
Non-current assets	**1,110.5**	1,037.0	1,018.6	944.2	869.1
Current assets	**115.2**	67.3	59.8	80.7	205.9
	1,225.7	1,104.3	1,078.4	1,024.9	1,075.0
Current liabilities	**(172.2)**	(182.9)	(123.1)	(164.3)	(133.9)
Non-current liabilities	**(636.4)**	(553.9)	(598.1)	(551.6)	(602.5)
Net assets	**417.1**	367.5	357.2	309.0	338.6

Ratios	2012	2011	2010	2009	2008
Net assets per share (pence)	**963.1**	817.5	766.7	643.3	548.4
EPRA net assets per share (pence)	**1,154.4**	983.1	952.9	825.8	698.4
Earnings/(loss) per share (pence)	**106.0**	82.0	127.1	36.4	(120.6)
EPRA earnings per share (pence)	**65.3**	64.9	42.5	28.0	28.4
Net gearing (%)	**111.6**	131.9	130.4	147.4	117.9
Adjusted net gearing (%)	**92.7**	109.3	104.6	114.8	92.6
Recurring interest cover (times)	**3.89**	2.63	3.15	2.08	1.08

GLOSSARY OF TERMS

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

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

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

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

RECURRING INTEREST COVER
The aggregate of group revenue less costs plus share of results of associates, divided by the aggregate of interest expense and amortisation of issue costs of debt, less interest income

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)
Richard Tice (Chief Executive Officer)
John Whiteley (Chief Financial Officer)
Malcolm Cooper * † ‡ (Non-Executive Director)
Joseph Crawley (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)

* member of Remuneration Committee
† member of Audit Committee
‡ Senior Independent Director

Company Secretary
David Fuller BA, FCIS

Registered Office
86 Bondway
London
SW8 1SF

Registered Number
2714781

Registrars and Transfer Office
Computershare Investor Services Plc
PO Box 82
The Pavilions
Bridgwater Road
Bristol
BS99 7NH

Shareholder Helpline: 0870 889 3286

CLS Holdings plc on line:
www.clsholdings.com

email:
enquiries@clsholdings.com

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

Financial Advisers
Kinmont Limited
5 Clifford Street
London
W1S 2LJ

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

Charles Stanley Securities
131 Finsbury Pavement
London
EC2A 1NT

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

Financial and Corporate Public Relations
Smithfield Consultants Limited
10 Aldersgate Street
London
EC1A 4HJ

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CLS Holdings plc

86 Bondway
London
SW8 1SF

Tel: +44 (0)20 7582 7766
Fax: +44 (0)20 7828 0960
email: enquiries@clsholdings.com

www.clsholdings.com