CLS

# CLS Holdings plc
## Annual Report & Accounts
## 2010

# CORPORATE OVERVIEW

- Shareholders' funds of £357 million
- EPRA net assets of £442 million
- £877 million of office properties across London, France, Germany and Sweden
- Top 3 property company total shareholder return performance in the last 10 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

1 Unterschleissheim, Munich
2 Spring Gardens, London
3 CI Tower, New Malden

# INVESTORS IN EUROPEAN COMMERCIAL PROPERTY

- CLS is a property investment company which has been listed on the London Stock Exchange since 1994
- We own and manage a diverse portfolio of £0.9 billion of modern, well-let office properties in London, France, Germany and Sweden
- Our properties have been selected for their potential to add value and to generate high returns on capital investment

## CONTENTS

# HOW WE OPERATE

## Our goal is to create long-term shareholder value

We aim to achieve this by:

- Purchasing modern, high quality, well-let properties in good locations in selected European cities
- Working closely with our tenants to provide high quality accommodation at competitive rates
- Minimising vacant space within the portfolio
- Using in-house teams to manage, refurbish or redevelop properties
- Creating value through new developments
- Responding quickly to changes in macro-economic conditions
- Actively managing an appropriate level of liquid resources
- Maintaining strong links with a wide variety of banks and other sources of finance

## Key Performance Indicators

**Total Shareholder Return**

Aim – to provide a TSR of over 12% per annum over the medium term

Achievement
– 2008-2010: 52%, or 14.9% p.a.
– 2001-2010: 247%, or 9.5% p.a.

**Effective management of balance sheet**

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

Achievement
– 2006 to 2010: £746 million of property sales
– 2010: £36.4 million of acquisitions yielding an average initial return on equity of 15.8%

**Occupancy rate**

Aim – to maintain an occupancy level of over 95%

Achievement
– 2010: 95.7%
– 2009: 95.5%

**Administration cost ratio**

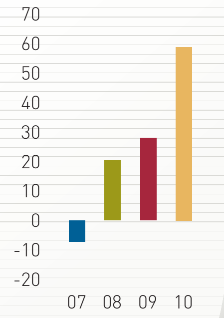
Aim – to maintain administration costs below 15% of net rental income

Achievement
– 2010: 15.6%
– 2009: 14.9%

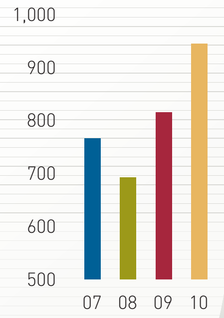
# Financial highlights 2010

- **Profit before tax: up 283%** to £70.9 million (2009: £18.5 million)
- **Net assets: up 16%** to £357.2 million (2009: £309.0 million)
- **Net assets per share: up 19%** to 766.7 pence (2009: 643.3 pence)
- **Earnings per share: up 249%** to 127.1 pence (2009: 36.4 pence)
- **EPRA net assets: up 13%** to £441.6 million (2009: £390.2 million)
- **EPRA earnings per share: up 110%** to 58.8 pence (2009: 28.0 pence)
- **EPRA net assets per share: up 16%** to 941.8 pence (2009: 812.5 pence)
- **Proposed distribution to shareholders: £7.1 million** (April 2010: £6.0 million) by way of tender offer buy-back: 1 in 46 at 700 pence, equivalent to 15.2 pence per share
- **Low weighted average cost of debt: 4.3%** (2009: 4.0%)
- **Adjusted solidity: up 8%** to 41.2% (2009: 38.3%)
- **Adjusted gearing 124%** (2009: 135%)
- **Interest cover up 52%** to 3.2 times (2009: 2.1 times)

EPRA EARNINGS PER SHARE (PENCE)



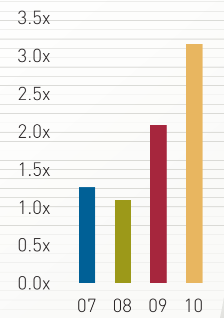

EPRA NET ASSETS PER SHARE (PENCE)




# Other key data

- **Top 3 performer in UK listed property sector total shareholder return over 3 years and 10 years:** 52% and 247%, respectively
- **Portfolio value: £876.9 million –** up 3.5% in local currencies
- **Proportion of Government tenants: 40.8%**
- **Occupancy rate: 95.7%**
- **Liquid resources: £126.4 million**
- **Catena 29.9% shareholding: market value £50.6 million,** book value £29.6 million
- **Indexation applies to 66% of contracted rent**

RECURRING INTEREST COVER (NO. OF TIMES)



# Developing well

The Group has a strong balance sheet, experienced management, diversity and medium-term development potential within a robustly cash-generative business

## Well managed

- **Good returns to shareholders**
  In the ten years to the end of 2010, total shareholder return was 247%, one of the best performances in the listed property sector
- **High occupancy rate**
  Notwithstanding the economic pressures across Europe we maintained a low vacancy rate throughout 2010, beginning the year at 4.5% by rental income and ending it at 4.3%
- **High debt collection**
  Our debt collection rates consistently exceeded 90% within a few days of the due date during the year
- **Effective cash management**
  At a time of benign interest rates we invested in corporate bonds which produced a return on capital employed of 16.3% in the year, and 29.3% per annum over two years

# Strongly positioned

→ **Longevity of income**
95.7% of the portfolio is let, with a weighted average lease term of 8.4 years, including 10.1 years in London

→ **High quality of income**
41% of the rent roll is contracted to governmental organisations, and a further 28% to major corporations

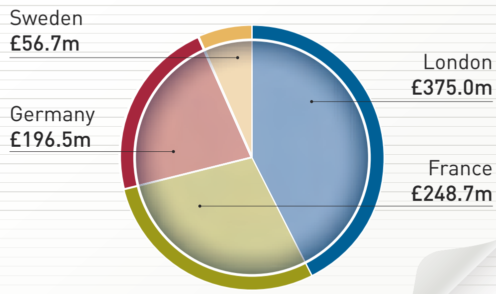
→ **Indexation of income**
66% of contracted rent is subject to indexation

→ **Low weighted average cost of debt**
Our weighted average cost of debt at the year end was 4.3%, with 84% of our debt at fixed rates or hedged

→ **Improving interest cover**
Our recurring interest cover is running at 3.2 times, up from 2.1 times in 2009

→ **Solid asset base**
At the year end we held cash and other liquid resources of £126 million and investment properties worth £877 million

**PROPERTY VALUES BY GEOGRAPHY**




# Diversified

→ **Geographical**
We are invested in four areas – London, France, Germany and Sweden – and operate in three currencies

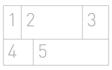
→ **Financing**
We have banking relationships with 20 banks, and actively explore a range of options to secure ongoing financing requirements

→ **Asset mix**
We own 71 properties containing 381 tenants in a total lettable area of 407,000 sq m

→ Diversified portfolio – 4 markets

→ Specialist in high-yielding offices

→ Focused on cash-on-cash returns




1 Spring Gardens, London
2 Gräfelfing, Munich
3 23/27 Rue Pierre Valette Malakoff, Paris
4 Planegg, Munich
5 Spring Gardens, London

# CHAIRMAN'S STATEMENT

## These excellent results demonstrate how the Group continues to benefit from its diversity

### OVERVIEW

The Group delivered a strong financial and operating performance overall in 2010, continuing the progress of the first half of the year. Pre-tax profit rose by over 280% to £70.9 million, earnings per share on an EPRA basis were 58.8 pence (2009: 28.0 pence) and EPRA net asset value increased by 16% to 941.8 pence per share.

This has all been achieved despite difficult conditions throughout the year, with a backdrop of austerity, a challenging macro-economic and political situation and increasing uncertainty over the sovereign debt of certain Eurozone economies.

We have used this period in the property cycle to start buying property again. We have been successful in letting premises and keeping the vacancy rate low, whilst beginning to progress a number of short to medium-term development opportunities within our portfolio. In addition, our property values are rising again across our regions and we continue to raise finance competitively.

These excellent results demonstrate how the Group continues to benefit from its diversity of exposure to four different economies, three different currencies, some twenty different banks and 381 tenants. This diversification has proved to be a key element to our success.

We constantly seek to manage down risk, whilst striving for attractive returns for shareholders. The obvious success of our policy is demonstrated by our total shareholder return of 52% over the last three years and 247% over the last ten, which makes CLS a top 3 performer in the UK listed property sector over both periods.

### PORTFOLIO

Overall, the portfolio performed solidly during 2010, with a like-for-like valuation increase of 3.5% in local currency. The benefit of our diversification across markets is self-evident: the London portfolio increased by 1.3%, France by 7.5%, and Germany by 4.2%, whilst Sweden fell by 1.2%. Acquisitions during the year, in London and in Paris, totalled £36.4 million and, after a negative currency impact of £8.4 million, the total portfolio is now valued at £876.9 million.

The portfolio consists of 71 properties totalling 407,700 sq m. The average capital value is £2,151 per sq m and the average income of leased space is £169 per sq m.

The net initial yield of 7.2% compares to a low average cost of debt of 4.3%, a positive differential of 290 basis points which continues to be amongst the highest in the property sector. It is a further strength of our portfolio that 66% of our rents are subject to indexation which will prove to be valuable in times of higher inflation ahead.

The encouraging signs in the letting market which I indicated in the interim report have continued, and the vacancy rate is 4.3% by rental value (2009: 4.5%). This remains well below the average vacancy for offices in our markets and is testament to the success of our staff in proactively managing the properties, developing good working relationships with tenants and responding to their needs.

The rental income is diversified yet secure, with 41% being paid by Government tenants and 28% by major corporations. Our weighted average lease length is 8.4 years, or 7.3 years to first break.

During the second half we announced two substantial pre-lets of developments totalling 5,042 sq m for existing tenants in Germany. Construction is planned to start in 2011 and, when completed, these will generate £0.5 million of new rent.

Our indirect investment in Swedish property, through our 29.9% holding in listed property company Catena, performed exceptionally well during the year. We received dividends of £9.9 million whilst the share price increased by 104%. At 31 December 2010 our holding in Catena had a market value of £50.6 million compared to the carrying value in our accounts of £29.6 million, and at 4 March 2011 the value of our holding had risen by a further £14 million. The potential surplus value of £21 million equated to 45 pence per CLS share as at the year end, and has since risen to over 74 pence per share. Towards the end of 2010, Catena took advantage of the high property prices in Sweden to sell a substantial part of its property portfolio. From the proceeds, Catena has proposed, subject to shareholder approval, to distribute SEK 59 per share in April 2011, from which CLS would receive approximately £20 million in cash.

Catena's future focus is on the development of the remaining properties in Stora Frösunda, Solna, where building rights for housing, offices and commercial premises will be created when the new zoning plan for the area is approved. Outline planning permission is anticipated to be for approximately 150,000 sq m comprising of 1,000 apartments and 50,000 sq m of commercial area.

In February 2011, we launched a consultation for a major 110,000 sq m mixed use medium-term redevelopment at our HQ site in Vauxhall. Further details can be found in the Business Review. We are also working on redevelopment proposals for two other, smaller sites in Vauxhall.

### RESULTS

Profit after tax rose by 245% to £60.1 million (2009: £17.4 million). This includes gains of £10.7 million on the disposal of corporate bonds. Basic earnings per share were 127.1 pence (2009: 36.4 pence).

Net assets rose to £357.2 million, an increase of £48.2 million, and EPRA net assets rose by £51.4 million to £441.6 million. Our basic net assets per share increased by 19% to 766.7 pence (2009: 643.3 pence).

Recurring interest cover for the year increased by 52% to 3.2 times (2009: 2.1 times). The Group's property loan to value ratio was 63.5% and net debt as a proportion of adjusted net assets was 123.6%.

## FINANCING

Our strategy of ring-fencing our debt on individual properties and using some 20 different banks, continues to serve us well. Despite the widely reported challenges in the banking sector, we have successfully refinanced £80.3 million of debt and raised £22.4 million of new debt and since 1 January 2011 we have agreed the refinancing of a further £24.7 million of debt. In addition, we have entered into £205.6 million of interest rate caps with start dates between November 2010 and May 2011, of which £182 million have a strike rate of 2.5%. This will protect the Group from the risk of interest rate rises in the next five years.

The weighted average loan length is 4.9 years. We generally approach over ten banks for any financing and actively explore a range of options to secure our ongoing finance requirements. We enjoy strong relationships with our banks, to our mutual benefit.

Our balance sheet is strong with adjusted solidity of 41.2% and we have healthy liquid resources, with £126 million of cash and investments available for deployment. We have continued to invest surplus cash into corporate bonds as a cash management technique to generate higher returns whilst maintaining liquidity. At the year end, the Group held £78.1 million of bonds, which were generating an annual coupon of 8.3% on average.

## ENERGY EFFICIENCY

Energy efficient buildings are both commercially beneficial and socially desirable. We continue to incorporate environmentally efficient features in our developments and convert or modify properties when possible. At Vänerparken in Sweden, for example, we are installing a new energy facility which will produce heating, cooling and hot water whilst decreasing $CO_2$ and other emissions by approximately 90%. In addition we are reviewing the performance of our existing plants and systems across the portfolio to identify further potential improvements. The short payback period on such investments can lead to valuable cost savings for tenants and for the Group.

## DISTRIBUTIONS TO SHAREHOLDERS

In April 2010 we distributed £6.0 million by means of a tender buy-back of shares, and in September a further £4.0 million. We intend to continue our traditional tender buy-back method by distributing £7.1 million to shareholders in April 2011, subject to shareholder approval, by means of a buy-back of 1 in 46 shares at 700 pence per share. A document setting out details of the tender offer will be posted to shareholders with our Annual Report and Accounts.

## BOARD CHANGES

On 11 May 2010 Richard Tice and Jennica Mortstedt joined the Board as Deputy Chief Executive and Non-Executive Director, respectively, whilst Bengt Mörtstedt retired as a Non-Executive Director. I thank my brother Bengt for his many years of service and wise counsel to the Group.

On 1 January 2011, Henry Klotz became Executive Vice Chairman, Richard Tice became Chief Executive Officer and Thomas Lundqvist moved from Vice Chairman to Non-Executive Director. These changes are designed to ensure the Group has the appropriate management structure to take it forward.

We have strong teams across the Group and I would like to express my considerable thanks to my Board colleagues and our staff for all their efforts and hard work towards our continued success.

## OUTLOOK

The economic signals have rarely been more mixed. In an era of government austerity, inflation is rising, credit is tightening and sovereign debt is a concern. Also the signals from the property sector are mixed: we are letting space, arrears are negligible and interest rates are at all time lows; yet, due to the banks' restrictive credit policies, there are fewer buyers for high-yielding property.

Therefore, we intend to maintain high reserves of liquidity while, on a selective basis, continuing to actively exploit attractive property acquisitions as they arise. Meanwhile, we shall progress some very interesting short and medium-term development opportunities within our portfolio which have the potential to add significant further value.

I am pleased with the strong performance in 2010 and with the fact that the Group is in an excellent position to meet any challenges and opportunities that lie ahead.

**Sten Mortstedt**
Executive Chairman

# The low void rate of 4.3% is a strong reflection on the focus on active management and responding to tenants' needs

The Group's main activity is in commercial real estate across four European regions: London, France, Germany and Sweden. At 31 December 2010, the Group's property interests of £927.5 million comprised the directly owned investment property portfolio valued at £876.9 million, and an additional property exposure in Sweden via an associate listed on the Stockholm Stock Exchange, property company Catena AB, which investment had a market value of £50.6 million. The remaining Other Investments comprised investments in corporate bonds which had a book value of £78.1 million at the year end, and Bulgarian Land Development Plc, website media company Wyatt Media Group AB and other small corporate investments, which together had a book value of £14.5 million.

## INVESTMENT PROPERTY

**OVERVIEW** The Group's core focus is on providing well-managed, cost-effective offices and commercial real estate for companies in key European cities across four countries.

At 31 December 2010, the directly held investment portfolio was valued at £876.9 million, a like-for-like increase in the year of 3.5% in local currencies, or 2.5% after reflecting foreign exchange movements against sterling. In local currency, the French portfolio rose in value by 7.5%, Germany by 4.2% and London by 1.3%, whilst Sweden fell by 1.2%.

The portfolio had a net initial yield of 7.2%, with 381 tenants and a weighted average lease length of 8.4 years, or 7.3 years to the first break. Of the contracted rent of £65.0 million, 66% was subject to indexation.

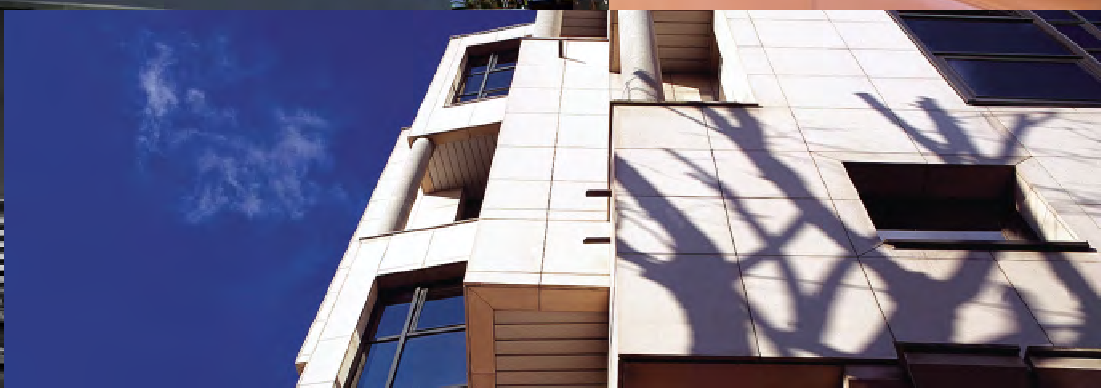
The overall Group vacancy rate continued to be low at 4.3%, below the 5 year average of 4.7%. This low void rate is a strong reflection on the Group's focus on actively managing our portfolio, with our in-house asset and property management teams responding to tenants' needs.

The property investment markets saw fewer buyers for high-yielding property in 2010, which provided opportunities for acquisitions. In London, the Group acquired Apex Tower, New Malden for £21.6 million, and the strategic acquisition of 100 Vauxhall Walk, SE11 for £1.8 million to complete a development site assembly. These were followed by the purchase in Paris of Colt Group's French subsidiary headquarters for £13.0 million.

1 Chancel House, London
2 Cambridge House, London
3 Chancel House, London
4 Forum, Lyon
5 58 Avenue Général Leclerc, Paris







LONDON

**At 31 December 2010, the London portfolio represented 40% of the Group's property interests with a value of £375.0 million. This was an increase of 1.3% on a like-for-like basis from twelve months earlier, and reflected a variety of asset management initiatives throughout the portfolio. The London portfolio had a strong tenant profile with 53% by rental value let to government tenants, and 29% to major corporations. The income had a weighted average lease term of 10.1 years, or 9.6 years to the first break.**

"Substantial regeneration is going to occur in the Vauxhall and Nine Elms area."

At 31 December 2010, the London portfolio comprised 28 properties with an aggregate lettable area of 127,700 sq m.

Against a backdrop of austerity and recession, the London vacancy rate of 4.7% by rental income was well below the average for comparable property. During the year, 8,112 sq m of property became vacant, and 6,632 sq m was let or had leases renewed with existing tenants.

As a long-term owner of properties we have continued a programme of renovation and refurbishments to a number of buildings in the London portfolio, totalling £0.4 million in aggregate in the year. This included £0.3 million at Westminster Tower, where the common parts and four recently vacated lower floors are under refurbishment, which should improve rental values. Rent reviews were settled at Spring Gardens, Westminster Tower, Cambridge House and CI Tower with a total increase of £0.2 million. Activity of note included a significant lease renewal with, and an additional letting to, Flight Centre at CI Tower totalling 1,497 sq m, and new lettings and lease renewals at Clifford's Inn on 2,937 sq m.

Through our close relationships with tenants we have again achieved excellent levels of debt recovery. On average we received 98% of rent and service charge within 14 days of the due dates.

In November, the Group acquired Apex Tower, New Malden for £21.6 million, including costs. Apex Tower is located on the opposite side of the High Street to CI Tower. This provides a number of medium-term asset management opportunities across the two properties, which, together with their large car parks, cover a total of two acres, directly adjacent to a busy railway station. Apex Tower consists of 9,015 sq m of offices on 15 upper floors, four retail units and a public house at ground floor level (1,202 sq m) and a four storey car park at the rear. The building is fully let and produces £1.9 million of income p.a., of which 94% is from a lease to BAE Systems on the whole of the offices and expiring in June 2020; the retail tenants include Tesco Stores and William Hill Organisation. On acquisition, the net initial yield to CLS was 8.66% and with debt financing the initial return on equity was 16.1% p.a.

In the medium term, substantial regeneration is going to occur in the Vauxhall and Nine Elms area, which is the location of the new United States embassy, due to open in 2016. The Group has substantial landholdings in Vauxhall, including three potential development sites. The largest of these is the three acre Cap Gemini site at Vauxhall Cross, close to Vauxhall mainline, underground and bus stations. This site is identified by the GLA and Lambeth Council as being suitable for tall buildings in the Vauxhall Nine Elms Opportunity Area. In February 2011, following discussions with a number of key stakeholders, the Group made public proposals for a major mixed use redevelopment scheme on this site, including a large new public square for Vauxhall.

These plans aim to provide over 110,000 sq m gross area, including shops, offices, a hotel, a multi-screen cinema, restaurants and bars, together with two 43 storey towers of residential apartments and student housing. In addition the Group has proposed an aerial Linear Walk to improve the public realm for pedestrians in the Vauxhall Cross area. The aim is to submit for planning permission for this large scheme by the end of 2011, and vacant possession of the site is expected in 2014.

The Group's development sites in Vauxhall are important projects in an improving area offering strong potential for adding value to substantial holdings.


## FRANCE

**The French portfolio was valued at £248.7 million, which represented 27% of the Group's property interests across its four key regions. The portfolio increased in value by 7.5% in the year in local currency on a like-for-like basis. There were no disposals from the French portfolio in the year, which at the year end comprised 26 properties of 96,500 sq m with 171 tenants. 21% of the French portfolio was let to government tenants, most tenancies were of the traditional French 3:6:9 year duration, and the weighted average lease length at 31 December 2010 was 5.9 years, or 3.1 years to the first break.**

In October the Group acquired 23/27 Rue Pierre Vallette, in the southern Parisian suburb of Malakoff, for £13.0 million. The building is let to Colt Group SA, a FTSE 250 company specialising in fibre optic networks, on an indexed lease until September 2018 with no breaks. The 10,776 sq m office and industrial property produces €1.1 million p.a., which equates to €104 per sq m and represented an initial yield of 7.38% to CLS. With the debt finance, the initial return on equity was 15.26% p.a. The building is close to the Quatuor office property already owned by CLS in Montrouge.

In the French portfolio there were 16,080 sq m of new lettings or renewals, and tenants vacated 15,463 sq m; the resulting year end vacancy rate was 3.6% by rental value. The letting of 1,131 sq m at Le Debussy, Paris was noteworthy, together with two sizeable lettings in Forum and Rhone Alpes, Lyon totalling 1,026 sq m, which meant that at the year end all five Lyon properties were fully let.

The refurbishment and renovation across the portfolio totalled £2.5 million, of which the major works were at Le Sigma, Paris involving new heating and cooling systems.

The French investment market recovered well in 2010, with circa €12.1 billion of transactions. The supply of vacant space has reduced to 7.2% in the Paris region and with very little new construction under way, rents are stabilising for well managed, cost-effective offices. We expect to start to see some rental growth in 2011 in certain locations. The lack of new construction is a feature common to all our regions and is likely to remain so until speculative construction becomes less difficult to finance.


## GERMANY

**At 31 December 2010, the German portfolio was valued at £196.5 million, being 21% of the Group's property interests. These 16 properties saw an increase in value of 4.2% in local currency on a like-for-like basis, and comprised 138,000 sq m of lettable space with 83 tenants on a weighted average lease term of 9.6 years, or 9.3 years to the first break. 18% of the contracted rent was from government tenants.**

During the year tenants vacated 15,689 sq m, and lettings or lease renewals were achieved in 16,889 sq m, resulting in a void rate of 5.5% by rental value, well below the national vacancy rate for offices of 10.6%.

During the second half of 2010 we proved the benefit of working closely with tenants with the signing of two pre-lets. First, the entire 3,400 sq m of the Phase 4 office development in Landshut, which is to be completed by the summer of 2012, was let on a 17.5 year, index-linked lease with no breaks to E.ON Service Plus GmbH, at a starting rent of £0.4 million per annum. Second, the Group agreed to develop a further 1,642 sq m of space at its office and light industrial property Gräfelfing, in Munich, for its existing single tenant Dr. Hönle AG. The new space is to be completed by the end of 2011, and has been let, together with the existing space, on an index-linked lease until October 2020 with no breaks, to form an 8,527 sq m complex.

Notable activity in Hamburg included letting 1,513 sq m at Fangdieckstrasse to a fast growing medical group, and a lease renewal for 4,153 sq m at Merkurring.

Germany's GDP rebounded strongly in 2010, growing by 3.6% for the year, led by export growth. Activity in the German commercial investment property market increased to €19.4 billion in 2010, up 85%. The main investors were open-ended and closed-ended real estate funds which represented 63% of the market.

The office letting market increased in 2010, and there remained very limited development activity. We would thus expect to see the void rate fall in 2011 across most of the main German cities.

SWEDEN

**Our Swedish property interests comprised two elements which together represented 12% of the Group's property interests across its four key regions.**

First, the wholly owned 45,500 sq m of offices in Vänersborg, near Gothenburg, called Vänerparken. At 31 December 2010 this was valued at £56.7 million, a fall of 1.2% on a like-for-like basis. The local municipality has leased 91% of the space until 2015 and 2019 subject to annual indexation. The vacancy rate is just 2.0%.

The second element of the Group's exposure to Swedish real estate is through its 29.9% stake in the Stockholm-listed property company Catena AB, our associate which had an outstanding year of performance. During 2010 Catena sold a portfolio of properties in Norway, and since the year end it has sold the majority of its portfolio in Sweden, with the exception of one large site in Stockholm retained for its development potential. Planning permission is being sought for approximately 1,000 residential apartments and 50,000 sq m of commercial area and a decision is expected early in 2012.

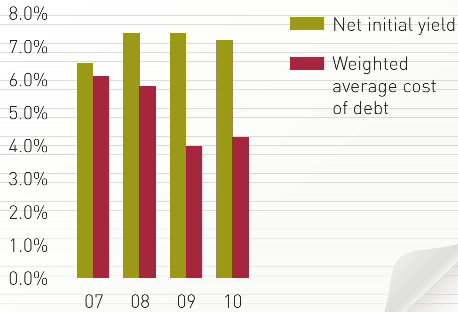
In the wake of this activity, the Group received dividends of £9.9 million from Catena in the year and the carrying value of the investment at the year end was £29.6 million. However, the market value of the Group's shareholding based on Catena's year end share price of SEK 153 was £50.6 million, and this uplift of £21.0 million, or 45 pence of NAV per CLS share, is not reflected in the CLS balance sheet. The return on capital of our investment in Catena in 2010 was 168%.

## OTHER INVESTMENTS

The corporate bond portfolio is part of the Group's long-term investment strategy in parallel with the ownership of long-term investment properties. During the year disposals of corporate bonds generated historical cost gains of £10.7 million, which are explained further below. Corporate bonds at the year end had a value of £78.1 million against an historical cost of £73.3 million. There were 30 different bonds held in the portfolio, spread across four different sectors – insurance, banks, industrials, and other – and with a coupon on year end value of 8.29%. This portfolio, which is summarised in the table on page 15 is actively monitored by our in house team and external advisers.

Bulgarian Land Development Plc, an associate, is an unquoted property company holding predominantly residential property assets in Bulgaria. CLS owns 48.3% of the company; during the second half of 2010 BLD returned capital to the Group of £2.0 million, leaving the remaining investment held at our share of net asset value of £9.4 million. Further returns of capital are expected upon future asset sales.

NET INITIAL YIELD Vs WEIGHTED AVERAGE COST OF DEBT (%)




“Our associate, Catena, had an outstanding year of performance.”

## RESULTS FOR THE YEAR

**HEADLINES** Profit after tax of £60.1 million (2009: £17.4 million) generated basic and diluted earnings per share of 127.1 pence (2009: 36.4 pence); EPRA earnings per share rose to 58.8 pence (2009: 28.0 pence). Gross property assets at 31 December 2010 were £876.9 million (2009: £813.0 million), basic net assets per share rose by 19% to 766.7 pence (2009: 643.3 pence) and EPRA net assets per share were 16% higher at 941.8 pence (2009: 812.5 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. Overall, as the euro was 3% to 4% weaker than in 2009, profits and net assets were comparatively around 2% lower as a result.

**EXCHANGE RATES TO THE £**

| | EUR | SEK |
|---|---|---|
| At 31 December 2008 | 1.0461 | 11.4474 |
| 2009 average rate | 1.1233 | 11.9290 |
| At 31 December 2009 | 1.1275 | 11.5689 |
| 2010 average rate | 1.1663 | 11.1221 |
| At 31 December 2010 | 1.1664 | 10.4828 |

**STATEMENT OF COMPREHENSIVE INCOME** In summary, profit before tax in the year ended 31 December 2010 of £70.9 million (2009: £18.5 million) comprised a surplus on revaluation of investment properties of £30.1 million (2009: deficit of £6.7 million), a share of profits of associates of £7.7 million (2009: £2.5 million), gains on disposals of corporate bonds and other investments of £9.3 million (2009: £1.9 million), a net negative movement in the fair value of derivatives of £3.1 million (2009: gain of £6.3 million), and a profit from the underlying property portfolio of £26.9 million (2009: £14.5 million).

Rental income for 2010 was £62.1 million, an increase of £1.5 million or 2.5% over 2009. Additions in France and London contributed £2.8 million of new rent, and developments in Germany a further £0.8 million. However, other factors partially countered these rises: the weakness of the euro reduced rents by £0.6 million, a one-off termination receipt inflated rents in 2009, and a significantly over-rented lease came to an end in 2009 with the space let at a market level for 2010.

In total, Group revenue less costs of £48.8 million was £2.8 million higher than in 2009, largely due to the higher rental income.

The net surplus on revaluation of investment properties in the year was £30.1 million (2009: deficit of £6.7 million). £17.8 million of this uplift came from the French portfolio with an underlying gain of 7.5% in local currency, £8.2 million was from Germany's 4.2% like-for-like uplift, and £4.8 million reflected a 1.3% rise in London. Our sole direct property investment in Sweden fell in value by £0.7 million, or 1.2%. The surplus on revaluation of investment properties is excluded in arriving at EPRA earnings per share.

Early in 2010, in response to a perceived shift in the risk profile of part of the corporate bond portfolio, we moved quickly to liquidate around half of our investments, and in doing so realised a gain of £10.7 million, which is the most significant element of the net gain on sale of corporate bonds and other investments of £9.3 million. The bond proceeds were gradually reinvested in bonds with a more appropriate risk profile. The bond portfolio is a cash investment tool intended to earn higher returns than bank deposits – in 2010 the return on capital employed from the bond portfolio was 16.3%.

Net finance costs in 2010 were £25.0 million (2009: £25.5 million). Within this number, interest payable of £24.0 million (2009: £28.5 million) was lower than the previous year due to around half of the Group's debt benefiting from floating interest rates, which were lower than in 2009. Interest income of £6.1 million (2009: £6.4 million) was marginally lower than last year reflecting lower levels of cash and liquid resources. Foreign exchange variances created a lower loss in 2010 of £4.0 million (2009: £9.7 million) due to smaller foreign exchange movements in the year, and the net effect of all of these factors produced net finance costs before the effect of marking derivatives to market of £21.9 million (2009: £31.8 million). The net loss of marking derivatives to market at 31 December 2010 was £3.1 million (2009: gain of £6.3 million), which is excluded from EPRA earnings per share.

The main drivers of the profit of associates after tax of £7.7 million (2009: £2.5 million) were a profit of £9.4 million (2009: £3.0 million) from our 29.9% share in Catena AB, and a loss of £1.6 million (2009: £0.5 million) from Bulgarian Land Development Plc. We received £9.9 million from Catena in dividends, and accounted for our share of the uplift in the net assets which it retained. During the year its share price doubled on the development prospects of its property portfolio. Consequently, as mentioned above, the value of our shares in Catena exceeded its book value by £21.0 million, or 45 pence per CLS share of unbooked net asset value. Bulgarian Land Development delisted from AIM in 2010 and set itself the goal of liquidating its assets in an orderly manner. As a first stage, it returned to us £2.0 million by means of a tender offer buy-back which, together with the loss mentioned above and a foreign exchange movement, reduced our carrying value of BLD to £9.4 million (2009: £13.5 million).

Once again this year the current tax charge was significantly below the weighted average rate of tax in the countries in which we do business. Our French operation was the only part of the Group which paid tax. The Group recognises a deferred tax asset in respect of brought forward and current year losses in certain jurisdictions. These losses will be eroded as future taxable profits are generated. The tax charge also contains a deferred tax charge of £6.4 million (2009: credit of £1.0 million), which largely represents an adjustment required under IFRS for the potential tax occasioned by valuation movements on investment properties.

In April 2010, £6.0 million was distributed to shareholders by means of a tender offer buy-back of 1 in 48 shares at 600 pence per share. In September, a further £4.0 million was distributed by means of a tender offer buy-back of 1 in 74 shares at 625 pence per share, and a proposed tender offer buy-back of 1 in 46 shares at 700 pence per share to return £7.1 million will be put to shareholders at the annual general meeting in April 2011.

**EPRA NET ASSET VALUE** In 2010 CLS joined the European Public Real Estate Association ("EPRA") and we have adopted many of its reporting metrics this year for the first time. At 31 December 2010, EPRA net assets per share (a diluted measure which highlights the fair value of the business on a long-term basis) were 941.8 pence (2009: 812.5 pence), a rise of 16%, or 129.3 pence per share. The main reason for the increase was profit after tax which added 125.1 pence. The two tender offer buy-backs in the year added 6.8 pence per share and fair value movements on corporate bonds and listed investments added a further 6.7 pence; against this, exchange rate variances reduced adjusted net assets per share by 5.9 pence, and the issue of shares from treasury shares and the granting of share options reduced EPRA NAV by 3.4 pence.

At 31 December 2010, EPRA triple net assets per share (a diluted measure which discloses net assets per share on a true fair value basis) were 707.2 pence (2009: 591.0 pence), a rise of 20% or 116.2 pence per share.

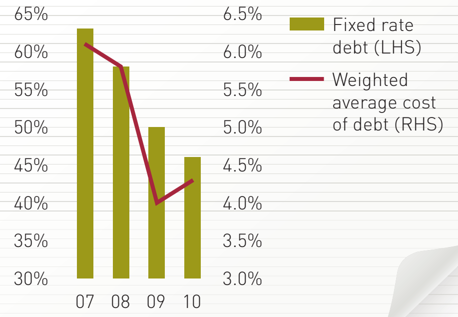
**CASH FLOW, NET DEBT AND GEARING** At 31 December 2010, the Group's cash balances of £48.3 million were £22.0 million lower than twelve months previously, mainly due to property acquisitions and other capital expenditure of £42.9 million and distributions to shareholders of £10.1 million exceeding the cash inflow from operating activities of £31.3 million.

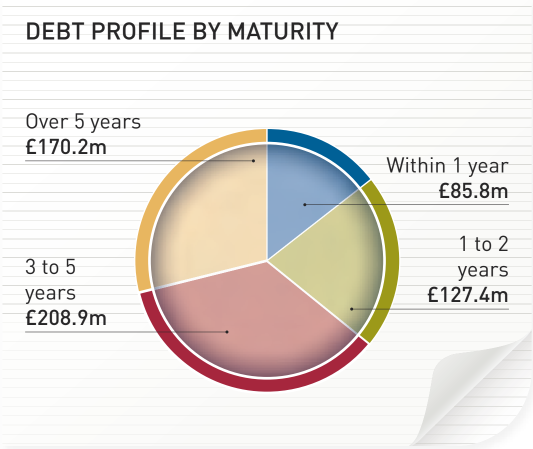
Gross debt of £589.3 million was at a similar level to the £592.8 million of twelve months earlier. In practice, £100.6 million of loans were repaid or refinanced in the ordinary course of business, and £102.7 million of new loans drawn. £21.5 million was raised to finance the acquisitions of Apex Tower in New Malden and Rue Pierre Vallette in Paris, £0.9 million to finance developments in Germany, and £80.3 million was drawn under refinancing. Financing activities in the year attracted costs of £1.1 million in aggregate. In addition, £1.0 million of interest was added to the principal outstanding on a zero-coupon bond, £1.0 million of loan issue costs were amortised, and the effect of translating euro-denominated loans into sterling at an exchange rate 3.3% different from twelve months earlier reduced the sterling value of overseas loans by £6.5 million.

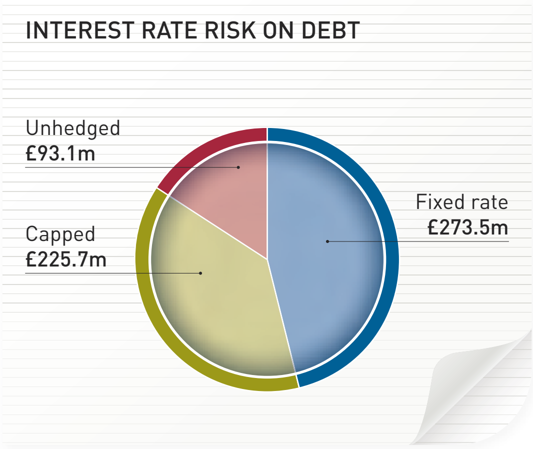
Adjusted net gearing was 123.3% at 31 December 2010 and the weighted average loan-to-value on borrowings against properties was 63.5%. Adjusted solidity was 41.2% (2009: 38.4%).

The weighted average cost of debt at 31 December 2010 of 4.3%, whilst still one of the lowest in the property sector, was marginally higher than the 4.0% twelve months earlier due mainly to the increase in floating rates between the two dates. In 2010, with a rise in net rental income and higher profits from associates, together with lower borrowing costs, recurring interest cover rose to a comfortable 3.2 times (2009: 2.1 times).

**PROPORTION OF FIXED RATE DEBT Vs COST OF DEBT**






**FINANCING STRATEGY** The Group's strategy is to hold its investments predominantly in special-purpose vehicles financed primarily by non-recourse bank debt in the currency used to purchase the asset. In this way credit and liquidity risk can most easily be managed, around 70% of the Group's exposure to foreign currency is naturally hedged, and the most efficient use can be made of the Group's assets. Bank debt ordinarily attracts covenants on loan-to-value and on interest and debt service cover. None of the Group's debt was in breach of covenants at 31 December 2010. The Group had 54 loans across the portfolio from 20 banks. None of the loans at 31 December 2010 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. At 31 December 2010, the weighted average tenure for derivatives against floating rate euro loans was 1.0 year. This relatively short unexpired term reflected the expiry of a number of derivatives in January and April 2011. Consequently, in late 2010 the Group entered into £132.2 million of interest rate caps with forward start dates to supersede the expiring swaps and caps. The impact of these transactions was to produce as at 30 April 2011 a pro forma weighted average tenure for euro derivatives of 4.1 years, with an average cap rate of 3.2%. In total in 2010, in accordance with the Group's strategy to mitigate its interest rate risk at a time of rising rates, we entered into derivatives with a nominal value of £205.6 million.

At 31 December 2010, the Group had fixed rate borrowings of £273.5 million, and floating rate borrowings of £318.8 million; of the latter, £225.7 million were subject to interest rate caps. The effect of the interest rate caps with forward start dates will be that at 30 April 2011, £244.7 million of our debt will be covered by interest rate caps, of which £181.7 million will be capped at 2.5% for over four years.

**SHARE CAPITAL** At 1 January 2010, there were 53,024,256 shares in issue, of which 5,000,000 were held as treasury shares. On 11 March 2010, 207,000 treasury shares, and 300,000 share options, were issued. On 14 April, under the tender offer buy-back, 1,004,817 shares were cancelled in exchange for £6.0 million distributed to shareholders, and on 14 September, under the tender offer buy-back, 638,195 shares were cancelled in exchange for £4.0 million distributed to shareholders. There were no other changes to share capital in the year, and at 31 December 2010, 46,588,244 shares were listed on the London Stock Exchange, and 4,793,000 shares remained in Treasury.

The Directors interned to put to the Annual General Meeting of the Company in April 2011 a proposal to issue a tender offer to buy-back 1 in 46 shares at 700 pence per share. If approved by shareholders this could lead to the purchase and cancellation of 1,012,787 shares, and a distribution to shareholders of £7.1 million.

## TOTAL RETURNS TO SHAREHOLDERS

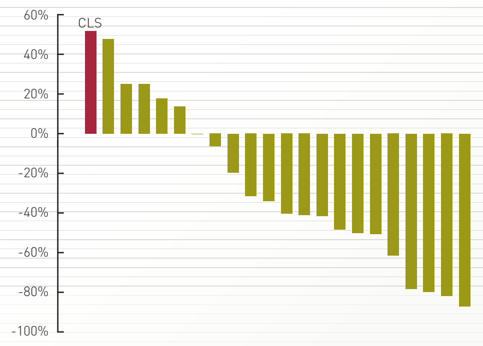
In addition to the distributions associated with the tender offer buy-backs, shareholders benefited from a rise in the share price in the year from 498.8 pence on 31 December 2009 to 534.5 pence at 31 December 2010. Accordingly, the total shareholder return in 2010 was 7.7%. In the three years to 31 December 2010, our total shareholder return of 52% placed us in the top three performers in the listed property sector, and in the ten years ended on the same date our return of 247%, did the same.

Since the Company listed on the London Stock Exchange, it has outperformed the FTSE Real Estate and FTSE All Share indices, as set out in the graph on page 34.

## KEY PERFORMANCE INDICATORS

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

### TOTAL SHAREHOLDER RETURN OF LISTED PROPERTY SECTOR COMPANIES 2008-2010



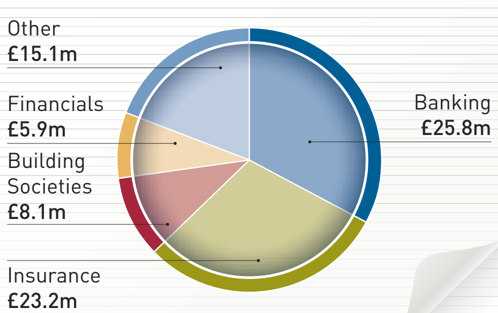

Source: Bloomberg, CLS

## CORPORATE BOND PORTFOLIO

At 31 December 2010

| Sector | Banking | Insurance | Building Societies | Financials | Other | Total |
|---|---|---|---|---|---|---|
| Value | £25.8m | £23.2m | £8.1m | £5.9m | £15.1m | £78.1m |
| Coupon yield | 10.0% | 7.6% | 8.0% | 7.0% | 7.1% | 8.3% |
| Issuers | Lloyds | Legal & General | Nationwide | Aberdeen AM | TUI | |
| | RBS | Prudential | Yorkshire | Henderson | Corral Finans | |
| | Commerzbank | AXA | | Man Group | FS Funding (ISS) | |
| | Dresdner | Scottish Widows | | Euroclear | HeidelbergCement | |
| | BPCE | Swiss Life | | | PA Resources | |
| | KBC | Old Mutual | | | Renewable Energy Corp | |
| | SNS Bank | Storebrand | | | | |
| | Swedbank | | | | | |

### CORPORATE BOND PORTFOLIO BY SECTOR



# 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 | Mitigation |
|---|---|
| **Property investment risks**<br>Underperformance of investment portfolio impacting on financial performance due to:<br>• Cyclical downturn in property market<br>• Inappropriate buy/sell/hold decisions | 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 tenant demand affecting rents and vacancies | The Group's property portfolio is diversified across four countries. The weighted-average unexpired lease term is 8.4 years and the Group's largest tenant concentration is with the Government sector (40.8 per cent). |
| • Poor asset management | Property teams proactively manage tenants 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**<br>Underperformance of corporate bond portfolio | 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 receives updates on bond price movements and third party market analysis on a daily basis and reports on corporate bonds to the Board on a bi-weekly basis. |
| **Funding risks**<br>Unavailability of financing at acceptable prices | The Group has a dedicated Treasury department and relationships are maintained with approximately 20 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 | 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 | Financial covenants are monitored by the Treasury department and regularly reported to the Board. |
| Foreign currency exposure | 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. |
| **Taxation risks**<br>The risk that there will be increases in tax rates or changes to the basis of taxation | The Group monitors legislative proposals and consults external advisors to understand and mitigate the effects of any such change. |
| **Going concern**<br>The risk that given the economic uncertainties the Group will not have adequate working capital to remain a going concern for the next 12 months | See page 24. |

# 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 | 24.5 | 23.7 | 127,759 | 26.0 | 25.5 | 4.0 | 4.7% |
| France | 17.8 | 17.6 | 96,479 | 18.7 | 18.3 | 18.7 | 3.6% |
| Germany | 14.3 | 14.0 | 137,971 | 14.1 | 14.5 | 14.1 | 5.5% |
| Sweden | 5.5 | 4.4 | 45,533 | 6.2 | 5.5 | 6.2 | 2.0% |
| | **62.1** | **59.7** | **407,742** | **65.0** | **63.8** | **43.0** | **4.3%** |

Note: a further £3.6 million of London contracted rent will be subject to annual indexation from 2015.

## VALUATION DATA

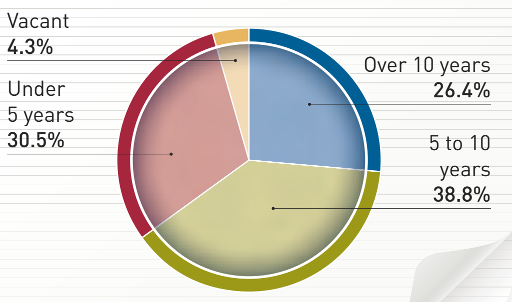
| | | Valuation movement in the year | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Market value of property £m | Underlying £m | Foreign exchange £m | Net initial yield(1) % | EPRA topped up net initial yield(2) % | Reversion % | Over-rented % | True equivalent yield % |
| London | 375.0 | 4.8 | – | 6.8% | 6.4% | 3.9% | 10.8% | 6.8% |
| France | 248.7 | 17.8 | (7.4) | 7.4% | 7.0% | 2.0% | 8.5% | 7.0% |
| Germany | 196.5 | 8.2 | (6.4) | 7.1% | 6.7% | 3.0% | 5.7% | 6.0% |
| Sweden | 56.7 | (0.7) | 5.4 | 8.6% | 8.1% | 3.0% | 16.2% | 8.7% |
| | **876.9** | **30.1** | **(8.4)** | **7.2%** | **6.8%** | **3.1%** | **9.6%** | |

(1) Based on contracted rent and before adding purchasers' costs to investment property values; if based on passing rent, net initial yield would be 7.1%
(2) Based on contracted rent and after adding purchasers' costs to investment property values; if based on passing rent, EPRA net initial yield would be 6.7%

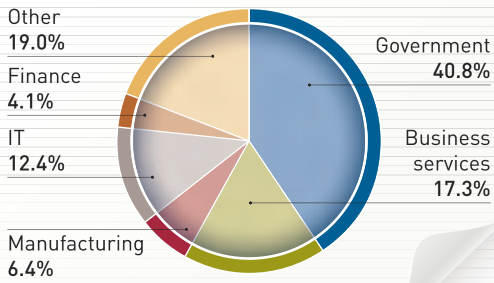
## LEASE DATA

| | Average lease length | | Passing rent of leases expiring in: | | | | ERV of leases expiring in: | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | To break years | To expiry years | Year 1 £m | Year 2 £m | Year 3 to 5 £m | After year 5 £m | Year 1 £m | Year 2 £m | Year 3 to 5 £m | After year 5 £m |
| London | 9.6 | 10.1 | 0.7 | 0.7 | 4.4 | 20.2 | 0.7 | 0.7 | 4.7 | 18.0 |
| France | 3.1 | 5.9 | 1.8 | 0.6 | 3.5 | 12.8 | 1.4 | 0.6 | 3.3 | 12.3 |
| Germany | 9.3 | 9.6 | 0.6 | 0.8 | 3.1 | 9.6 | 0.6 | 0.8 | 3.1 | 9.3 |
| Sweden | 5.6 | 5.6 | 0.1 | 0.1 | 4.4 | 1.6 | 0.1 | 0.1 | 3.6 | 1.7 |
| | **7.3** | **8.4** | **3.2** | **2.2** | **15.4** | **44.2** | **2.8** | **2.2** | **14.7** | **41.3** |

### RENT BY LEASE LENGTH




### RENT BY SECTOR



# SCHEDULE OF GROUP PROPERTIES

## LONDON

| at 31 December 2010 | Tenure | Area sq m | Use |
|---|---|---|---|
| **London EC4** | | | |
| Clifford's Inn, Fetter Lane | Freehold | 3,042 | Offices |
| **London SE1** | | | |
| Westminster Tower, 3 Albert Embankment | Freehold | 4,481 | Offices |
| Fielden House, 28/42 London Bridge Street* | Freehold | 753 | Offices |
| **London SW6** | | | |
| Quayside, William Morris Way | Freehold | 3,065 | Offices |
| **London SW8** | | | |
| Cap Gemini House, 95 Wandsworth Rd & 72/78 Bondway & 22 Miles Street | Freehold | 10,427 | Offices/Industrial |
| 80/84 Bondway | Freehold | 1,636 | Offices |
| 101/103/107 Wandsworth Road | Freehold | 488 | Residential |
| 18/20 Miles Street | Freehold | 152 | Offices |
| **London SE11** | | | |
| Spring Gardens, Tinworth Street | Freehold | 19,478 | Offices |
| Spring Gardens Court, 79 Vauxhall Walk | Leasehold | 115 | Residential |
| 2/10 Tinworth Street | Freehold | 1,263 | Offices/Industrial |
| 16 Tinworth Street | Freehold | 218 | Industrial |
| 92/98 Vauxhall Walk | Freehold | 97 | Offices |
| 100 Vauxhall Walk | Freehold | 1,533 | Community Centre |
| 108 Vauxhall Walk | Freehold | 600 | Car parking |
| 110 Vauxhall Walk | Freehold | 790 | Industrial |
| Western House, 5 Glasshouse Walk | Freehold | 631 | Offices |
| 35 Albert Embankment | Freehold | 527 | Leisure |
| **London WC1** | | | |
| 214/236 Grays Inn Road | Freehold | 26,295 | Offices |
| **London WC2** | | | |
| Ingram House, 13/15 John Adam Street | Freehold | 1,307 | Offices/Residential |
| **London NW10** | | | |
| Chancel House, Neasden Lane | Freehold | 6,940 | Offices |
| **London W6** | | | |
| Cambridge House, 100 Cambridge Grove | Freehold | 6,697 | Offices |
| **London W10** | | | |
| Buspace Studios, 10 Conlan Street | Freehold | 3,006 | Studios/Workshops/ Offices |
| **Brentford** | | | |
| Great West House, Great West Road, TW8 | Freehold | 14,453 | Offices |
| **New Malden** | | | |
| CI Tower, High Street, KT3 | Freehold | 7,597 | Offices |
| Apex Tower, High Street, KT3 | Freehold | 10,217 | Offices/Retail |
| **Ipswich** | | | |
| Zest Nightclub, Princes Street, IP1 | Freehold | 1,951 | Leisure |
| **Investment properties** | | **127,759** | |
| **Owner-occupied** | | | |
| 86 Bondway, SW8 | Freehold | 891 | Offices |
| | | **128,650** | |

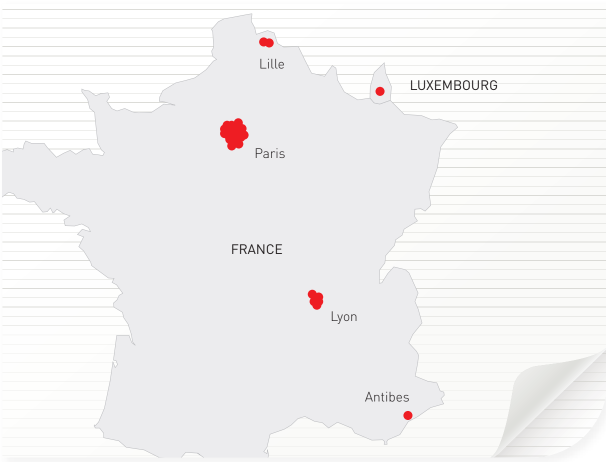
* Share of joint venture

## FRANCE AND LUXEMBOURG

| at 31 December 2010 | 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 | 2,001 | Offices |
| 18 Rue Stephenson, 75018 | Freehold | 538 | 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 | 1,046 | Offices |
| 58 Avenue Général Leclerc, 92100 Boulogne | Freehold | 525 | Offices |
| Le Quatuor, 168 Avenue Jean Jaurès, 92120 Montrouge | Freehold | 5,003 | Offices |
| 2 Rue Pierre Timbaud, 92230 Gennevilliers | Freehold | 3,118 | Offices |
| 23/27 Rue Pierre Valette, 92240 Malakoff | Freehold | 10,776 | 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 | 4,197 | Offices |
| 62 Avenue Foch, 92250 la Garenne-Colombes | Freehold | 181 | Offices |
| 120 Rue Jean Jaurès, 92300 Levallois Perret | Freehold | 4,219 | 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 | 6,837 | Offices |
| D'Aubigny, 27 Rue de la Villette, 69003 | Leasehold | 4,316 | Offices |
| Rhône Alpes, 235 Cours Lafayette, 69006 | Freehold | 3,142 | 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 | 2,644 | Offices |
| La Madeleine, 105 Avenue de la République, 59110 | Freehold | 4,445 | Offices |
| **Antibes** | | | |
| Le Chorus, 2203 Chemin de St Claude, Nova Antipolis, 06600 | Freehold | 4,335 | Offices |
| **Luxembourg** | | | |
| 16 Rue Eugène Ruppert, L2453 | Freehold | 3,698 | Offices |
| | | **96,479** | |

London


France



# SCHEDULE OF GROUP PROPERTIES CONTINUED

## GERMANY

| at 31 December 2010 | Tenure | Area sq m | Use |
|---|---|---|---|
| **Munich** | | | |
| BrainLAB, Kapellenstrasse 12, Feldkirchen D-85622 | Freehold | 16,314 | Offices |
| Planegg, Maximilian Forum, Lochhamer Strasse 11/15, D-82152 | Freehold | 13,816 | Offices |
| Gräfelfing, Lochhamer Schlag 1 | Freehold | 6,885 | Offices |
| Rüdesheimer Strasse 9, D-80686 | Freehold | 2,587 | Offices |
| Unterschleissheim, Lise-Meitner-Strasse 4, D-85716 | Freehold | 2,958 | Offices |
| **Hamburg** | | | |
| Fangdieckstrasse 75, 75a, b, 22547 | Freehold | 13,092 | Offices |
| Jarrestrasse 8/10, D-22303 | Freehold | 5,568 | Offices |
| Merkurring 33/35, D-22143 | Freehold | 5,605 | Offices |
| Harburger Ring 33, D-21073 | Freehold | 3,364 | Offices |
| Frohbösestrasse 12, D-22525 | Freehold | 1,993 | Offices |
| **Berlin** | | | |
| Rudowerchausee 12, D-12489, Adlershofer Tor | Freehold | 19,971 | 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 | Freehold | 10,665 | Offices |
| **Süderhastedt** | | | |
| Dorfstrasse 14, 25727 | Freehold | 1,185 | Nursing home |
| | | **137,971** | |

## SWEDEN

| at 31 December 2010 | Tenure | Area sq m | Use |
|---|---|---|---|
| **Vänerparken** | | | |
| Lasarettet No. 2, 6/8, Vänerparken, Vänersborgs Kommun | Freehold | 45,533 | Offices/Education/ Residential/Leisure/ Hospital |
| | | **45,533** | |
| **Total Portfolio at 31 December 2010** | | **408,633** | |

## Germany


## Sweden

# DIRECTORS' REPORT

for the year ended 31 December 2010

The Directors present their annual report and the audited financial statements for the year ended 31 December 2010. The Chairman's Statement, Business Review and Corporate Governance Report form part of this report and should be read in conjunction with it.

## 1 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.

## 2 REVIEW OF BUSINESS

The group statement of comprehensive income for the year is set out on page 39.

A review of results for the year, 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 6 to 20 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 15 and in note 23 to the group financial statements. Risk Management objectives are also detailed in note 23.

## 3 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 25 and 26.

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 31 to 35. Related party transactions are shown in note 31.

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

### Executive Directors

**Sten A Mortstedt**, aged 71, 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 and was at that time the largest property deal recorded in Scandinavia.

Since 1977 he has been involved in establishing and running property interests in the UK, Sweden and France.

He established CLS in 1987, and has been Executive Chairman since he took the Company to a listing on the main market of the London Stock Exchange in 1994.

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

He runs his global interests from his residence in Switzerland.

**E Henry Klotz**, aged 66, 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 also Non-Executive Chairman of Catena AB, a Nordic real estate company quoted on the Stockholm Stock Exchange, in which CLS holds an interest of 29.9%. He is also a Non-Executive Chairman of Bulgarian Land Development Plc, in which CLS holds 48.3% and a Non-Executive Director of Note AB, a technology company quoted on the Stockholm Stock Exchange, in which CLS holds an interest of 5.04%.

**Richard J S Tice**, aged 46, joined the Company in 2010 as Deputy Chief Executive Officer and was appointed Chief Executive Officer on 1 January 2011. He has over 20 years experience in the property sector and was Managing Partner of Tisun Capital Partners LLP, a boutique firm specialising in real estate debt. From 1991 to 2006 he was joint CEO of the Sunley Group plc, prior to which he spent four years with a listed property developer, London Metropolitan plc. For three years until October 2009, he was a non-executive director and ultimately Chairman of AIM-listed South African Property Opportunities Plc.

**John H Whiteley**, aged 52, joined the Company in 2009 as Chief Financial Officer. 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 is a Fellow of the Institute of Chartered Accountants and spent nine years with Ernst & Young, after qualifying as an accountant with Spicer & Pegler.

**3 DIRECTORS** (CONTINUED)

**Non-Executive Directors**

**Malcolm C Cooper**, aged 51, joined the Board in 2007 and is the Senior Independent Director and Chairman of the Audit 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 51, joined the Board in 2008 and is a member of the Remuneration Committee. He is Chief Executive 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 55, joined the Board in 2008 and is 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 66, is Chairman of the Remuneration Committee and a member of the Audit Committee. He 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 27, joined the Board in May 2010 and is the daughter of Bengt Mortstedt, a founding member and major shareholder in the Company. She has eight years' experience in the hotel industry and has a degree in International Business and Hospitality from Ecole Hotèliere de Lausanne, Switzerland.

**Thomas J Thomson**, aged 60, 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 26, all directors will now retire annually. Mr Tice and Miss Mortstedt were appointed since the last Annual General Meeting and, being eligible, will stand for election.

The Executive Chairman recommends the re-election of the retiring Directors, and the election of the Directors that had been appointed since the last Annual General Meeting, given their performance and continued important contribution to the Company. The Senior Independent Director recommends the re-election of the Executive Chairman.

**4 DIVIDENDS**

In lieu of paying cash dividends it is the Company's current policy to make distributions by way of tender offer buy-backs. The Company reinstated its tender buy back programme in 2010 following the uncertain economic climate in 2009.

During the year a first tender offer was made by way of a Circular dated 23 March 2010 for the purchase of 1 in 48 shares at 600 pence per share and was completed on 14 April 2010. It returned £6.0 million to shareholders, equivalent to 12.5 pence per share.

The second tender offer was made by way of a Circular dated 19 August 2010 for the purchase of 1 in 72 shares at 625 pence per share and was completed on 14 September 2010. It returned £4.0 million to shareholders, equivalent to 8.45 pence per share.

A tender offer will be put to shareholders in April 2011 for the purchase of 1 in 46 shares at a price of 700 pence per share which, if approved, will return a further £7.1 million to shareholders, equivalent to 15.2 pence per share.

**5 PURCHASE OF THE COMPANY'S SHARES**

As described above, during the year the Company made two tender offer purchases totalling 1,643,012 ordinary shares at a cost of £10.0 million. Of these, 1,004,817 ordinary shares were purchased on 14 April 2010 at 600 pence per share and 638,195 ordinary shares were purchased on 14 September 2010 at 625 pence per share. All shares purchased were subsequently cancelled. The Company did not make any market purchases of its own shares during the year.

The Directors will continue to keep under review whether to make tender offer purchases so long as they are in the best interests of shareholders given the cash resources of the Company and the discount of the market price of the Company's shares to its net asset value.

A resolution will be proposed at the Annual General Meeting to give the Company authority to make market purchases of up to 4,658,824 shares along with an additional resolution to undertake tender offer purchases annually, subject to set parameters, enabling the Company to reduce the administrative burden on shareholders in having to hold General Meetings twice yearly. Any market purchases or tender offer purchases during the year will not exceed 4,658,824 shares in aggregate.

**6 SHARE CAPITAL**

Changes in share capital are shown in note 24 of the notes to the group financial statements. At 31 December 2010, and at the date of this report, the Company's issued share capital consisted of 51,381,244 ordinary shares of 25 pence each, of which 4,793,000 shares were held as treasury shares and all of which ranked pari passu. During the year 207,000 treasury shares were issued at a price of 482.5 pence per share.

At the date of this report, the total number of voting rights in CLS Holdings plc is 46,588,244, 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 2010 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. There were options over 300,000 ordinary shares outstanding under these schemes at the year end and as at the date of this report (2009: none). Upon any change of control, option holders under these schemes have directly exercisable rights. Details of outstanding options under these schemes are shown on page 34 of the Remuneration Report.

Details of the Directors' interests in shares are shown in the Remuneration Report on page 35.

**7 PROPERTY PORTFOLIO**

A valuation of all the properties in the Group as at 31 December 2010 was carried out by Lambert Smith Hampton for London, Jones Lang Lasalle for France, Colliers International for Germany, and CBRE for Sweden, which produced an aggregate market value of £876.9 million (2009: £813.0 million).

**8 CORPORATE GOVERNANCE**

The Corporate Governance Statement, prepared in accordance with rule 7.2 of the FSA's Disclosure and Transparency Rules, can be found on pages 25 to 30 and forms part of this report.

**9 EMPLOYEES, ENVIRONMENTAL AND SOCIAL ISSUES**

The Group's policies on employment, environmental and social issues, including charitable donations, are summarised in the Corporate Responsibility Report on pages 36 and 37. No political donations were made during 2010.

**10 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.

**11 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 21 days' purchases based on the year as a whole (2009: 23 days). The Company had no trade creditors (2009: nil).

**12 AUDITOR**

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

**13 2011 ANNUAL GENERAL MEETING**

The 2011 Annual General Meeting will be held on Monday, 18 April 2011. The notice of meeting including explanatory notes for the resolutions to be proposed will be posted to shareholders.

**14 EVENTS AFTER THE BALANCE SHEET DATE**

There were no reportable events after the balance sheet date.

**15 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 auditors 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.

**16 GOING CONCERN**

The current economic conditions have created a number of uncertainties as set out on page 15. The Group's business activities, together with the factors likely to affect its future development and performance are set out in the Business Review on pages 8 to 15. The financial position of the Group, its liquidity position and borrowing facilities are described in the Business Review and in notes 22 and 23 of the 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.

The Directors' Report was approved by the Board on 7 March 2011.

By order of the Board

**David Fuller BA FCIS**
Company Secretary
7 March 2011

# CORPORATE GOVERNANCE

## 1 INTRODUCTION

The principal corporate governance rules which applied to UK companies listed on the London Stock Exchange in the year under review were those set out in the Combined Code on Corporate Governance as updated by the Financial Reporting Council ("FRC") in June 2008 (the "Code"), the UK Financial Services Authority ("FSA") Listing Rules and the FSA's Disclosure and Transparency Rules.

The Board has overall responsibility for corporate governance and is accountable to the Company's shareholders for good governance. It is committed to achieving a high standard of corporate governance which best fits the Company, as this contributes to better company performance by assisting the Board to discharge its duties in the best interests of shareholders.

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).

On 1 January 2011, the UK Corporate Governance Code (the "New Code") replaced the Code as the applicable source of corporate governance recommendations for the Company. The New Code contains a number of additional requirements applicable to FTSE 350 companies and, whilst at the date of this report the Company is not a constituent of the FTSE 350, the Board intends to adopt a number of these new requirements, as explained below.

Save as identified and explained below, the Board considers that throughout 2010 it complied with the Main Principles and the supporting principles as set out in Section 1 of the Code.

## 2 THE BOARD

The Board comprises four Executive Directors, including the Executive Chairman, and six Non-Executive Directors.

Their biographies can be found on pages 21 and 22.

On 11 May 2010, Richard Tice, the Company's Deputy Chief Executive Officer, was appointed to the Board, Jennica Mortstedt was appointed as a Non-Executive Director and Bengt Mortstedt stepped down as a Non-Executive Director.

On 9 November 2010 it was announced that as from 1 January 2011 Richard Tice would be appointed Chief Executive Officer and Henry Klotz would become Executive Vice Chairman. Also from 1 January 2011, Thomas Lundqvist would step down as Vice Chairman but remain a Non-Executive Director. Since 1 January 2011, there have been no other changes to the composition of the Board.

Guidance to the Code recommends that for FTSE 350 companies at least half the Board should comprise independent Non-Executive Directors. Given that in the year under review the Company was not a constituent of the FTSE 350 it was not in breach of provision A.3.2. Further, the Board believes that it has demonstrated a proven track record of success which has been beneficial to shareholders notwithstanding the financial uncertainly affecting property companies over the past three years. During that period the Company generated a total shareholder return of 51.6 per cent., one of the highest returns amongst its peer group of listed property companies.

The Board understands the need for independent non-executive directors to challenge the views of the executive team and contribute to the Company's overall strategy. It considers its current independent Non-Executive Directors fulfilled this role exceptionally well. It has determined that 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. Mr Cooper is the Senior Independent Director and he is available to shareholders who do not wish to approach the Chairman, the Vice Chairman or the Chief Executive Officer about a Company matter.

The Board has determined that, under the Code Guidance, four Non-Executive Directors, Joseph Crawley, Thomas Lundqvist, Jennica Mortstedt and Thomas Thomson, were not independent. Mr Lundqvist had served on the Board for more than nine years. Miss Mortstedt was the niece of the Executive Chairman and Mr Lundqvist was the Vice Chairman of the Sten Mortstedt Family and Charity Trust. Mr Crawley had a close family tie with the Executive Chairman by way of marriage. Mr Thomson had been an employee of the Group within the last five years. Nevertheless, 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.

During the year the Board undertook a performance evaluation survey led by the Senior Independent Director, with assistance from the Company Secretary. Given the composition of the Board this was deemed the most appropriate way to conduct the performance evaluation. The results highlighted areas in which the Board felt performance could be improved, for example it wanted to have more interaction with staff at all levels. Following discussion it was decided that the results of the performance evaluation should become the Board's objectives for the coming year. The Board has considered provision B.6.2 of the New Code and has concluded that, due to the cost of compliance and the current structure of the Board, it will not, at the present time, implement the requirement to have a Board evaluation survey performed by an external facilitator every three years but will continue to undertake an annual performance evaluation survey internally. As the Company is not a constituent of the FTSE 350, it is not in breach of this provision.

During the year the 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, at which a thorough review of the performance of the Executive Chairman took place. The Non-Executive Directors also reviewed the composition of the Board and considered that, whilst the current Non-Executive Directors fulfil their role, a further independent Non-Executive Director would be beneficial, although no suitable candidate has yet been found.

**2 THE BOARD** (CONTINUED)

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. The Board will implement provision B.7.1 of the New Code by requiring all directors to seek re-election by shareholders annually, beginning at the 2011 Annual General Meeting, notwithstanding that the Company is not a constituent of the FTSE 350.

Non-Executive Directors are appointed for a specific term of office which provides for their removal in certain circumstances, including under section 168 of the Companies Act 2006. The terms of appointment of the Non-Executive Directors can be obtained by request to the Company Secretary. All Directors will be seeking re-election at the forthcoming Annual General Meeting and their details are contained in the Directors' Report on page 22.

**Activities of the Board**

The Board met four times during the year. It 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 focus on adding value to the assets of the Group by identifying and assessing business opportunities as they arise and ensuring that associated potential risks are identified, monitored and controlled. The Board has a formal schedule of matters specifically reserved to it for decision, which is reviewed annually and was last revised in November 2010. Matters reserved for Board decisions include strategic long-term objectives and the capital structure of major transactions. The implementation of Board decisions and day-to-day operations of the Group are delegated to the Executive Directors.

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. During the year, members of the Board have attended seminars on various topics, including executive remuneration and the responsibilities of directors.

Board members are given appropriate documentation in advance of each Board and Committee meeting and senior executives below Board level 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 in respect of return on capital, return on cash and the likely impact on the income statement, cash flows and gearing.

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.

This year, as part if its strategic review, the Board decided to implement a new Investor Relations programme aimed at increasing the Company's profile and reducing the share price discount to net asset value. The Board is pleased with the progress it has made against this strategy so far.

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 weekly.

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.

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

| | Board | Audit Committee | Remuneration Committee |
|---|---|---|---|
| Number of meetings held | 4 | 3 | 2 |
| Sten Mortstedt | 4/4 | – | – |
| Henry Klotz | 4/4 | – | – |
| Richard Tice (1) | 3/3 | – | – |
| John Whiteley | 4/4 | – | – |
| Thomas Lundqvist | 4/4 | 3/3 | 2/2 |
| Malcolm Cooper | 4/4 | 3/3 | – |
| Joseph Crawley | 4/4 | – | 2/2 |
| Christopher Jarvis | 4/4 | 3/3 | – |
| Bengt Mörtstedt (2) | 1/1 | – | – |
| Jennica Mortstedt (1) | 3/3 | – | – |
| Thomas Thomson | 4/4 | – | – |

(1) Appointed to the Board on 11 May 2010
(2) Retired from the Board on 11 May 2010

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

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.

As explained above, on 1 January 2011 Henry Klotz assumed the new role of Executive Vice Chairman and Thomas Lundqvist stepped down as Non-Executive Vice Chairman but remained a Non-Executive Director. A separate statement on the division of responsibilities between the Executive Chairman and the Executive Vice Chairman has been reviewed by the Board.

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.

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

**3 THE AUDIT COMMITTEE**

The Audit Committee comprises Malcolm Cooper (Chairman), Thomas Lundqvist and Christopher Jarvis. The Board was satisfied that Mr Cooper and Mr Jarvis were independent and Mr Cooper was regarded as having recent and relevant accounting and financial experience. As Mr Lundqvist was deemed not to be independent, the Board noted that the composition of the Committee did not comply with the recommendation contained in C.3.1 of the Code. The Committee considered that Mr Lundqvist's experience and detailed knowledge of the Group greatly assisted the Committee when making decisions within its remit.

The Committee met three times during the year. Certain senior management and the external auditor are normally invited to attend the meetings.

The principal duties of the Committee are to review the half yearly and annual financial reports before their submission to the Board and to consider any matters raised by the auditor. The Committee also reviews the Interim Management Statements of the Company and the independence and objectivity of the auditor, taking into account relevant professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services, for which a policy based on the FRC's Guidance on Audit Committees, (December 2010) is in place. The terms of reference of the Committee reflect current best practice, including authority to:

- recommend the appointment, re-appointment and removal of the external auditor;
- ensure the objectivity and independence of the auditor including occasions when, in accordance with the specific policy, non-audit services are provided, by monitoring fees and letters of engagement; and
- ensure appropriate "whistle-blowing" arrangements are in place.

During the year the Committee formally reviewed the annual financial report and the half yearly financial report, focusing on key areas of judgement and complexity, critical accounting policies and any changes required to them. It also reviewed the audit strategy and the findings of the external auditor from their review of the half yearly financial report and their audit of the annual financial report. In accordance with the Audit Committee Guidance 2008, the Committee reviewed and endorsed the internal controls and risk management systems of the Group.

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

The external audit was last put out to tender in 2007 when the current auditor, Deloitte LLP, was appointed, and the lead audit partner has been in place since that time. There are no contractual obligations to restrict the Company's choice of external auditor.

Due to the relatively low number of personnel employed within the Group, the nature of the business and the current control and review systems in place, the Committee recommended, and the Board decided, not to establish an internal audit department.

**4 THE REMUNERATION COMMITTEE**

The Remuneration Committee comprises Thomas Lundqvist (Chairman) and Joseph Crawley. The Remuneration Committee met formally twice during the year but held other informal discussions. The Committee considers the employment and performance of individual Executive Directors and determines their terms of service and remuneration in the context of business and personal performance. It also has authority to grant options under the Company's Executive Share Option Scheme and Company Share Option Plan, and exercised this authority in granting options to Mr Tice upon his appointment as Deputy Chief Executive Officer, further details of which can be found on page 34 of the Directors' Remuneration Report. The Board noted that, as both Mr Lundqvist and Mr Crawley were deemed not to be independent, the Company did not comply with the composition of the Committee recommended in provision B.2.1 of the Code. However, Mr Lundqvist's experience and detailed knowledge of the Group and Mr Crawley's experience in the real estate sector greatly assisted the Committee when making decisions within its remit. The Board keeps the composition of the Committee under annual review. Full details of the Committee's work are given in the Remuneration Report on pages 31 to 35.

**5 NOMINATIONS**

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, the Board decided that this function was better carried out by the Executive Chairman and other Directors, Non-Executive and Executive, as appropriate for each appointment.

**6 INTERNAL CONTROL AND RISK MANAGEMENT**

The Company has in place internal control and risk management systems in relation to the Company's financial reporting process and the preparation of the Group accounts.

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 have 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 financial report.

The Audit Committee has reviewed the effectiveness of the system of internal control and risk management for the period and, as reported to the Board, has not identified any significant weaknesses during the financial year and therefore no remedial action has been necessary. 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 Control**

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 property acquisitions and disposals, 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 external 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 Board on a weekly basis to ensure the Group has sufficient cash resources for the short and medium term.

Set out on pages 6 to 15 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 revised Turnbull 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 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.

The Company's key risks and how they are mitigated are described on page 16 of the Business Review.

**7 DIRECTORS' SHAREHOLDINGS AND MAJOR INTERESTS IN THE COMPANY'S SHARES**

The interests of the Directors in the share capital of the Company at the beginning and end of the year are detailed in the Directors' Remuneration Report on page 35.

Other than the 53.20% interest of Sten Mortstedt family referred to in note 8 of the Directors' Remuneration Report, as at 7 March 2011 the Company has been notified of the following interests above 3% in the Company's issued share capital:

| | No. of shares | % |
|---|---|---|
| Bengt Mörtstedt | 3,505,280 | 7.52 |
| F&C Asset Management plc | 2,471,388 | 5.30 |
| AVI Focused European Fund | 1,423,820 | 3.06 |

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.

**8 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 trading 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, these agreements are not 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.

**9 SHAREHOLDER RELATIONS**

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, Deputy Chief Executive Officer (up to 31 December 2010) and Chief Financial Officer, who have regular meetings with institutional shareholders. They are supported by an investor relations adviser and two corporate brokers, all of whom are in regular contact with institutional and retail shareholders, and sell-side analysts. Coverage of the Company by sell-side analysts is circulated to the Board which in turn ensures that all Directors develop an understanding of the views of institutional shareholders.

Investor seminars and analyst presentations, including those following the announcement of half yearly and annual financial results, are webcast and other presentations made to institutional investors are 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 press releases are also included on the Group's website at www.clsholdings.com on the Media Centre, "Regulatory News" pages.

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 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.

**10 PROXY VOTING**

The proxy forms for the Annual General Meeting and General Meetings which were held in 2010 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 on the Media Centre, "Regulatory News" pages. Shareholders may also choose to register their vote by electronic proxy on the Company's website at www.clsholdings.com.

**11 JOINT VENTURE AND ASSOCIATES**

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

**12 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 (IFRSs) 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 position, financial performance and cash flows. 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 IFRSs. 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 IFRSs 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 and 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 7 March 2011.

By order of the Board

**David Fuller BA FCIS**
Company Secretary
7 March 2011

# DIRECTORS' REMUNERATION REPORT

for the year ended 31 December 2010

The report on remuneration of the Directors for the year ended 31 December 2010 is set out below and has been prepared in accordance with the applicable statutory regulations.

Certain sections of this Report are subject to statutory audit, as required by the Companies Act 2006. Those sections are indicated in the section title. No other sections have been audited.

## 1 THE WORK OF THE REMUNERATION COMMITTEE

The Remuneration Committee comprises Thomas Lundqvist (Chairman) and Joseph Crawley. As explained in the Corporate Governance Report, Thomas Lundqvist and Joseph Crawley are deemed not to be independent as defined by the Combined Code. Mr Lundqvist's experience and detailed knowledge of the Group and Mr Crawley's experience in the real estate sector greatly assists the Committee when making decisions within its remit.

The remit of the Committee is to consider and recommend to the Board:

- the remuneration of the Executive Directors, including any performance-related awards; and
- the administration of the Company's share option schemes.

The Committee met formally twice during the year but held other informal discussions. The Committee received advice from the Executive Chairman and the Group's HR Manager. The Committee is able to obtain independent professional advice at the Company's expense.

The Committee recognises the need to enhance the Company's executive remuneration policy, more comprehensively matching current Corporate Governance expectations. Therefore, the Committee's key objective during 2011 will be to undertake a comprehensive review of its current remuneration policy with the intention of formulating and implementing new policies, where the Committee has concluded, and the Board have agreed, that such policies are a constructive move forward, reflect the Company's specific circumstances, better balance long and short term considerations and more closely match the Company's risk appetite, while retaining some flexibility. Should new policies be agreed, they will be implemented in stages over the next two to three years.

## 2 REMUNERATION POLICY

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 and comprise a mix of both performance and non-performance-related remuneration and include discretionary awards. This is designed to incentivise Directors and to align their interests with those of shareholders. Currently, no non-discretionary awards are made.

The Remuneration Committee considers the market positioning of the remuneration of the Directors against a peer group of listed real estate companies. CLS does not currently operate any long-term incentive plans.

The criteria used for judging the Executive Directors' remuneration are:

- their own personal performance measured against specific targets;
- the financial performance of the Group as measured against budget; and
- total shareholder return.

The Remuneration Committee believes in incentivising the Directors by reference to their total remuneration and has reviewed this to ensure that the Directors are not paid excessively in comparison to peer group companies.

The Committee anticipates that there will not be any change to its remuneration policy in the year ending 31 December 2011, although following the policy review outlined above it is anticipated that there will be changes in subsequent years.

### 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 Board Committees.

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

## 2 REMUNERATION POLICY (CONTINUED)

**Basic Salaries**

The basic salaries of the Executive Directors are reviewed annually with any changes made effective as at 1 January. The annual review takes account of similar positions in peer group companies. The annual increase in basic salaries for Executive Directors in the forthcoming year was set at approximately 2 per cent. in line with average salary increases of staff (Sten Mortstedt: £188,250; Henry Klotz: £215,400; Richard Tice: £204,000; John Whiteley £187,320).

**Performance Related Discretionary bonus**

The performance-related discretionary bonus for each Executive Director for the year was determined after taking into account the performance of the individual and the Company, together with the emoluments of the individual, compared to those in its peer group.

The Remuneration Committee has amended its policy in relation to the discretionary bonus such that for the financial year ending 31 December 2011 it will implement a cap of 120 per cent. of salary for each Executive Director.

In determining any performance-related discretionary bonus for the year ending 31 December 2011, the Remuneration Committee will have regard to, amongst other things, company performance, for example the change in net asset value and core profit of the Group, and the outperformance of total shareholder return against the FTSE All Share Real Estate Index. It will also undertake an assessment of each Executive Director's individual objectives based on their role and responsibilities.

The Executive Chairman does not receive a performance-related discretionary bonus, nor is he a member of the Company's pension scheme as part of his overall remuneration. The Remuneration Committee considers that the size of his shareholding in the Company gives an adequate link to performance.

The remuneration of the Non-Executive Directors does not include a performance-related element.

For the year ended 31 December 2010, the apportionment of remuneration and other benefits between discretionary performance-related and non-performance-related elements was as follows:

| | Performance-related | Non-Performance-related |
|---|---|---|
| Sten Mortstedt | Nil | 100% |
| Henry Klotz | 47% | 53% |
| Richard Tice (1) | 36% | 64% |
| John Whiteley | 19% | 81% |
| Thomas Lundqvist | Nil | 100% |
| Malcolm Cooper | Nil | 100% |
| Joseph Crawley | Nil | 100% |
| Christopher Jarvis | Nil | 100% |
| Bengt Mörtstedt (2) | Nil | 100% |
| Jennica Mortstedt (1) | Nil | 100% |
| Thomas Thomson | Nil | 100% |

(1) Appointed to the Board on 11 May 2010
(2) Retired from the Board on 11 May 2010

**Other Fees**

Consultancy services are provided by companies associated with Mr Mortstedt. These services relate to specific advice which is 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 receives additional fees in respect of his appointment as Non-Executive Chairman of Catena AB (£18,881) and Non-Executive Director of Note AB (£8,991), which are paid to him personally. The fee earned as a Non-Executive Director of Bulgarian Land Development Plc was paid to the Company. On 19 August 2010, Mr Klotz assumed the role of Non-Executive Chairman of Bulgarian Land Development Plc for which no fee is payable to the Company or to Mr Klotz.

Both Thomas Lundqvist and Thomas Thomson receive hourly fees for specific projects undertaken, subject to the agreement of the Chief Executive Officer or Executive Chairman.

**3 DIRECTORS' REMUNERATION (AUDITED)**

For the year ended 31 December 2010, the remuneration received by the Directors was as set out in the table below.

| | Notes | 2010 Fee as Director £000 | 2010 Salary £000 | 2010 Other Fees £000 | 2010 Benefits in kind £000 | 2010 Total Emoluments £000 | 2010 Pension Contributions £000 | 2010 Other Benefits/ Performance Related £000 | 2010 Total Remuneration £000 | 2009 Total Remuneration £000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | | | | |
| Sten Mortstedt (Executive Chairman) | | – | 185 | 300 | – | 485 | – | – | 485 | 456 |
| Henry Klotz (Chief Executive Officer) | 1 | – | 212 | 28 | 7 | 247 | 9 | 225 | 481 | 452 |
| Richard Tice (Deputy Chief Executive Officer) | 2 | – | 148 | – | 3 | 151 | 7 | 90 | 248 | – |
| John Whiteley (Chief Financial Officer) | | – | 184 | – | 4 | 188 | 9 | 45 | 242 | 26 |
| **Non-Executive** | | | | | | | | | | |
| Thomas Lundqvist (Non-Executive Vice-Chairman) | 3 | 21 | – | – | – | 21 | – | – | 21 | 88 |
| Malcolm Cooper | | 23 | – | – | – | 23 | – | – | 23 | 23 |
| Joseph Crawley | | 18 | – | | – | 18 | – | – | 18 | 22 |
| Christopher Jarvis | | 18 | – | – | – | 18 | – | – | 18 | 18 |
| Bengt Mörtstedt | 4 | 5 | – | – | – | 5 | – | – | 5 | 15 |
| Jennica Mortstedt | 5 | 10 | – | – | – | 10 | – | – | 10 | – |
| Thomas Thomson | | 15 | – | 2 | – | 17 | – | – | 17 | 33 |
| **2010** | | **110** | **729** | **330** | **14** | **1,183** | **25** | **360** | **1,568** | **1,133** |
| Total for 2009 as reported | | 110 | 418 | 382 | 5 | 915 | 11 | 207 | 1,133 | |

(1) Appointed Executive Vice Chairman on 1 January 2011.

(2) Appointed to the Board on 11 May 2010 and Chief Executive Officer on 1 January 2011.

(3) Mr Lundqvist stepped down as Non-Executive Vice Chairman on 1 January 2011.

(4) Retired from the Board on 11 May 2010.

(5) Appointed to the Board on 11 May 2010.

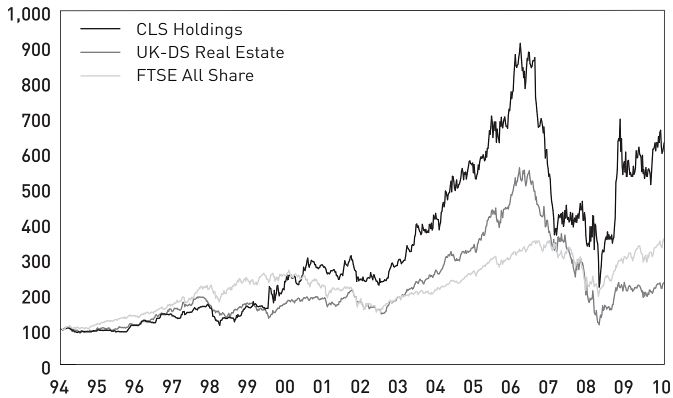
The benefits provided to Executive Directors are permanent health, private medical insurance, life assurance and pension contributions under the Company's defined contribution pension scheme. No car or car allowance is provided to any Director (2009: none).

**4 DIRECTORS' PENSION ENTITLEMENT (AUDITED)**

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 period (2009: two). Participants are required to contribute 5 per cent of basic UK salary (2009: 5 per cent), which is matched by a contribution from the Company of 5 per cent (2009: 5 per cent). The Company contributes 5 per cent. of salary towards Richard Tice's Self Invested Personal Pension in lieu of contributions to the company pension scheme.

**5 SHARE PERFORMANCE GRAPH**

The following graph shows the Company's performance measured by total shareholder return (TSR) since the Company was listed on the London Stock Exchange compared with the TSR performances of the FTSE All Share index and the FTSE All Share Real Estate index over the same period. The FTSE All Share Real Estate index is considered to be the most appropriate as it reflects the performance of the sector in which the Company operates. Historically the Company has consistently outperformed both the FTSE All Share and FTSE All Share Real Estate indices, however in June 2007 share prices fell in anticipation of the downturn in the commercial property market which occurred in the second half of 2007. Since that time these indices have converged. The TSR graph below, independently sourced, includes the positive impact to CLS shareholders of substantial capital distributions through tender offer buy-backs.




Source: Datastream

**6 SHARE OPTIONS (AUDITED)**

The Board has delegated to the Remuneration 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).

On joining the Company on 11 March 2010, the Remuneration Committee granted Richard Tice options over 300,000 Ordinary Shares, of which 6,382 were granted under the CSOP and 293,618 under the USOS at an option price of £4.70. The earliest date of exercise of these share options granted under the Schemes is 11 March 2013 and is conditional upon the satisfaction of appropriate, non-market-based performance criteria, being the growth in net assets of the Group being at least equivalent to the growth of the All Properties Capital Growth Index maintained by IPD. 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 were varied during the year.

The highest, lowest and average mid-market share prices in the year were 574.5 pence, 420 pence and 489.7 pence, respectively. The year end share price was 534.5 pence.

**7 DIRECTORS' SERVICE CONTRACTS**

Each of the Executive Directors of the Company has a service contract in force which, except for Mr Klotz whose contract as Chief Executive Officer expired on 31 December 2010, are of no fixed term. Mr Klotz's new service contract from 1 January 2011 as Executive Vice Chairman expires on 31 December 2013. If the Company exercises the right to terminate Mr Klotz's contract earlier than the expiry of the fixed term, 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 Messrs Mortstedt, Tice or Whiteley for contractual termination payments, save those payments normally due under employment law.

In accordance with best practice, Non-Executive Directors are not appointed on service contracts, although there are letters of appointment in place for each Non-Executive Director. All of the Non-Executive Directors are appointed until such time as they are not re-elected. The Combined Code recommended that all Non-Executive Directors who had served for more than nine years should retire annually and be able to seek re-election at the Annual General Meeting. The New 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 intends to adopt this provision in 2011 and require 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 | 01.01.05 | 12 months |
| Henry Klotz (1) | 01.01.11 | n/a |
| Richard Tice (2) | 11.03.10 | 12 months |
| John Whiteley | 01.10.09 | 6 months |
| Thomas Lundqvist | 01.10.95 | 3 months |
| Malcolm Cooper | 15.06.07 | 3 months |
| Joseph Crawley | 25.11.08 | 3 months |
| Christopher Jarvis | 25.11.08 | 3 months |
| Bengt Mörtstedt (3) | 18.12.98 | 6 months |
| Jennica Mortstedt (2) | 11.05.10 | 3 months |
| Thomas Thomson | 25.01.08 | 3 months |

(1) Fixed term contract to 31 December 2013
(2) Appointed to the Board on 11 May 2010
(3) Retired from the Board on 11 May 2010

## 8 INTERESTS IN SHARES

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

| | **31 December 2010 Ordinary shares of 25p** | 31 December 2009† Ordinary shares of 25p |
|---|---|---|
| Sten Mortstedt | **24,786,501** | 25,441,418 |
| Henry Klotz | **11,395** | 21,995 |
| Richard Tice | **224,165** | – |
| John Whiteley | **9,865** | – |
| Thomas Lundqvist | **79,378** | 62,991 |
| Malcolm Cooper | **4,826** | – |
| Joseph Crawley | **–** | – |
| Christopher Jarvis | **–** | – |
| Bengt Mörtstedt | **n/a** | 3,628,898 |
| Jennica Mortstedt† | **–** | – |
| Thomas Thomson | **114,545** | 114,728 |

† Or at date of appointment

All of the above interests in shares were held beneficially for the Directors concerned. 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. As at the date of this report, there have been no changes to the interests of the Directors since 31 December 2010.

## 9 LONG-TERM INCENTIVE SCHEME

The Company does not currently operate a long-term incentive scheme. However, the above-mentioned policy review will consider this in 2011.

## 10 WAIVER OF EMOLUMENTS

No Director has waived their emoluments during the year.

On behalf of the Board,

**Thomas Lundqvist**
Chairman
Remuneration Committee
7 March 2011

# CORPORATE RESPONSIBILITY

for the year ended 31 December 2010

## 1 RESPONSIBILITY

The Executive Directors ensure that the Group's philosophy on Corporate Responsibility is known to all staff and actively encourages its support by employees across the Group.

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

## 2 ENVIRONMENT

The Board is aware of the Group's environmental impact and therefore seeks both to minimise adverse effects and to enhance positive effects of the impact on the environment. The Group is committed to a responsible and forward-looking approach to environmental issues and encourages recycling, energy conservation and the use of alternative energy supplies.

When conceiving, designing and developing new build projects we place high priority on achieving and bettering the guidelines for sustainability and renewable energy sources.

Throughout the portfolio, with regular maintenance and any improvement projects we seek to maximise efficiency of the Group's buildings and to reduce energy consumption, with consideration of the needs of our tenants and the age of our buildings. When upgrading or refurbishing properties we recognise that the principal issues requiring to be managed are minimising local environmental impact, particularly noise and dust, managing construction waste, and sourcing materials responsibly. Recycling opportunities are reviewed and implemented where possible.

Examples of this approach include the installation of electricity check meters when carrying out refurbishments and using video-conferencing to reduce the need to travel between our European offices.

During 2011 a new energy production facility will be installed at our property in Vänerparken. The new energy centre is intended to provide the entire site with heating, cooling and hot water. The installation will decrease Vänerparken's CO2 and other emissions by approximately 90 per cent., with heating supplied by the local authority only in extreme conditions.

Our recent developments at Landshut and Bochum in Germany were designed to comply with the ENEV SILVER requirements on energy saving, and at Landshut ground water was used in the cooling system for the office space.

In addition, we are developing a reporting tool to give House Managers improved data on energy use, with benchmarks for average consumption in order to spot variances from expected trends. In due course, it is envisaged that this manual system will be replaced with an automated system linked to Smart Meters.

The Company is a member of the CRC Energy Efficiency Scheme in the UK and, as explained above, is actively managing energy consumption in the portfolio to reduce carbon emissions in order to minimise its emissions and commensurate financial costs. Part of our responsibility is also to help tenants in their efforts to save energy.

As part of its ongoing environmental initiatives, the Group will be implementing a Green Charter during 2011, which will then be published on our website. This Green Charter will identify areas within the activities of the Group that have an impact on the environment and which can be actively monitored and measured with the aim of increasing our environmental efficiency. These areas are primarily linked to the activities within our portfolio and will include energy and water consumption, refurbishment and redevelopment opportunities, waste management and corporate behaviour. The Green Charter will initially encompass the UK property portfolio and then be implemented in all other jurisdictions.

## 3 EMPLOYEES

The Directors believe that the Group's employees are a source of competitive advantage. The Directors 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. It seeks to ensure that no employee or applicant is treated less favourably on the grounds of gender, marital status, race, colour, nationality, ethnic or national origin, religion, disability or sexual orientation nor is disadvantaged by conditions or requirements, including age limits, which cannot be justified objectively. Entry into, and progression within, the Group 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 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.

**4 CHARITABLE CONTRIBUTIONS**

During the year, 15 of the Company's London employees took part in a fun run for Land Aid Charitable Trust, the real estate sector charity which assists the homeless. In addition the contributions made by the Group during the year for charitable purposes were £1,831 (2009: £3,557).

Neither the Company nor any of its subsidiaries made any donations of a political nature during the year.

**5 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, tenants, advisors, contractors and the general public is not compromised.

As part of this process the Company employs specialist accredited advisers to advise on all Health and Safety matters relating to the Group. The Company also operates a Health and Safety Committee, covering issues related to the UK portfolio and its employees. It is chaired by the Company Secretary and its members include House Managers, Asset Managers and advisors, and it reports to the Chief Executive Officer. All regions maintain and follow their local Health and Safety policies and report issues to the Chief Executive Officer. This reporting process has worked effectively throughout the period and has ensured ongoing compliance with Health and Safety legislation.

**6 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, the implementation of which is expected during in 2011, the Company intends to implement a suitable policy to further demonstrate its commitment to business ethics.

# 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 2010 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 32. 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 AUDITORS**

As explained more fully in the Statement of Directors' Responsibilities on page 30, 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 (APB'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.

**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 2010 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 MATTERS PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Directors' Report for the financial year for which the 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 June 2008 Combined 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 2010 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mark Goodey (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London
7 March 2011

# GROUP STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2010

| | Notes | 2010 £m | 2009 £m |
|---|---|---|---|
| **Continuing operations** | | | |
| Group revenue | 4 | **79.1** | 76.3 |
| Costs | 4 | **(30.3)** | (30.3) |
| | | **48.8** | 46.0 |
| Net movements on revaluation of investment properties | 11 | **30.1** | (6.7) |
| Net gain on sale of corporate bonds and other investments | | **9.3** | 1.9 |
| Profit on sale of investment properties | | **–** | 0.3 |
| **Operating profit** | | **88.2** | 41.5 |
| Net finance costs | 7 | **(25.0)** | (25.5) |
| Share of profit of associates after tax | 15 | **7.7** | 2.5 |
| **Profit before tax** | | **70.9** | 18.5 |
| Taxation | 8 | **(10.8)** | (1.1) |
| **Profit for the year** | 5 | **60.1** | 17.4 |
| **Other comprehensive income** | | | |
| Foreign exchange differences | | **1.1** | (9.5) |
| Fair value gains on corporate bonds and other investments | 16 | **3.1** | 12.5 |
| Fair value (gains)/losses taken to the income statement on disposal of corporate bonds and other investments | 16 | **(8.5)** | 1.0 |
| Deferred tax on net fair value gains on corporate bonds and other investments | 21 | **1.8** | (3.2) |
| Share of other comprehensive income of associates | 15 | **(0.4)** | 0.4 |
| **Total comprehensive income for the year** | | **57.2** | 18.6 |
| **Profit attributable to:** | | | |
| Owners of the Company | | **60.1** | 17.5 |
| Non-controlling interests | | **–** | (0.1) |
| **Profit for the year** | | **60.1** | 17.4 |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | **57.2** | 18.7 |
| Non-controlling interests | | **–** | (0.1) |
| **Total comprehensive income for the year** | | **57.2** | 18.6 |
| **Earnings per share from continuing operations attributable to the owners of the Company during the year (expressed in pence per share)** | | | |
| Basic | 9 | **127.1** | 36.4 |
| Diluted | 9 | **127.1** | 36.4 |

The notes on pages 43 to 72 are an integral part of these group financial statements.

# GROUP BALANCE SHEET

At 31 December 2010

| | Notes | 2010 £m | 2009 £m |
|---|---|---|---|
| **Non-current assets** | | | |
| Investment properties | 11 | **876.9** | 813.0 |
| Property, plant and equipment | 12 | **2.6** | 2.5 |
| Intangible assets | 13 | **1.1** | 1.1 |
| Investments in associates | 15 | **40.6** | 40.9 |
| Other investments | 16 | **81.6** | 73.9 |
| Derivative financial instruments | 17 | **4.6** | 0.1 |
| Deferred tax | 21 | **11.2** | 12.7 |
| | | **1,018.6** | 944.2 |
| **Current assets** | | | |
| Trade and other receivables | 18 | **11.5** | 10.4 |
| Cash and cash equivalents | 19 | **48.3** | 70.3 |
| | | **59.8** | 80.7 |
| **Total assets** | | **1,078.4** | 1,024.9 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **(31.8)** | (30.1) |
| Current tax | | **(5.3)** | (5.0) |
| Derivative financial instruments | 17 | **(1.0)** | (15.7) |
| Borrowings, including finance leases | 22 | **(85.0)** | (113.5) |
| | | **(123.1)** | (164.3) |
| **Non-current liabilities** | | | |
| Deferred tax | 21 | **(74.5)** | (72.3) |
| Borrowings, including finance leases | 22 | **(504.3)** | (479.3) |
| Derivative financial instruments | 17 | **(19.3)** | – |
| | | **(598.1)** | (551.6) |
| **Total liabilities** | | **(721.2)** | (715.9) |
| **Net assets** | | **357.2** | 309.0 |
| **EQUITY** | | | |
| **Capital and reserves attributable to the owners of the Company** | | | |
| Share capital | 24 | **12.9** | 13.3 |
| Share premium account | 26 | **71.5** | 70.5 |
| Other reserves | 27 | **102.5** | 105.0 |
| Retained earnings | | **171.6** | 121.5 |
| | | **358.5** | 310.3 |
| **Non-controlling interests** | | **(1.3)** | (1.3) |
| **Total equity** | | **357.2** | 309.0 |

The financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 7 March 2011 and were signed on its behalf by:

**Mr S A Mortstedt**
Director

**Mr E H Klotz**
Director

The notes on pages 43 to 72 are an integral part of these group financial statements.

# GROUP STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2010

| | 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 2010** | | **13.3** | **70.5** | **105.0** | **121.5** | **310.3** | **(1.3)** | **309.0** |
| **Arising in 2010:** | | | | | | | | |
| **Total comprehensive income for the year** | | **–** | **–** | **(2.9)** | **60.1** | **57.2** | **–** | **57.2** |
| **Issue of treasury shares** | | **–** | **1.0** | **–** | **–** | **1.0** | **–** | **1.0** |
| **Purchase of own shares** | 24 | **(0.4)** | **–** | **0.4** | **(10.0)** | **(10.0)** | **–** | **(10.0)** |
| **Expenses thereof** | | **–** | **–** | **–** | **(0.1)** | **(0.1)** | **–** | **(0.1)** |
| **Employee share option schemes** | | **–** | **–** | **–** | **0.1** | **0.1** | **–** | **0.1** |
| **Total changes arising in 2010** | | **(0.4)** | **1.0** | **(2.5)** | **50.1** | **48.2** | **–** | **48.2** |
| **At 31 December 2010** | | **12.9** | **71.5** | **102.5** | **171.6** | **358.5** | **(1.3)** | **357.2** |

| | 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 2009 | | 16.7 | 70.5 | 100.4 | 152.2 | 339.8 | (1.2) | 338.6 |
| Arising in 2009: | | | | | | | | |
| Total comprehensive income/(loss) for the year | | – | – | 1.2 | 17.5 | 18.7 | (0.1) | 18.6 |
| Purchase of own shares | 24 | (3.4) | – | 3.4 | (48.0) | (48.0) | – | (48.0) |
| Expenses thereof | | – | – | – | (0.2) | (0.2) | – | (0.2) |
| Total changes arising in 2009 | | (3.4) | – | 4.6 | (30.7) | (29.5) | (0.1) | (29.6) |
| At 31 December 2009 | | 13.3 | 70.5 | 105.0 | 121.5 | 310.3 | (1.3) | 309.0 |

The notes on pages 43 to 72 are an integral part of these group financial statements.

# GROUP STATEMENT OF CASH FLOWS

for the year ended 31 December 2010

| | Notes | 2010 £m | 2009 £m |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 28 | **51.2** | 45.7 |
| Interest received | | **5.2** | 4.8 |
| Interest paid | | **(21.7)** | (30.1) |
| Income tax paid | | **(3.4)** | (3.0) |
| **Net cash inflow from operating activities** | | **31.3** | 17.4 |
| **Cash flows from investing activities** | | | |
| Purchase of investment property | | **(36.4)** | (29.2) |
| Capital expenditure on investment property | | **(6.5)** | (22.8) |
| Proceeds from sale of investment property | | **0.1** | 2.2 |
| Purchase of corporate bonds | | **(51.7)** | (70.8) |
| Proceeds from sale of corporate bonds | | **47.7** | 24.9 |
| Purchase of equity investments | | **(1.0)** | – |
| Proceeds from sale of equity investments | | **0.8** | 0.7 |
| Purchase of interests in associate | | **(1.9)** | (1.8) |
| Distributions received from associate undertakings | | **11.9** | 1.5 |
| Costs on foreign currency transactions | | **(1.2)** | (4.2) |
| Amounts expended in relation to corporate disposals in prior periods | | **(0.7)** | (1.0) |
| Purchases of property, plant and equipment | | **(0.3)** | (0.1) |
| **Net cash outflow from investing activities** | | **(39.2)** | (100.6) |
| **Cash flows from financing activities** | | | |
| Purchase of own shares | | **(10.1)** | (48.2) |
| New loans | | **102.7** | 69.7 |
| Issue costs of new loans | | **(1.1)** | (0.3) |
| Repayment of loans | | **(100.6)** | (57.4) |
| Purchase of financial instruments | | **(3.9)** | (0.1) |
| Issue of ordinary shares from Treasury shares | | **1.0** | – |
| **Net cash outflow from financing activities** | | **(12.0)** | (36.3) |
| **Net decrease in cash and cash equivalents** | | **(19.9)** | (119.5) |
| Foreign exchange loss | | **(2.1)** | (5.5) |
| Cash and cash equivalents at the beginning of the year | | **70.3** | 195.3 |
| **Cash and cash equivalents at the end of the year** | 19 | **48.3** | 70.3 |

The notes on pages 43 to 72 are an integral part of these group financial statements.

# NOTES TO THE GROUP FINANCIAL STATEMENTS

31 December 2010

## 1 GENERAL INFORMATION

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

The Company is registered in the UK, registration number 2714781, of registered address: 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 24 and have been prepared in accordance with International Financial Reporting Standards ("IFRSs") 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 four standards and guidance for the first time, none of which has had a material effect on the results for the year:

- Amendments to IFRS 1 (July 2009) – *Additional Exemptions for First-time Adopters*
- Improvements to IFRSs 2009 (April 2009)
- IFRS 1 (revised November 2008) – *First-time Adoption of International Financial Reporting Standards*
- IFRS 3 (revised January 2008) – *Business Combinations*
- IFRIC 17 – *Distributions of Non-cash Assets to Owners: effective for accounting periods starting on or after 1 July 2009*
- IFRIC 18 – *Transfers of Assets from Customers: effective for transfers on or after 1 July 2009*

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:

- Amendments to IAS 12 (December 2010) – *Deferred Tax: Recovery of Underlying Assets*
- Amendments to IFRS 1 (December 2010) – *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- Amendments to IFRS 7 (October 2010) – *Disclosures – Transfers of Financial Assets*
- Improvements to IFRSs 2010 (May 2010)
- Amendment to IFRS 1 (January 2010) – *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
- IFRS 9 – *Financial Instruments*
- IAS 24 (revised November 2009) – *Related Party Disclosures*
- Amendment to IAS 32 (October 2009) – *Classification of Rights Issues*

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) Joint ventures**

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The group financial statements include the Group's proportionate share of income, expenses, assets, liabilities and cash flows of joint ventures.

**(iii) 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. When the Group's share of losses in an associate equals or exceeds its interest in the associate the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

**2 SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**2.2 Business Combinations (continued)**

**(iv) 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, joint venture 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, unless they relate to qualifying cash flow hedges or qualifying net investment hedges.

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 the Group entities that 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 (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); 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. Land held under an operating lease is classified and accounted for as an investment property when the definition of investment property is met and the operating lease is accounted for as if it were a finance lease. Investment properties are measured initially at cost, including related transaction costs.

After initial recognition at cost, 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.

**2.6 Intangible assets**

Intangible assets acquired separately are capitalised at cost, and in respect of business combinations are capitalised at fair value at the date of acquisition. Intangible assets are amortised over their estimated useful lives on a straight line basis as follows:

| | |
|---|---|
| Trade names | 11 years |
| Customer relationships | 10 – 11 years |
| Technology | 4 years |
| Capitalised development and other costs | not amortised |

**2.7 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 directly in equity.

**(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 directly in equity, except for impairment losses and foreign exchange gains and losses on monetary assets. On disposal, the cumulative gain or loss previously recognised in equity 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.

**2.8 Revenue**

**(i) Rental income**

Rental revenue from operating leases is recognised on a straight-line basis over the lease term. When the Group provides incentives to its customers, the cost of incentives are recognised over the lease term, on a straight-line basis, as a reduction of rental revenue.

**(ii) Service charge income**

Service and management charge revenue is recognised on a gross basis in the accounting period in which the services are rendered. Where the Group is acting as an agent, the commission rather than gross revenue is recorded as revenue.

**(iii) Other property-related income**

Revenue from the sale of goods and services is booked when the revenue can be calculated reliably, and the risks and benefits have been transferred to the buyer. Revenues are booked net of deductions for VAT and discounts.

**2.9 Profit on sale of investment properties**

Profits on sale of investment properties are 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 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### 2.10 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 directly in equity, in which case the deferred tax is also recognised in equity.

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.

### 2.11 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and benefits of ownership to the lessee. All other leases are classified as operating leases. Certain operating leases for land that is classified and accounted for as investment property pursuant to IAS 40 – *Investment Properties* are accounted for as if they were finance leases.

**(i) A Group company is the lessee**

(a) Rentals payable under operating leases are charged to the statement of comprehensive income on a straight-line basis over the term of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the term of the lease.

(b) Assets held under finance leases are recognised as assets at the lease commencement date at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Each lease payment is allocated between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

**(ii) A Group company is the lessor**

(a) Rental income from operating leases is recognised on a straight-line basis over the term of the lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

(b) Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic return on the Group's net investment outstanding in respect of the leases.

### 2.12 Employee benefits

**Pension obligations**

The Group operates various defined contribution plans. The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. A contribution is recognised as an employee benefit expense when it is due. A prepaid contribution is recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

### 2.13 Share-based payments

The Group issues to certain employees equity-settled, share-based payments, the fair values of which are calculated using the Black Scholes share option valuation model. Fair value, excluding the effect of non-market-based conditions, is determined at the date of grant and is amortised to the statement of comprehensive income over the vesting period on a straight-line basis, with a corresponding increase in equity. At each balance sheet date, the fair value is recalculated, based on the extent to which the vesting period has expired and management's best estimate of the non-market conditions and of the number of equity instruments that will ultimately vest, and the rate of amortisation is adjusted accordingly.

**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 best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates. In making its judgement, the Group considers information from a variety of sources including:

(a) current prices in an active market for properties of a different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;

(b) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

**(ii) 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.

**(iii) Impairment of goodwill and other intangible assets**

When assessing possible impairment of goodwill and other intangible assets the Group is required to make an assessment of recoverable amounts. Recoverable amount is calculated as the higher of fair value less costs to sell and value in use. In making these assessments, assumptions are required to be made based upon information available at the time.

**(iv) Deferred tax**

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

**(v) 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.

## 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 Wyatt Media Group 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 2010 by operating segment were as follows:

| | Investment property | | | | | |
|---|---|---|---|---|---|---|
| | London £m | France £m | Germany £m | Sweden £m | Other Investments £m | Total £m |
| Rental income | **24.5** | **17.8** | **14.3** | **5.5** | **–** | **62.1** |
| Service charge income | **4.2** | **4.9** | **2.7** | **0.3** | **–** | **12.1** |
| Other property-related income | **0.5** | **0.1** | **–** | **–** | **–** | **0.6** |
| Income from non-property activities | **–** | **–** | **–** | **–** | **4.3** | **4.3** |
| **Group revenue** | **29.2** | **22.8** | **17.0** | **5.8** | **4.3** | **79.1** |
| Service charges and similar expenses | **(5.5)** | **(5.2)** | **(3.0)** | **(1.4)** | **–** | **(15.1)** |
| Administration expenses | **(2.9)** | **(1.5)** | **(1.0)** | **(0.3)** | **(3.9)** | **(9.6)** |
| Other expenses | **(0.5)** | **(0.2)** | **(1.3)** | **–** | **(0.2)** | **(2.2)** |
| **Costs** | **(8.9)** | **(6.9)** | **(5.3)** | **(1.7)** | **(4.1)** | **(26.9)** |
| Group revenue less costs | **20.3** | **15.9** | **11.7** | **4.1** | **0.2** | **52.2** |
| Net movements on revaluation of investment properties | **4.8** | **17.8** | **8.2** | **(0.7)** | **–** | **30.1** |
| Net gain on sale of corporate bonds and other investments | **–** | **–** | **–** | **–** | **9.3** | **9.3** |
| Profit/(loss) on sale of subsidiaries | **–** | **(1.6)** | **–** | **1.6** | **–** | **–** |
| **Segment operating profit** | **25.1** | **32.1** | **19.9** | **5.0** | **9.5** | **91.6** |
| Net finance costs | **(16.2)** | **(2.9)** | **(6.9)** | **(0.4)** | **1.4** | **(25.0)** |
| Share of profit of associates after tax | **–** | **–** | **–** | **–** | **7.7** | **7.7** |
| **Segment profit before tax** | **8.9** | **29.2** | **13.0** | **4.6** | **18.6** | **74.3** |
| Taxation | **0.1** | **(9.6)** | **(0.5)** | **(0.4)** | **(0.4)** | **(10.8)** |
| **Segment profit after tax** | **9.0** | **19.6** | **12.5** | **4.2** | **18.2** | **63.5** |
| Central administration costs | | | | | | **(3.4)** |
| **Profit for the year** | | | | | | **60.1** |

The Group's results for the year ended 31 December 2009 by operating segment were as follows:

| | Investment property | | | | | |
|---|---|---|---|---|---|---|
| | London £m | France £m | Germany £m | Sweden £m | Other Investments £m | Total £m |
| Rental income | 25.0 | 15.9 | 14.8 | 4.9 | – | 60.6 |
| Service charge income | 4.7 | 4.2 | 1.7 | 0.3 | – | 10.9 |
| Other property-related income | 0.4 | 0.3 | 0.3 | – | – | 1.0 |
| Income from non-property activities | – | – | – | – | 3.8 | 3.8 |
| **Group revenue** | **30.1** | **20.4** | **16.8** | **5.2** | **3.8** | **76.3** |
| Service charges and similar expenses | (6.3) | (4.5) | (2.8) | (1.2) | – | (14.8) |
| Administration expenses | (2.6) | (1.5) | (1.1) | (0.5) | (3.7) | (9.4) |
| Other expenses | (1.0) | (0.7) | (1.2) | (0.2) | (0.2) | (3.3) |
| **Costs** | **(9.9)** | **(6.7)** | **(5.1)** | **(1.9)** | **(3.9)** | **(27.5)** |
| Group revenue less costs | 20.2 | 13.7 | 11.7 | 3.3 | (0.1) | 48.8 |
| Net movements on revaluation of investment properties | 24.1 | (15.9) | (13.5) | (1.4) | – | (6.7) |
| Gain on sale of corporate bonds and other investments | – | – | – | – | 1.9 | 1.9 |
| Profit on sale of investment properties | 0.3 | – | – | – | – | 0.3 |
| **Segment operating profit/(loss)** | **44.6** | **(2.2)** | **(1.8)** | **1.9** | **1.8** | **44.3** |
| Net finance costs | (6.1) | (7.0) | (7.4) | (1.6) | (3.4) | (25.5) |
| Share of profit of associates after tax | – | – | – | – | 2.5 | 2.5 |
| **Segment profit/(loss) before tax** | **38.5** | **(9.2)** | **(9.2)** | **0.3** | **0.9** | **21.3** |
| Taxation | (4.0) | 1.6 | 0.2 | 0.6 | 0.5 | (1.1) |
| **Segment profit/(loss) after tax** | **34.5** | **(7.6)** | **(9.0)** | **0.9** | **1.4** | **20.2** |
| Central administration costs | | | | | | (2.8) |
| **Profit for the year** | | | | | | **17.4** |

**Other segment information:**

| | Assets | | Liabilities | | Capital expenditure | |
|---|---|---|---|---|---|---|
| | **2010 £m** | 2009 £m | **2010 £m** | 2009 £m | **2010 £m** | 2009 £m |
| Investment Property | | | | | | |
| London | **391.2** | 370.2 | **295.4** | 282.0 | **23.7** | 1.4 |
| France | **256.7** | 246.1 | **190.6** | 187.6 | **15.5** | 31.5 |
| Germany | **203.2** | 200.0 | **154.5** | 158.8 | **2.7** | 17.7 |
| Sweden | **61.6** | 58.6 | **45.0** | 30.7 | **0.6** | 2.1 |
| Other investments | **165.7** | 150.0 | **35.7** | 56.8 | **–** | – |
| | **1,078.4** | 1,024.9 | **721.2** | 715.9 | **42.5** | 52.7 |

Included within the assets of other investments are investments in associates of £40.6 million (2009: £40.9 million).

## 5 PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging:

| | 2010 £m | 2009 £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 and amortisation | **0.3** | 0.5 |
| Employee benefits expense (note 6) | **8.0** | 6.7 |

## 6 EMPLOYEE BENEFITS EXPENSE

| | 2010 £m | 2009 £m |
|---|---|---|
| Wages and salaries | **6.2** | 5.3 |
| Social security costs | **1.0** | 0.8 |
| Pension costs – defined contribution plans | **0.3** | 0.2 |
| Other employee-related expenses | **0.5** | 0.4 |
| | **8.0** | 6.7 |

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

Information on Directors' emoluments, share options and interests in the Company's shares is given in the Directors' Remuneration Report on pages 31 to 35.

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

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | Property number | Other operations number | Total number | Property number | Other operations number | Total number |
| Male | **21** | **19** | **40** | 20 | 20 | 40 |
| Female | **31** | **5** | **36** | 29 | 8 | 37 |
| | **52** | **24** | **76** | 49 | 28 | 77 |

**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 2012 to March 2017. Details of vesting conditions in relation to these options are given within the Directors Remuneration report on page 34.

The movement in share options during the year was:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | Number of share options | Exercise price (pence) | Number of share options | Exercise price (pence) |
| Outstanding at the beginning of the year | **–** | **–** | – | – |
| Granted during the year | **300,000** | **470** | – | – |
| Outstanding at the end of the year | **300,000** | **470** | – | – |
| 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 £0.1 million (2009: £nil) relating to equity-settled share-based transactions in the year and a corresponding increase to equity.

## 7 NET FINANCE COSTS

| | 2010 £m | 2009 £m |
|---|---|---|
| Interest expense | | |
| Bank loans | **18.3** | 22.7 |
| Debenture loans | **4.7** | 4.7 |
| Other interest | **–** | 0.3 |
| Amortisation of issue costs of loans | **1.0** | 0.8 |
| Foreign exchange variances | **4.0** | 9.7 |
| Movement in fair value of derivative financial instruments | | |
| Interest rate swaps: transactions not qualifying as hedges | **3.7** | (6.7) |
| Interest rate caps, collars and floors: transactions not qualifying as hedges | **(0.6)** | 0.4 |
| Interest income | **(6.1)** | (6.4) |
| | **25.0** | 25.5 |

## 8 TAXATION

| | 2010 £m | 2009 £m |
|---|---|---|
| Current tax | **4.4** | 2.1 |
| Deferred tax (note 21) | **6.4** | (1.0) |
| | **10.8** | 1.1 |

A deferred tax credit of £1.8 million (2009: charge of £3.2 million) was recognised directly in equity (note 21).

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

| | 2010 £m | 2009 £m |
|---|---|---|
| **Profit before tax** | **70.9** | 18.5 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | **20.1** | 4.9 |
| Expenses not deductible for tax purposes | **1.5** | 0.5 |
| Tax effect of unrecognised (profits)/losses in associates and joint ventures | **(2.3)** | (0.7) |
| Adjustment in respect of indexation allowance on UK properties | **(2.1)** | (3.2) |
| Other deferred tax adjustments | **0.4** | (0.5) |
| Deferred tax assets not recognised | **(1.9)** | 2.9 |
| Adjustment in respect of prior periods | **(4.9)** | (2.8) |
| **Tax expense for the year** | **10.8** | 1.1 |

The weighted average applicable tax rate of 28.4 per cent (2009: 26.3 per cent) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated.

## 9 EARNINGS PER SHARE

Management has chosen to disclose the European Public Real Estate Association (EPRA) measure of earnings per share (Best Practices Recommendations October 2010), 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, 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 tax on these items.

| Earnings | 2010 £m | 2009 £m |
|---|---|---|
| Profit for the period attributable to the owners of the Company | **60.1** | 17.5 |
| Revaluation (gains)/losses on investment properties | **(30.1)** | 6.7 |
| Profit on sale of investment properties | **–** | (0.3) |
| Negative goodwill on share acquisitions | **(0.1)** | (2.8) |
| Change in fair value of derivative financial instruments | **3.1** | (6.3) |
| Net gain on sale of corporate bonds and other investments | **(9.3)** | (1.9) |
| Deferred tax relating to the above adjustments | **4.1** | 0.6 |
| EPRA Earnings | **27.8** | 13.5 |

| Weighted average number of ordinary shares | 2010 Number | 2009 Number |
|---|---|---|
| Weighted average number of ordinary shares | **47,280,274** | 48,249,810 |
| Dilutive share options† | **13,339** | – |
| Diluted weighted average number of ordinary shares | **47,293,613** | 48,249,810 |

| Earnings per Share | 2010 Pence | 2009 Pence |
|---|---|---|
| Basic | **127.1** | 36.4 |
| Diluted | **127.1** | 36.4 |
| EPRA | **58.8** | 28.0 |

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

## 10 NET ASSETS PER SHARE

Management has chosen to disclose the two European Public Real Estate Association (EPRA) measures of net assets per share (Best Practices Recommendations October 2010): 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 | 2010 £m | 2009 £m |
|---|---|---|
| Basic net assets | **357.2** | 309.0 |
| Dilutive impact of share options | **1.4** | – |
| Diluted net assets | **358.6** | 309.0 |
| Adjustment to increase fixed rate debt to fair value | **(25.9)** | (24.1) |
| Goodwill as a result of deferred tax | **(1.1)** | (1.1) |
| **EPRA Triple Net Assets** | **331.6** | 283.8 |
| Deferred tax on property and other non-current assets | **68.4** | 66.7 |
| Fair value of derivative financial instruments | **15.7** | 15.6 |
| Adjustment to decrease fixed rate debt to book value | **25.9** | 24.1 |
| **EPRA Net Assets** | **441.6** | 390.2 |

| | **2010 Number** | 2009 Number |
|---|---|---|
| Number of ordinary shares in circulation | **46,588,244** | 48,024,256 |
| Dilutive share options | **300,000** | – |
| Diluted number of ordinary shares in issue | **46,888,244** | 48,024,256 |

| **Net Assets Per Share** | **2010 Pence** | 2009 Pence |
|---|---|---|
| Basic | **766.7** | 643.3 |
| Diluted | **764.8** | 643.3 |
| EPRA | **941.8** | 812.5 |
| EPRA Triple Net | **707.2** | 591.0 |

## 11 INVESTMENT PROPERTIES

| | **London £m** | **France £m** | **Germany £m** | **Sweden £m** | **Total £m** |
|---|---|---|---|---|---|
| **At 1 January 2010** | **346.8** | **222.8** | **192.1** | **51.3** | **813.0** |
| **Acquisitions** | **23.4** | **13.0** | **–** | **–** | **36.4** |
| **Disposals** | **(0.1)** | **–** | **–** | **–** | **(0.1)** |
| **Capital expenditure** | **0.1** | **2.5** | **2.6** | **0.6** | **5.8** |
| **Net movement on revaluation of investment properties** | **4.8** | **17.8** | **8.2** | **(0.7)** | **30.1** |
| **Rent-free period debtor adjustments** | **–** | **–** | **–** | **0.1** | **0.1** |
| **Exchange rate variances** | **–** | **(7.4)** | **(6.4)** | **5.4** | **(8.4)** |
| **At 31 December 2010** | **375.0** | **248.7** | **196.5** | **56.7** | **876.9** |

| | London £m | France £m | Germany £m | Sweden £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2009 | 323.2 | 223.4 | 201.4 | 50.8 | 798.8 |
| Acquisitions | – | 29.2 | – | – | 29.2 |
| Capital expenditure | 1.3 | 2.3 | 17.7 | 2.1 | 23.4 |
| Disposals – property sales | (1.9) | – | – | – | (1.9) |
| Net movement on revaluation of investment properties | 24.0 | (15.9) | (13.5) | (1.3) | (6.7) |
| Rent-free period debtor adjustments | 0.2 | – | 1.0 | 0.3 | 1.5 |
| Exchange rate variances | – | (16.2) | (14.5) | (0.6) | (31.3) |
| At 31 December 2009 | 346.8 | 222.8 | 192.1 | 51.3 | 813.0 |

The investment properties (and the owner-occupied property detailed in note 12) were revalued at 31 December 2010 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 (2009: DTZ Debenham Tie Leung)

Germany: Colliers International (2009: DTZ Debenham Tie Leung)

Sweden: CB Richard Ellis

Investment properties included leasehold properties with a carrying amount of £19.6 million (2009: £18.1 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 the current or comparative years.

Substantially all investment properties (and the owner-occupied property detailed in note 12) are secured against debt.

During the year 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.

## 12 PROPERTY, PLANT AND EQUIPMENT

| | 2010 £m | 2009 £m |
|---|---|---|
| **Cost or valuation** | | |
| At 1 January | **6.8** | 6.6 |
| Additions | **0.3** | 0.1 |
| Disposals | **(1.8)** | – |
| Revaluation increase | **0.1** | 0.1 |
| At 31 December | **5.4** | 6.8 |
| **Accumulated depreciation and impairment** | | |
| At 1 January | **(4.3)** | (3.8) |
| Depreciation charge | **(0.3)** | (0.5) |
| Disposals | **1.8** | – |
| At 31 December | **(2.8)** | (4.3) |
| **Net book value** | | |
| At 31 December | **2.6** | 2.5 |

An owner-occupied property was revalued at 31 December 2010 based on the external valuation performed by Lambert Smith Hampton as detailed in note 11.

## 13 INTANGIBLE ASSETS

| | Goodwill £m | Other intangibles £m | Total £m |
|---|---|---|---|
| **Cost** | | | |
| **At 1 January 2010 and at 31 December 2010** | **18.6** | **7.2** | **25.8** |
| **Amortisation** | | | |
| **At 1 January 2010 and at 31 December 2010** | **(17.5)** | **(7.2)** | **(24.7)** |
| **Net book value** | | | |
| **At 31 December 2010** | **1.1** | **–** | **1.1** |

| | Goodwill £m | Other intangibles £m | Total £m |
|---|---|---|---|
| Cost | | | |
| At 1 January 2009 and at 31 December 2009 | 18.6 | 7.2 | 25.8 |
| Amortisation | | | |
| At 1 January 2009 and at 31 December 2009 | (17.5) | (7.2) | (24.7) |
| Net book value | | | |
| At 31 December 2009 | 1.1 | – | 1.1 |

**Goodwill**

Goodwill comprised £0.8 million (2009: £0.8 million) on the acquisition of a French property portfolio in 2004 and £0.3 million (2009: £0.3 million) on a German property acquisition in 2005. All other goodwill related to Wyatt Media Group AB and was fully written down in 2008.

**Other intangibles**

Other intangibles (relating to trade names, technology, customer relationships, capitalised development and other costs) relate to Wyatt Media Group AB and were fully written down during 2008.

**2010 Impairment review**

Goodwill was reviewed for impairment at 31 December 2010 using the key assumptions set out below. No impairment was required.

**Key assumptions:**

Unamortised goodwill at 31 December 2010 related to contingent deferred tax arising on acquisitions of corporate entities for which an equal deferred tax liability was recognised in the balance sheet.

**2009 Impairment review**

Goodwill was reviewed for impairment at 31 December 2009 using the key assumptions set out below. No impairment was required.

**Key assumptions:**

Unamortised goodwill at 31 December 2009 related to contingent deferred tax arising on acquisitions of corporate entities for which an equal deferred tax liability was recognised in the balance sheet.

## 14 JOINT VENTURES

At 31 December 2010 the Group had a one-third interest (2009: one-third) in the issued ordinary share capital of Fielden House Investments Limited, a company incorporated in England and Wales.

The principal activity of Fielden House Investments 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 income and expenditure of Fielden House Investments Limited which are included in the balance sheet and statement of comprehensive income of the Group:

| | 2010 £m | 2009 £m |
|---|---|---|
| **Assets** | | |
| Non-current assets | **1.9** | 1.8 |
| Current assets | **0.1** | 0.2 |
| | **2.0** | 2.0 |
| **Liabilities** | | |
| Current liabilities | **(2.1)** | (0.2) |
| Non-current liabilities | **(0.4)** | (2.5) |
| | **(2.5)** | (2.7) |
| **Net liabilities** | **(0.5)** | (0.7) |
| Income | **0.2** | 0.2 |
| Expenses | **(0.2)** | (0.2) |
| **Profit after tax** | **–** | – |

## 15 INVESTMENTS IN ASSOCIATES

| | Net assets £m | Goodwill £m | Total £m |
|---|---|---|---|
| **At 1 January 2010** | **36.1** | **4.8** | **40.9** |
| **Additions** | **0.4** | **1.5** | **1.9** |
| **Share of profit of associates after tax** | **7.7** | **–** | **7.7** |
| **Other equity movements*** | **(0.4)** | **–** | **(0.4)** |
| **Distributions received** | **(11.9)** | **–** | **(11.9)** |
| **Exchange rate differences** | **1.9** | **0.5** | **2.4** |
| **At 31 December 2010** | **33.8** | **6.8** | **40.6** |

### 15 INVESTMENTS IN ASSOCIATES (CONTINUED)

| | Net assets £m | Goodwill £m | Total £m |
|---|---|---|---|
| At 1 January 2009 | 34.6 | 4.7 | 39.3 |
| Additions | 1.7 | 0.1 | 1.8 |
| Share of profit of associates after tax | 2.5 | – | 2.5 |
| Other equity movements* | 0.4 | – | 0.4 |
| Dividends received | (1.5) | – | (1.5) |
| Exchange rate differences | (1.6) | – | (1.6) |
| At 31 December 2009 | 36.1 | 4.8 | 40.9 |

* Primarily foreign exchange movements of the associate undertakings.

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

| **At 31 December 2010** | **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** | **4.5** | **0.8** | **0.2** | **5.5** |
| **Profit/(loss) after tax** | **9.4** | **(1.7)** | **(0.1)** | **7.6** |
| **Realisation of negative goodwill on acquisition** | **–** | **0.1** | **–** | **0.1** |
| **Share of profit/(loss) of associates after tax** | **9.4** | **(1.6)** | **(0.1)** | **7.7** |
| **Assets** | **62.1** | **17.5** | **0.2** | **79.8** |
| **Liabilities** | **(37.8)** | **(8.1)** | **(0.1)** | **(46.0)** |
| **Net assets** | **24.3** | **9.4** | **0.1** | **33.8** |
| **Goodwill** | **5.3** | **–** | **1.5** | **6.8** |
| **Investments in associates** | **29.6** | **9.4** | **1.6** | **40.6** |
| **Market value of interest** | **50.6** | **n/a** | **n/a** | |

| At 31 December 2009 | Catena AB £m | Bulgarian Land Development Plc £m | Other associates £m | Total £m |
|---|---|---|---|---|
| *Interest held in ordinary share capital* | *29.8%* | *47.7%* | *40.0%* | |
| Revenues | 5.1 | 2.1 | – | 7.2 |
| Profit/(loss) after tax | 3.0 | (3.3) | – | (0.3) |
| Realisation of negative goodwill on acquisition | – | 2.8 | – | 2.8 |
| Share of profit/(loss) of associates after tax | 3.0 | (0.5) | – | 2.5 |
| Assets | 66.4 | 27.4 | – | 93.8 |
| Liabilities | (43.8) | (13.9) | – | (57.7) |
| Net assets | 22.6 | 13.5 | – | 36.1 |
| Goodwill | 4.8 | – | – | 4.8 |
| Investments in associates | 27.4 | 13.5 | – | 40.9 |
| Market value of interest | 26.1 | 4.3 | n/a | |

**Catena AB**

At 31 December 2009 the Group had a 29.8 per cent interest in Catena AB, a listed Swedish property company. During 2010 the Group acquired a further 0.1 per cent at a cost of £0.3 million, increasing the aggregate interest to 29.9 per cent. Henry Klotz, Executive Vice Chairman of the Group, is the Chairman of Catena AB.

During 2010 Catena returned £9.9 million (2009: £1.5 million) to the Group in cash following significant realisations of its property assets.

**Bulgarian Land Development Plc**

At 31 December 2009 the Group had a 47.7 per cent interest in Bulgarian Land Development Plc (BLD), a developer of residential and commercial real estate in Bulgaria. Given the challenges of the Bulgarian property sector, BLD's major shareholders agreed that it should reduce running costs, effect an orderly disposal of its assets, and distribute the net proceeds in order to maximise returns for shareholders. As a result BLD was de-listed from the Alternative Investment Market of the London Stock Exchange on 19 August 2010. As part of the de-listing process the Group acquired a further 1.0 per cent of BLD for £0.1 million increasing the aggregate interest to 48.7 per cent.

In December 2010, the Group received a return of capital of £2.0 million from BLD by means of a tender offer buy-back. As the tender was not fully subscribed the Group's interest in BLD fell to 48.3%.

**Other associates**

Other associates comprise associates of the Wyatt Media Group internet business, each incorporated in Sweden.

**Impairment**

**2010**

In assessing the carrying value of Catena AB, the Group considered that the balance sheet of Catena AB at 31 December 2010 was stated at fair value except for certain deferred tax liabilities. It was management's assessment that the realisation of Catena's property assets would occur through corporate disposals and therefore latent deferred tax liabilities were unlikely to crystallise. As the Group's share of the net assets of Catena AB, excluding deferred tax liabilities, exceeded the carrying value of the Group's interest there was no further impairment of the Group's interest in Catena AB at 31 December 2010. Furthermore, the market value of the Group's shares in Catena AB exceeded their carrying value by £21.0 million.

BLD is carried in the balance sheet at a value equal to the Group's share of its net assets. BLD's net assets, which were prepared under IFRS, were reviewed and found not to be impaired at 31 December 2010. Accordingly there was no further provision against the carrying value of the Group's interest in BLD at 31 December 2010.

**2009**

The carrying value of Catena AB was assessed by management at 31 December 2009 under the same methodology as in 2010. As the Group's share of the net assets of Catena AB, excluding deferred tax liabilities, exceeded the carrying value of the Group's interest there was no further impairment of the Group's interest in Catena AB at 31 December 2009.

BLD's net assets, which were prepared under IFRS, were reviewed and found not to be impaired at 31 December 2009. Accordingly there was no further provision against the carrying value of the Group's interest in BLD at 31 December 2009.

## 16 OTHER INVESTMENTS

| | | 2010 £m | 2009 £m |
|---|---|---|---|
| Available-for-sale financial investments carried at fair value | | | |
| Listed corporate bonds | UK | **37.5** | 17.1 |
| | Eurozone | **24.1** | 40.0 |
| | Other | **16.5** | 12.9 |
| Listed equity securities | UK | **0.5** | 0.6 |
| | Sweden | **2.4** | 2.5 |
| | Other | **0.1** | 0.1 |
| Unlisted investments | Sweden | **0.4** | 0.6 |
| Government securities | UK | **0.1** | 0.1 |
| | | **81.6** | 73.9 |

The movement of other investments is analysed below:

| | 2010 £m | 2009 £m |
|---|---|---|
| **At 1 January** | **73.9** | 14.3 |
| Additions | **52.7** | 70.7 |
| Disposals | **(39.1)** | (23.4) |
| Fair value movements recognised in reserves on available-for-sale assets | **3.1** | 12.5 |
| Fair value movements recognised in profit before tax on available-for-sale assets | **(8.5)** | 1.0 |
| Exchange rate variations | **(0.5)** | (1.2) |
| **At 31 December** | **81.6** | 73.9 |

The table below gives an analysis of the valuation methods used to measure the fair value of the other investments, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

| | 2010 £m | 2009 £m |
|---|---|---|
| Level 1 – quoted unadjusted market prices | **3.1** | 3.3 |
| Level 2 – valuation from observable market data† | **78.1** | 70.0 |
| Level 3 – other valuation methods* | **0.4** | 0.6 |
| | **81.6** | 73.9 |

† Includes £12.8 million (2009: £5.1 million) of corporate bonds priced directly from market makers in those bonds.
* Unlisted equity shares valued using multiples from comparable listed organisations.

## 17 DERIVATIVE FINANCIAL INSTRUMENTS

| | 2010 Assets £m | 2010 Liabilities £m | 2009 Assets £m | 2009 Liabilities £m |
|---|---|---|---|---|
| **Non-current** | | | | |
| Interest rate swaps | **–** | **(19.3)** | – | – |
| Interest rate caps and floors | **4.6** | **–** | 0.1 | – |
| | **4.6** | **(19.3)** | 0.1 | – |
| **Current** | | | | |
| Interest rate swaps | **–** | **–** | – | (15.7) |
| Forward foreign exchange contracts | **–** | **(1.0)** | – | – |
| | **–** | **(1.0)** | – | (15.7) |
| | **4.6** | **(20.3)** | 0.1 | (15.7) |

The valuation methods used to measure the fair value of all derivative financial instruments were grouped into Level 2, being derived from inputs which were either observable as prices or derived from prices.

There were no derivative financial instruments accounted for as hedging instruments.

### Interest rate swaps

The notional principal of the main interest rate swap contract at 31 December 2010 was £85.0 million (2009: £85.0 million). This swap matures in 2026, and during the period to maturity there is a single date in 2012 on which it can be cancelled by the counterparty at no cost to the counterparty. Both parties can cancel the swap at market value in 2017 and 2022. The fair value of this swap at 31 December 2010 was a liability of £12.7 million (2009: £9.9 million).

The aggregate notional principal of all other outstanding interest rate swap contracts at 31 December 2010 was £48.5 million (2009: £78.4 million). The average period to maturity of these interest rate swaps was 5.1 years (2009: 3.5 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 2010 the Group had £27.0 million of outstanding net foreign exchange contracts (2009: £5.4 million).

## 18 TRADE AND OTHER RECEIVABLES

| | 2010 £m | 2009 £m |
|---|---|---|
| **Current** | | |
| Trade receivables | **3.5** | 2.8 |
| Prepayments | **0.7** | 0.8 |
| Accrued income | **3.5** | 2.2 |
| Other debtors | **3.8** | 4.6 |
| | **11.5** | 10.4 |

There was no concentration of credit risk with respect to trade receivables as the Group had a large number of tenants spread across the countries in which it operated.

There were no material trade and other receivables classified as past due but not impaired (2009: none). No trade and other receivables were interest-bearing.

## 19 CASH AND CASH EQUIVALENTS

| | 2010 £m | 2009 £m |
|---|---|---|
| Cash at bank and in hand | **23.9** | 47.0 |
| Short-term bank deposits | **24.4** | 23.3 |
| | **48.3** | 70.3 |

At 31 December 2010, Group cash at bank and in hand included £6.4 million (2009: £13.8 million) of cash deposits which were 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 2010 | Cash at bank and in hand £m | Short-term deposits £m | Total £m |
|---|---|---|---|
| **Sterling** | **13.6** | **7.5** | **21.1** |
| **Euro** | **9.2** | **0.2** | **9.4** |
| **Swedish Krona** | **1.1** | **16.7** | **17.8** |
| | **23.9** | **24.4** | **48.3** |

| At 31 December 2009 | Cash at bank and in hand £m | Short-term deposits £m | Total £m |
|---|---|---|---|
| Sterling | 18.5 | 22.0 | 40.5 |
| Euro | 24.5 | 1.3 | 25.8 |
| Swedish Krona | 4.0 | – | 4.0 |
| | 47.0 | 23.3 | 70.3 |

## 20 TRADE AND OTHER PAYABLES

| | 2010 £m | 2009 £m |
|---|---|---|
| **Current** | | |
| Trade payables | **1.6** | 1.9 |
| Social security and other taxes | **2.1** | 1.8 |
| Other payables | **6.4** | 5.4 |
| Accruals | **12.8** | 12.1 |
| Deferred income | **8.9** | 8.9 |
| | **31.8** | 30.1 |

## 21 DEFERRED TAX

| | 2010 £m | 2009 £m |
|---|---|---|
| Deferred tax assets: | | |
| – after more than 12 months | **(11.2)** | (12.7) |
| Deferred tax liabilities: | | |
| – after more than 12 months | **74.5** | 72.3 |
| | **63.3** | 59.6 |

The movement in deferred tax was as follows:

| | 2010 £m | 2009 £m |
|---|---|---|
| **At 1 January** | **59.6** | 61.0 |
| Charged/(credited) to the tax charge in the statement of comprehensive income | **6.4** | (1.0) |
| (Credited)/charged to equity | **(1.8)** | 3.2 |
| Exchange rate variances | **(0.9)** | (3.6) |
| **At 31 December** | **63.3** | 59.6 |

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

| **Deferred tax assets** | **Tax losses £m** | **Other £m** | **Total £m** |
|---|---|---|---|
| **At 1 January 2010** | **(7.1)** | **(5.6)** | **(12.7)** |
| **(Credited)/charged to the tax charge in the statement of comprehensive income** | **2.0** | **(0.5)** | **1.5** |
| **At 31 December 2010** | **(5.1)** | **(6.1)** | **(11.2)** |

| Deferred tax assets | Tax losses £m | Other £m | Total £m |
|---|---|---|---|
| At 1 January 2009 | (5.4) | (7.0) | (12.4) |
| (Credited)/charged to the tax charge in the statement of comprehensive income | (1.7) | 1.4 | (0.3) |
| At 31 December 2009 | (7.1) | (5.6) | (12.7) |

| **Deferred tax liabilities** | **UK capital allowances £m** | **Fair value adjustments to investment properties £m** | **Other £m** | **Total £m** |
|---|---|---|---|---|
| **At 1 January 2010** | **12.1** | **56.5** | **3.7** | **72.3** |
| **(Credited)/charged to the tax charge in the statement of comprehensive income** | **(1.9)** | **6.7** | **0.1** | **4.9** |
| **Credited to equity** | **–** | **–** | **(1.8)** | **(1.8)** |
| **Exchange rate variances** | **–** | **(0.9)** | **–** | **(0.9)** |
| **At 31 December 2010** | **10.2** | **62.3** | **2.0** | **74.5** |

| Deferred tax liabilities | UK capital allowances £m | Fair value adjustments to investment properties £m | Other £m | Total £m |
|---|---|---|---|---|
| At 1 January 2009 | 12.2 | 60.5 | 0.7 | 73.4 |
| Credited to the tax charge in the statement of comprehensive income | (0.1) | (0.4) | (0.2) | (0.7) |
| Charged to equity | – | – | 3.2 | 3.2 |
| Exchange rate variances | – | (3.6) | – | (3.6) |
| At 31 December 2009 | 12.1 | 56.5 | 3.7 | 72.3 |

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 2010 the Group did not recognise deferred tax assets of £4.7 million (2009: £7.8 million) in respect of losses amounting to £20.2 million (2009: £40.6 million) which can be carried forward against future taxable income or gains. The majority of deferred tax assets recognised within the "other" category relate to deferred tax on swaps with a negative book value. Losses recognised as deferred tax assets can be carried forward without restriction.

On 1 April 2011 the UK corporation tax rate reduces from 28% to 27%. 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 27%. The impact on net assets for 2010 as a result of this change was an increase of £0.4 million. It is expected that UK tax rates will reduce to 24% by 1 April 2014. A further 1% fall in the rate of UK tax would increase net assets by £0.4 million.

## 22 BORROWINGS

| At 31 December 2010 | Current £m | Non-current £m | Total borrowings £m |
|---|---|---|---|
| **Bank loans** | **81.6** | **461.5** | **543.1** |
| **Debenture loans** | **1.1** | **33.0** | **34.1** |
| **Zero coupon note** | **–** | **9.8** | **9.8** |
| **Other loans** | **2.3** | **–** | **2.3** |
| | **85.0** | **504.3** | **589.3** |

| At 31 December 2009 | Current £m | Non-current £m | Total borrowings £m |
|---|---|---|---|
| Bank loans | 112.5 | 434.1 | 546.6 |
| Debenture loans | 1.0 | 34.1 | 35.1 |
| Zero coupon note | – | 8.8 | 8.8 |
| Other loans | – | 2.3 | 2.3 |
| | 113.5 | 479.3 | 592.8 |

Arrangement fees of £3.0 million (2009: £2.9 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 4.9 per cent and 11.2 per cent, including margin (2009: 4.9 per cent and 11.2 per cent) and at floating rates of typically LIBOR, EURIBOR or STIBOR, plus a margin. Fixed rate margins range between 0.8 per cent and 1.8 per cent (2009: 0.8 per cent and 1.8 per cent) and floating rate margins range between 1.0 per cent and 3.0 per cent (2009: 0.8 per cent and 3.0 per cent). 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 (2009: £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 per cent, 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 per cent, 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.

**Other loans**

Interest on other loans is at a variable rate ranging between 2.0 per cent and 4.0 per cent (2009: 2.0 per cent and 4.0 per cent) per annum, comprising LIBOR plus a margin. The loans are secured by legal charges over the assets of the borrowing subsidiaries.

**Loan covenants**

There were no covenant breaches at 31 December 2010 or at 31 December 2009.

The maturity profile of the carrying amount of the Group's borrowings at 31 December was as follows:

| **At 31 December 2010** | **Bank loans £m** | **Debenture loans £m** | **Zero coupon note £m** | **Other loans £m** | **Total £m** |
|---|---|---|---|---|---|
| **Within one year or on demand** | **82.4** | **1.1** | **–** | **2.3** | **85.8** |
| **More than one but not more than two years** | **126.2** | **1.2** | **–** | **–** | **127.4** |
| **More than two but not more than five years** | **204.4** | **4.5** | **–** | **–** | **208.9** |
| **More than five years** | **133.1** | **27.3** | **9.8** | **–** | **170.2** |
| | **546.1** | **34.1** | **9.8** | **2.3** | **592.3** |
| **Unamortised issue costs** | **(3.0)** | **–** | **–** | **–** | **(3.0)** |
| **Borrowings** | **543.1** | **34.1** | **9.8** | **2.3** | **589.3** |
| **Less amount due for settlement within 12 months** | **(81.6)** | **(1.1)** | **–** | **(2.3)** | **(85.0)** |
| **Amounts due for settlement after 12 months** | **461.5** | **33.0** | **9.8** | **–** | **504.3** |

| At 31 December 2009 | Bank loans £m | Debenture loans £m | Zero coupon note £m | Other loans £m | Total £m |
|---|---|---|---|---|---|
| Within one year or on demand | 113.1 | 1.0 | – | – | 114.1 |
| More than one but not more than two years | 27.3 | 1.1 | – | 2.3 | 30.7 |
| More than two but not more than five years | 200.7 | 4.0 | – | – | 204.7 |
| More than five years | 208.4 | 29.0 | 8.8 | – | 246.2 |
| | 549.5 | 35.1 | 8.8 | 2.3 | 595.7 |
| Unamortised issue costs | (2.9) | – | – | – | (2.9) |
| Borrowings | 546.6 | 35.1 | 8.8 | 2.3 | 592.8 |
| Less amount due for settlement within 12 months | (112.5) | (1.0) | – | – | (113.5) |
| Amounts due for settlement after 12 months | 434.1 | 34.1 | 8.8 | 2.3 | 479.3 |

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

| | **At 31 December 2010** | | At 31 December 2009 | |
|---|---|---|---|---|
| | **Weighted average fixed rate of financial liabilities %** | **Weighted average period for which rate is fixed Years** | Weighted average fixed rate of financial liabilities % | Weighted average period for which rate is fixed Years |
| Sterling | **6.5** | **5.6** | 6.5 | 6.6 |
| Euro | **4.3** | **2.2** | 4.3 | 3.1 |

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

| | **At 31 December 2010** | | | At 31 December 2009 | | |
|---|---|---|---|---|---|---|
| | **% 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 | **56** | **2.7** | **5.0** | 100 | 3.9 | 0.7 |
| Euro | **86** | **4.7** | **1.0** | 100 | 4.7 | 1.6 |
| Swedish Krona | **100** | **2.7** | **2.9** | – | n/a | n/a |
| US Dollar | **–** | **n/a** | **n/a** | n/a | n/a | n/a |

## 22 BORROWINGS (CONTINUED)

In 2010, the Group entered into certain interest rate caps with forward start dates of January and April 2011 to replace interest rate swaps and caps due to expire on those dates. The impact of these transactions produces a pro forma position at April 2011 of:

| | Pro forma at 30 April 2011 | | |
|---|---|---|---|
| | % of net floating rate loans capped | Average capped interest rate % | Average tenure Years |
| **Sterling** | **64** | **2.5** | **4.6** |
| **Euro** | **93** | **3.2** | **4.1** |
| **Swedish Krona** | **100** | **2.7** | **2.7** |
| **US Dollar** | **–** | **n/a** | **n/a** |

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

| At 31 December 2010 | Fixed rate financial liabilities £m | Floating rate financial liabilities £m | Total £m |
|---|---|---|---|
| **Sterling** | **155.2** | **91.6** | **246.8** |
| **Euro** | **117.6** | **185.8** | **303.4** |
| **Swedish Krona** | **–** | **33.3** | **33.3** |
| **US Dollar** | **–** | **5.8** | **5.8** |
| | **272.8** | **316.5** | **589.3** |

| At 31 December 2009 | Fixed rate financial liabilities £m | Floating rate financial liabilities £m | Total £m |
|---|---|---|---|
| Sterling | 154.2 | 115.4 | 269.6 |
| Euro | 123.8 | 165.1 | 288.9 |
| Swedish Krona | – | 34.3 | 34.3 |
| | 278.0 | 314.8 | 592.8 |

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

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2010 £m** | 2009 £m | **2010 £m** | 2009 £m |
| Current borrowings | **85.0** | 113.5 | **85.0** | 113.5 |
| Non-current borrowings | **504.3** | 479.3 | **530.2** | 503.4 |
| | **589.3** | 592.8 | **615.2** | 616.9 |

Arrangement fees of £3.0 million (2009: £2.9 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:

| | **2010 £m** | 2009 £m |
|---|---|---|
| Floating rate: | | |
| – expiring within one year | **–** | 0.6 |
| – expiring after one year | **–** | 0.9 |
| | **–** | 1.5 |

## 23 FINANCIAL INSTRUMENTS

### 23.1 Categories of financial instruments

Financial assets of the Group comprise:

- Interest rate swaps and caps
- Foreign currency swaps and forward contracts
- Available-for-sale investments
- Investments in associates
- Trade and other receivables
- Cash and cash equivalents

Financial liabilities of the Group comprise:

- Interest rate swaps and caps
- Foreign currency swaps and forward contracts
- Bank loans
- Debenture loans
- Other loans
- Trade and other payables
- Provisions
- 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 swaps 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 value 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. 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 value 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, bank loans, debenture loans, other loans and finance lease liabilities, the carrying amounts of financial assets and liabilities recorded at amortised cost approximate to their fair value.

**23 FINANCIAL INSTRUMENTS** (CONTINUED)

**23.2 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 and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings. Management perform "stress tests" of the Group's business model to ensure that the Group's objectives can be met. The objectives have been met in the year.

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

The gearing ratio at the year end was as follows:

| | **2010 £m** | 2009 £m |
|---|---|---|
| Debt | **592.3** | 595.7 |
| Cash and cash equivalents | **(48.3)** | (70.3) |
| Net debt | **544.0** | 525.4 |
| Equity | **357.2** | 309.0 |
| Net debt to equity ratio | **152%** | 170% |

Debt is defined as long and short-term borrowings excluding unamortised issue costs as detailed in note 22. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

**Externally imposed capital requirement**

The Group is not subject to externally imposed capital requirements except to the extent that debt covenants may require group companies to maintain ratios such as debt to equity (or similar) below certain levels.

**23.3 Risk management objectives**

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

- market risk;
- credit risk; and
- 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 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 Group Treasury department and by the Board on both a country and a Group basis. The Board's policy is to minimise 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 | **2010 Statement of Comprehensive Income £m** | 2009 Statement of Comprehensive Income £m |
|---|---|---|
| Cash +50 basis points (2009: +100 basis points) | **0.2** | 0.9 |
| Variable borrowings (including caps) +50 basis points (2009: +100 basis points) | **(1.5)** | (2.7) |
| Cash -50 basis points (2009: -100 basis points) | **(0.2)** | (0.9) |
| Variable borrowings (including caps) -50 basis points (2009: -50 basis points) | **1.5** | 1.3 |

**(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. 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 | **2010 Net assets £m** | **2010 Profit before tax £m** | 2009 Net assets £m | 2009 Profit before tax £m |
|---|---|---|---|---|
| 1% increase in value of sterling against the euro | (1.6) | (0.3) | (1.4) | (0.1) |
| 1% increase in value of sterling against the Swedish krona | (0.5) | (0.1) | (0.4) | (0.1) |
| 1% fall in value of sterling against the euro | 1.6 | 0.3 | 1.4 | 0.1 |
| 1% fall in value of sterling against the Swedish krona | 0.5 | 0.1 | 0.3 | 0.1 |

**(iii) Other price risk**

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

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

The table below shows the effect on equity 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 | **2010 Directly in equity £m** | 2009 Directly in equity £m |
|---|---|---|
| 10% fall in value | **(8.2)** | (7.4) |
| 10% increase in value | **8.2** | 7.4 |

**23 FINANCIAL INSTRUMENTS** (CONTINUED)

**(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 tenants 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 tenants, 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 tenants with an appropriate credit history. Credit risk to tenants is assessed by a process of internal and external credit scoring, and is reduced by obtaining bank guarantees from the tenant or its parent, and receipted rental deposits. The overall credit risk in relation to tenants is monitored on an ongoing basis. Moreover, a significant proportion of the Group portfolio is let to Government tenants which can be considered financially secure.

At 31 December 2010 the Group held £81.6 million (2009: £73.9 million) of available-for-sale and other financial assets. Management of the Group considers the credit risk associated with individual transactions and monitors the risk on a continuing basis. Information is gathered from external credit rating agencies (Standard & Poor's) 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 | 2010 £m | 2009 £m |
|---|---|---|
| Investment grade | **24.6** | 42.0 |
| Non-investment grade | **26.2** | 23.8 |
| Not rated | **30.8** | 8.1 |
| **Total** | **81.6** | 73.9 |

**(c) Liquidity risk**

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

Management monitors rolling forecasts of the Group's liquidity on the basis of expected cash flow 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 Group 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 2010.

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 2010 | Less than 1 year £m | 1 to 2 years £m | 2 to 5 years £m | Over 5 years £m |
|---|---|---|---|---|
| **Non-derivative financial liabilities:** | | | | |
| **Borrowings** | **85.8** | **127.4** | **208.9** | **170.2** |
| **Interest payments on borrowings†** | **23.4** | **19.8** | **42.6** | **55.1** |
| **Trade and other payables** | **31.8** | **–** | **–** | **–** |
| **Forward foreign exchange contracts:** | | | | |
| **Cash flow hedges** | | | | |
| **– Outflow** | **27.0** | **–** | **–** | **–** |
| **– Inflow** | **(26.0)** | **–** | **–** | **–** |

| At 31 December 2009 | Less than 1 year £m | 1 to 2 years £m | 2 to 5 years £m | Over 5 years £m |
|---|---|---|---|---|
| Non-derivative financial liabilities: | | | | |
| Borrowings | 114.1 | 30.7 | 204.7 | 246.2 |
| Interest payments on borrowings† | 23.5 | 24.2 | 56.2 | 72.6 |
| Trade and other payables | 30.1 | – | – | – |
| Forward foreign exchange contracts: | | | | |
| Cash flow hedges | | | | |
| – Outflow | 5.4 | – | – | – |
| – Inflow | (5.4) | – | – | – |

† Interest payments on borrowings are calculated without taking into account future events. Floating rate interest is estimated using a future interest rate curve as at 31 December.

## 24 SHARE CAPITAL

| | Number | | | | | |
|---|---|---|---|---|---|---|
| | **Ordinary shares in circulation** | **Treasury shares** | **Total ordinary shares** | **Ordinary shares in circulation £m** | **Treasury shares £m** | **Total ordinary shares £m** |
| **At 1 January 2010** | **48,024,256** | **5,000,000** | **53,024,256** | **12.0** | **1.3** | **13.3** |
| **Cancelled following tender offers** | **(1,643,012)** | **–** | **(1,643,012)** | **(0.4)** | **–** | **(0.4)** |
| **Ordinary shares issued from treasury shares** | **207,000** | **(207,000)** | **–** | **0.1** | **(0.1)** | **–** |
| **At 31 December 2010** | **46,588,244** | **4,793,000** | **51,381,244** | **11.7** | **1.2** | **12.9** |

| | 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 2009 | 61,745,471 | 5,000,000 | 66,745,471 | 15.4 | 1.3 | 16.7 |
| Cancelled following tender offer | (13,721,215) | – | (13,721,215) | (3.4) | – | (3.4) |
| At 31 December 2009 | 48,024,256 | 5,000,000 | 53,024,256 | 12.0 | 1.3 | 13.3 |

## 25 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 23 March 2010 for the purchase of 1 in 48 shares at 600 pence per share was completed in April. It returned £6.0 million to shareholders, equivalent to 12.5 pence per share.

A tender offer by way of a Circular dated 19 August 2010 for the purchase of 1 in 74 shares at 625 pence per share was completed in September. It returned £4.0 million to shareholders, equivalent to 8.5 pence per share.

A further tender offer will be put to shareholders in April 2011 for the purchase of 1 in 46 shares at a price of 700 pence per share which, if approved, will return £7.1 million to shareholders, equivalent to 15.2 pence per share.

## 26 SHARE PREMIUM ACCOUNT

| | **2010 £m** | 2009 £m |
|---|---|---|
| **At 1 January** | **70.5** | 70.5 |
| Ordinary shares issued from treasury shares | **1.0** | – |
| **At 31 December** | **71.5** | 70.5 |

## 27 OTHER RESERVES

| | Capital redemption reserve £m | Cumulative translation reserve £m | Fair value reserve £m | Other reserves £m | Total £m |
|---|---|---|---|---|---|
| **At 1 January 2010** | **20.4** | **50.7** | **5.8** | **28.1** | **105.0** |
| **Purchase of own shares:** | | | | | |
| **– cancellation pursuant to tender offer** | **0.4** | **–** | **–** | **–** | **0.4** |
| **Exchange rate variances** | **–** | **1.1** | **–** | **–** | **1.1** |
| **Share of exchange rate variances of associates** | **–** | **(0.4)** | **–** | **–** | **(0.4)** |
| **Available-for-sale financial assets:** | | | | | |
| **– net fair value gains in the year** | **–** | **–** | **(5.4)** | **–** | **(5.4)** |
| **– deferred tax thereon** | **–** | **–** | **1.8** | **–** | **1.8** |
| **At 31 December 2010** | **20.8** | **51.4** | **2.2** | **28.1** | **102.5** |

| | Capital redemption reserve £m | Cumulative translation reserve £m | Fair value reserve £m | Other reserves £m | Total £m |
|---|---|---|---|---|---|
| At 1 January 2009 | 17.0 | 59.8 | (4.5) | 28.1 | 100.4 |
| Purchase of own shares: | | | | | |
| – cancellation pursuant to tender offer | 3.4 | – | – | – | 3.4 |
| Exchange rate variances | – | (9.5) | – | – | (9.5) |
| Share of exchange rate variances of associates | – | 0.4 | – | – | 0.4 |
| Available-for-sale financial assets: | | | | | |
| – net fair value gains in the year | – | – | 13.5 | – | 13.5 |
| – deferred tax thereon | – | – | (3.2) | – | (3.2) |
| At 31 December 2009 | 20.4 | 50.7 | 5.8 | 28.1 | 105.0 |

The amount classified as other reserves was created prior to listing in 1995 on a Group reconstruction and is considered to be non-distributable.

## 28 CASH GENERATED FROM OPERATIONS

| | **2010 £m** | 2009 £m |
|---|---|---|
| Operating profit | **88.2** | 41.5 |
| Adjustments for: | | |
| Net movements on revaluation of investment properties | **(30.1)** | 6.7 |
| Depreciation and amortisation | **0.3** | 0.5 |
| Profit on disposal of investment properties | **–** | (0.3) |
| Gain on disposal of corporate bonds and other investments | **(9.3)** | (2.1) |
| Share-based payment expense | **0.1** | – |
| Changes in working capital: | | |
| Decrease/(increase) in debtors | **0.5** | (0.7) |
| Increase in creditors | **1.5** | 0.1 |
| **Cash generated from operations** | **51.2** | 45.7 |

## 29 CONTINGENCIES

At 31 December 2010 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.

## 30 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 | 2010 £m | 2009 £m |
|---|---|---|
| Within one year | – | 0.1 |
| More than one but not more than five years | **0.4** | 0.1 |
| More than five years | **0.7** | 0.3 |
| | **1.1** | 0.5 |

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

| Operating lease commitments – where the Group is lessor | 2010 £m | 2009 £m |
|---|---|---|
| Within one year | **63.7** | 59.9 |
| More than one but not more than five years | **219.2** | 204.2 |
| More than five years | **257.0** | 268.6 |
| | **539.9** | 532.7 |

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

**Other commitments**

At 31 December 2010 the Group had no other commitments (2009: £nil). There were no authorised financial commitments which were yet to be contracted with third parties (2009: none).

## 31 RELATED PARTY TRANSACTIONS

A Group company, Förvaltnings AB Klio, rents office space from a company owned by Sten Mortstedt, Executive Chairman of CLS Holdings plc. The total payable in the year was £36,000 (2009: £34,000). A company owned by Sten Mortstedt purchased accountancy services from Förvaltnings AB Klio during the year amounting to £9,000 (2009: £8,000). In relation to these transactions £36,000 was payable at the balance sheet date (2009: £3,000). A Group company, CLSH Management Limited, provided accounting services to Bulgarian Land Development Plc, an associate of the Group, for which a charge of £16,000 was made in the year (2009: £nil) and remained outstanding at the balance sheet date.

**32 PRINCIPAL SUBSIDIARIES**

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

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

Adlershofer Sàrl*
Apex Tower Limited
Coventry House Limited
Frères Peugeot SCI**
Great West House Limited
Grossglockner Sàrl*
Ingrove Limited
Kapellen Sàrl*
Museion Förvaltnings AB***
Naropere Sàrl*
New Printing House Square Limited
Spring Gardens 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 and Museion Förvaltnings AB 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.

# 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 2010 which comprise the 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 AUDITORS

As explained more fully in the Statement of Directors' Responsibilities on page 30, 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 (APB'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.

## 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 2010;
- 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 2010.

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

7 March 2011

# COMPANY BALANCE SHEET – UK GAAP

At 31 December 2010

| | Notes | 2010 £m | 2009 £m |
|---|---|---|---|
| **Fixed assets** | | | |
| Investment in subsidiary undertakings | 5 | **105.5** | 90.5 |
| **Current assets** | | | |
| Trade and other receivables | 6 | **32.0** | 49.5 |
| **Total assets** | | **137.5** | 140.0 |
| **Current liabilities** | | | |
| Trade and other payables | 7 | **(4.4)** | (4.4) |
| **Net assets** | | **133.1** | 135.6 |
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Called up share capital | 8 | **12.9** | 13.3 |
| Share premium account | 9 | **71.5** | 70.5 |
| Other reserves | 10 | **25.4** | 25.0 |
| Profit and loss account | 10 | **23.3** | 26.8 |
| **Shareholders' funds** | | **133.1** | 135.6 |

These financial statements of CLS Holdings plc (registered number: 2714781) were approved by the Board of Directors and authorised for issue on 7 March 2011 and were signed on its behalf by:

**Mr S A Mortstedt**
Director

**Mr E H Klotz**
Director

# NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP

at 31 December 2010

## 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 pages 21 to 24.

## 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 actually 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 dates of the transactions. 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.

# NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP CONTINUED

at 31 December 2010

## 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 £6.6 million (2009: £6.0 million).

Audit fees for the Company were £0.1 million (2009: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Report on pages 31 to 35.

## 4 TENDER OFFER BUY-BACKS

A tender offer by way of a Circular dated 23 March 2010 for the purchase of 1 in 48 shares at 600 pence per share was completed in April. It returned £6.0 million to shareholders, equivalent to 12.5 pence per share.

A tender offer by way of a Circular dated 19 August 2010 for the purchase of 1 in 74 shares at 625 pence per share was completed in September. It returned £4.0 million to shareholders, equivalent to 8.5 pence per share.

A further tender offer will be put to shareholders in April 2011 for the purchase of 1 in 46 shares at a price of 700 pence per share which, if approved, will return £7.1 million to shareholders, equivalent to 15.2 pence per share.

## 5 INVESTMENT IN SUBSIDIARY UNDERTAKINGS

| | 2010 £m | 2009 £m |
|---|---|---|
| **At 1 January** | **90.5** | 96.9 |
| Additions | **15.3** | 9.3 |
| Provision for impairment | **–** | (14.5) |
| Disposals | **(0.3)** | (1.2) |
| **At 31 December** | **105.5** | 90.5 |

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

| | 2010 £m | 2009 £m |
|---|---|---|
| **Current** | | |
| Amounts owed by subsidiary undertakings | **31.0** | 47.3 |
| Prepayments and accrued income | **1.0** | 2.2 |
| | **32.0** | 49.5 |

## 7 TRADE AND OTHER PAYABLES

| | 2010 £m | 2009 £m |
|---|---|---|
| **Current** | | |
| Amounts owed to subsidiary undertakings | **3.5** | 3.5 |
| Trade payables | **0.9** | 0.8 |
| Accruals and deferred income | **–** | 0.1 |
| | **4.4** | 4.4 |

## 8 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 2010** | **48,024,256** | **5,000,000** | **53,024,256** | **12.0** | **1.3** | **13.3** |
| **Cancelled following tender offers** | **(1,643,012)** | **–** | **(1,643,012)** | **(0.4)** | **–** | **(0.4)** |
| **Ordinary shares issued from treasury shares** | **207,000** | **(207,000)** | **–** | **0.1** | **(0.1)** | **–** |
| **At 31 December 2010** | **46,588,244** | **4,793,000** | **51,381,244** | **11.7** | **1.2** | **12.9** |

| | 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 2009 | 61,745,471 | 5,000,000 | 66,745,471 | 15.4 | 1.3 | 16.7 |
| Cancelled following tender offer | (13,721,215) | – | (13,721,215) | (3.4) | – | (3.4) |
| At 31 December 2009 | 48,024,256 | 5,000,000 | 53,024,256 | 12.0 | 1.3 | 13.3 |

## 9 SHARE PREMIUM ACCOUNT

| | 2010 £m | 2009 £m |
|---|---|---|
| **At 1 January** | **70.5** | 70.5 |
| Ordinary shares issued from treasury shares | **1.0** | – |
| **At 31 December** | **71.5** | 70.5 |

## 10 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 2010** | **20.4** | **4.6** | **25.0** | **26.8** |
| **Purchase of own shares** | **0.4** | **–** | **0.4** | **(10.0)** |
| **Expenses thereof** | **–** | **–** | **–** | **(0.1)** |
| **Profit for the year** | **–** | **–** | **–** | **6.6** |
| **At 31 December 2010** | **20.8** | **4.6** | **25.4** | **23.3** |

| | Other reserves | | | |
|---|---|---|---|---|
| | Capital redemption reserve £m | Other £m | Total £m | Profit and loss account £m |
| At 1 January 2009 | 17.0 | 4.6 | 21.6 | 69.0 |
| Purchase of own shares | 3.4 | – | 3.4 | (48.0) |
| Expenses thereof | – | – | – | (0.2) |
| Profit for the year | – | – | – | 6.0 |
| At 31 December 2009 | 20.4 | 4.6 | 25.0 | 26.8 |

# NOTES TO THE COMPANY FINANCIAL STATEMENTS – UK GAAP CONTINUED

at 31 December 2010

## 11 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

| | 2010 £m | 2009 £m |
|---|---|---|
| **Balance at 1 January** | **135.6** | 177.8 |
| Profit for the year | **6.6** | 6.0 |
| Premium on issue of ordinary shares from treasury shares | **1.0** | – |
| Purchase of own shares | **(10.1)** | (48.2) |
| **Balance at 31 December** | **133.1** | 135.6 |

## 12 DEFERRED INCOME TAX

No deferred tax liability arises relating to the Company (2009: £nil).

## 13 CONTINGENCIES

At 31 December 2010 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 2010, the Company had no contracted capital expenditure (2009: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2009: £nil).

# FIVE YEAR FINANCIAL SUMMARY

31 December 2010

| | 2010 £m | 2009 £m | 2008 £m | 2007 £m | 2006 £m |
|---|---|---|---|---|---|
| Group revenue | **79.1** | 76.3 | 81.6 | 89.5 | 83.2 |
| Costs | **(30.3)** | (30.3) | (37.4) | (49.9) | (32.1) |
| | **48.8** | 46.0 | 44.2 | 39.6 | 51.1 |
| Net movements on revaluation of investment properties | **30.1** | (6.7) | (103.3) | (68.1) | 162.1 |
| Gain on sale of corporate bonds and other investments | **9.3** | 1.9 | – | – | 0.6 |
| Profit/(loss) on sale of investment properties | **–** | 0.3 | 7.0 | – | (1.0) |
| Profit/(loss) on disposal of subsidiaries/joint venture/associates | **–** | – | (16.2) | (1.9) | 1.9 |
| Impairment of intangible fixed assets and goodwill | **–** | – | (22.0) | – | – |
| **Operating profit/(loss)** | **88.2** | 41.5 | (90.3) | (30.4) | 214.7 |
| Net finance costs | **(25.0)** | (25.5) | (43.0) | (42.7) | (36.9) |
| Share of profit/(loss) of associates after tax | **7.7** | 2.5 | (7.5) | 0.5 | (1.2) |
| Other non-recurring costs | **–** | – | (1.3) | – | – |
| **Profit/(loss) before tax** | **70.9** | 18.5 | (142.1) | (72.6) | 176.6 |
| Taxation | **(10.8)** | (1.1) | 64.1 | 39.7 | (20.3) |
| **Profit/(loss) from continuing operations** | **60.1** | 17.4 | (78.0) | (32.9) | 156.3 |
| Loss from discontinued operations | **–** | – | – | – | (2.5) |
| **Profit/(loss) for the year** | **60.1** | 17.4 | (78.0) | (32.9) | 153.8 |
| **Share buy-backs paid and proposed** | **11.1** | 6.0 | 59.0 | 9.3 | 53.6 |
| **Net Assets Employed** | | | | | |
| Non-current assets | **1,018.6** | 944.2 | 869.1 | 1,251.5 | 1,186.9 |
| Current assets | **59.8** | 80.7 | 205.9 | 132.4 | 167.7 |
| | **1,078.4** | 1,024.9 | 1,075.0 | 1,383.9 | 1,354.6 |
| Current liabilities | **(123.1)** | (164.3) | (133.9) | (167.7) | (94.1) |
| Non-current liabilities | **(598.1)** | (551.6) | (602.5) | (813.1) | (812.4) |
| **Net assets** | **357.2** | 309.0 | 338.6 | 403.1 | 448.1 |

| Ratios | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Net assets per share (pence) | **766.7** | 643.3 | 548.4 | 595.1 | 617.2 |
| EPRA net assets per share (pence) | **941.8** | 812.5 | 690.1 | 762.3 | 822.5 |
| Earnings/(loss) per share (pence) | **127.1** | 36.4 | (120.6) | (45.7) | 196.7 |
| EPRA earnings/(loss) per share (pence) | **58.8** | 28.0 | 20.2 | (4.8) | 6.9 |
| Net gearing (%) | **152.3** | 170.0 | 121.1 | 169.1 | 118.8 |
| Adjusted net gearing (%) | **123.6** | 134.6 | 96.2 | 132.0 | 89.1 |
| Recurring interest cover (times) | **3.15** | 2.08 | 1.08 | 1.31 | 1.85 |

# GLOSSARY OF TERMS

**ADJUSTED NET ASSETS OR ADJUSTED SHAREHOLDERS' FUNDS**
Net assets excluding the mark-to-market on effective cash flow hedges and related debt adjustments and deferred tax on revaluations

**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 mark-to-market on effective cash flow hedges and related debt adjustments, 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

**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 cash and short-term deposits

**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)
Thomas Thomson (Non-Executive Director)

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

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