CLS Holdings plc
Annual Report and Accounts 2020

Well placed for the future

Our business

CLS is a London-based FTSE 250 office investment company with a £2.2 billion portfolio of 97 properties comprising 6.4m sq. ft (over 597,000 sqm) in the UK, Germany and France. We provide workspaces for over 740 tenants including leading blue-chip companies and government bodies.

Through our business model, we seek to be a responsible business by employing sustainable long-term thinking with the environment in mind. As well as benefiting our own business and shareholders, this supports other key stakeholders like our tenants in their efforts to reduce their environmental impacts and achieve their sustainability objectives.

We actively manage our portfolio with in-house teams across all functions of the business. This allows us to engage with our tenants to build long-term relationships and develop a detailed understanding of their needs. It also allows us to embed sustainable behaviours throughout the business which support and drive our progress towards our commitments.

Who we are and what we believe

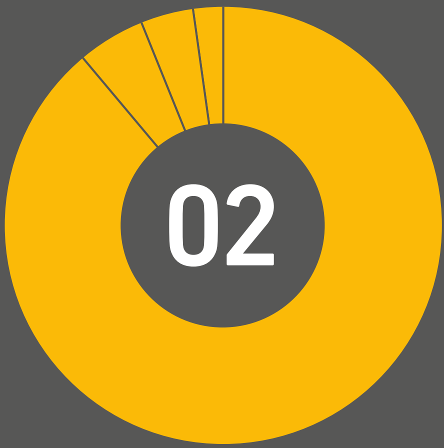
Statutory and alternative performance measures
Throughout the strategic report we use a range of financial and non-financial measures to assess our performance. The majority of those are European Public Real Estate Association (EPRA) measures. EPRA is a recognised body in the property industry which is involved in the formulation of accounting metrics and sustainability reporting, which give the European listed real estate sector greater transparency and consistency.

These standards also provide visibility and comparability to industry stakeholders in addition to being appreciated by the investment community. Management uses these measures to monitor the Group's financial performance alongside International Financial Reporting Standards (IFRS) measures because they help illustrate the underlying financial performance and position of the Group. The EPRA measurements should be considered in addition to measures of financial performance, financial position or cash flows reported in accordance with IFRS.

Note 5 to the financial statements provides a reconciliation of the alternative performance measures used and the Glossary gives a more complete description of them.

Front cover: Mittlerer Pfad 2-4, Stuttgart

CLS Holdings plc



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Rhône-Alpes, Lyon

6


One Elmfield Park, Bromley

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Reflex, Bracknell

Strategic report

Corporate governance

Financial statements

Additional information

Solid, stable and diversified portfolio

Highlights

Basic NAV +5.7%
311.9p
(2019: 295.1p, see note 5)

EPRA NTA[1] +5.8%
345.2p
(2019: 326.3p, see note 5)

Basic EPS -42.6%
19.0p
(2019: 33.1p, see note 5)

EPRA EPS +1.7%
12.2p
(2019: 12.0p, see note 5)

Valuation uplift[2]
+1.4%
(2019: +3.0%)

Full year's dividend +2.0%
7.55p
(2019: 7.4p, see note 23)

Profit before tax -39.3%
£96.5m
(2019: £159.0m)

Cost of debt lowered further to
2.28%
(2019: 2.42%)

Rental income collection
99%
(2019: 98%)

CSR highlights (see pages 36-38)

Reduction in CO_2 emissions
6.4%
from prior year

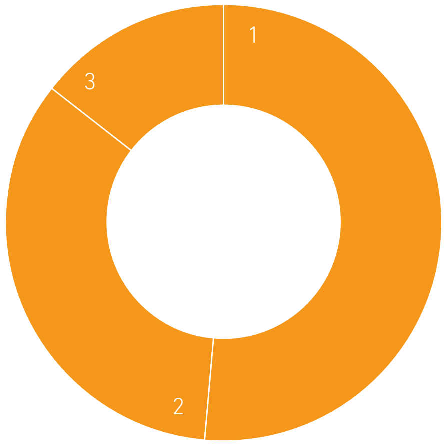
Sustainable electricity
91%
Renewable/low-carbon sourced electricity

GRESB rating
72
up two points from prior year

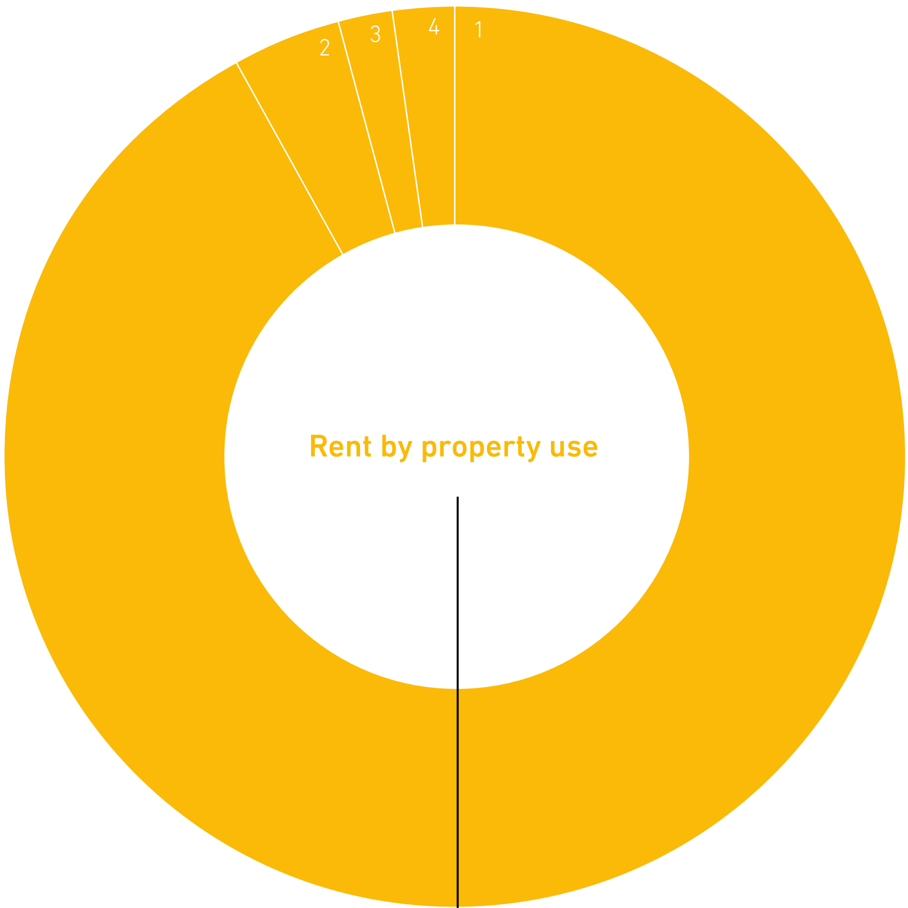
Sustainably-linked loans
15%
of Group debt are 'green' loans

Property portfolio by value

The chart shows the value of the property portfolio (see note 11) which comprises investment property, properties held for sale, student accommodation and a hotel.



1.	United Kingdom	£1,125.7m
2.	Germany	£747.7m
3.	France	£309.6m



1.	Office	92%
2.	Student	4%
3.	Hotel	2%
4.	Retail	2%

[1] EPRA NTA replaces the Group's previous measure of EPRA NAV (See note 5).
[2] In local currency – total property portfolio.

Active asset management

116 asset management deals completed securing £13.6m of annual rent at 8.2% above ERV (2019: 158 deals, £14.7m annual rent at 3.3% above ERV)

Rental income
Rental income decreased by 1.1% to £106.5m (2019: £107.7m)

Asset enhancement
Total capital expenditure £17.5m (2019: £16.7m)

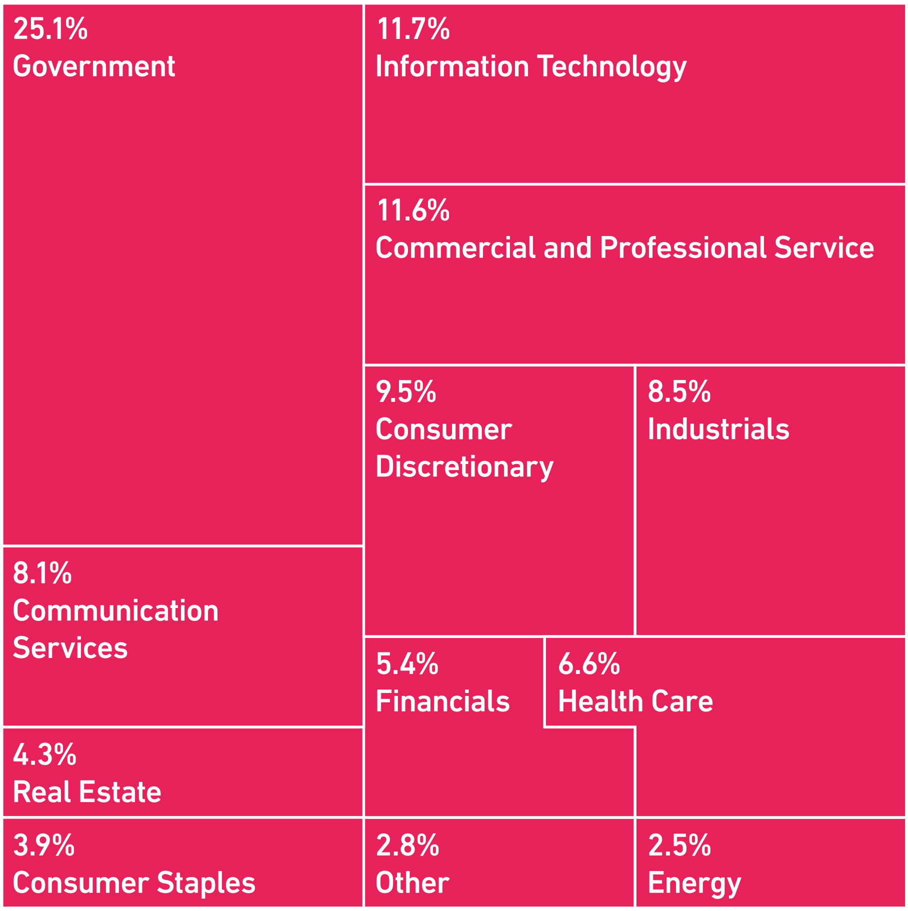
High occupancy levels
Vacancy rate increased to 5.3% (2019: 4.0%)

Growing the portfolio
- Eight acquisitions (six properties and two floors) made for £112.8m
- Six properties disposed of for £63.8m

Financing initiatives
Financed £261.5m at 2.08% pa for 9.3 years

Balance sheet loan-to-value
33.7% (2019: 31.4%)

Rent by sector



Rental data[1]

	Rental income for the year £m	Net rental income for the year £m	Lettable space sqm	Contracted rent at year end £m	ERV at year end £m	Contracted rent subject to indexation £m	Vacancy rate at year end
United Kingdom	58.2	60.4	201,336	57.2	64.0	14.0	6.2%
Germany	33.3	32.7	277,851	34.7	39.2	22.3	4.0%
France	15.0	14.8	81,455	16.0	16.7	16.0	5.1%
Total portfolio	106.5	107.9	560,642	107.9	119.9	52.3	5.3%

Valuation data[1]

		Valuation movement in the year						
	Market value of property £m	Underlying £m	Foreign exchange £m	EPRA net initial yield	EPRA 'topped -up' net initial yield	Reversion	Over-rented	Equivalent yield
United Kingdom	1,003.8	(25.7)	–	5.0%	5.2%	8.3%	3.1%	5.7%
Germany	743.4	58.4	38.2	4.1%	4.3%	12.3%	5.0%	4.4%
France	307.5	0.7	16.2	4.0%	4.7%	4.7%	3.6%	4.6%
Total portfolio	2,054.7	33.4	54.4	4.5%	4.8%	9.1%	3.5%	5.1%

Lease data[1]

	Average lease length		Contracted rent of leases expiring in:				ERV of leases expiring in:			
	To break years	To expiry years	Year 1 £m	Year 2 £m	Years 3 to 5 £m	After 5 years £m	Year 1 £m	Year 2 £m	Years 3 to 5 £m	After 5 years £m
United Kingdom	3.5	4.7	5.3	4.0	23.5	24.4	6.0	4.3	25.4	24.5
Germany	5.0	5.2	8.5	5.1	10.2	10.9	10.0	5.8	10.6	11.3
France	2.5	4.9	0.6	0.6	7.3	7.5	0.6	0.6	7.4	7.3
Total portfolio	3.8	4.9	14.4	9.7	41.0	42.8	16.6	10.7	43.4	43.1

1 The above tables comprise data of the investment properties and properties held for sale. They exclude owner occupied, land, student accommodation and hotel.

Chairman's letter

Lennart Sten
Non-Executive Chairman

❛ We remain convinced that offices have a vibrant future alongside working from home and that the benefits of offices in terms of collaboration, culture and employee well-being, amongst others, will be rediscovered and reinforced when we return en masse. ❜

Dear Shareholder,

The Covid-19 pandemic has had a profound effect globally in 2020 and CLS has responded quickly and dynamically to safeguard our staff and other stakeholders. All of our buildings have implemented safety measures to ensure that they are Covid-19 compliant so as to support our tenants, many who conduct essential work. A fuller description of the measures we have taken is included on pages 8 and 9.

In December, the sad news reached us that Sten Mortstedt, the founder of CLS, had died.

Sten founded CLS in the mid-1980s, listed the Company on the London Stock Exchange in 1994 and was instrumental in building CLS to the size and stature it now commands. I had the honour of working with Sten for many years and I am, along with the whole Company, deeply saddened by his loss. A tribute to Sten is included on the inside back cover of this annual report.

Performance and our property portfolio

In this challenging market, the benefits of our diversified approach and clear strategy again shone through in our positive financial and operational performance. EPRA NTA per share increased by 5.8% to 345.2 pence per share (2019: 326.3 pence) and total accounting return, including the dividends paid in the year, was 8.1% (2019: 9.4%). The value of our property portfolio rose by: £68.5 million from acquisitions net of disposals; £54.9 million as a result of the weakening of sterling by 5.4%; £17.9 million capital expenditure; and £29.8 million from net valuation increases of 1.4% in local currencies with Germany again the star performer delivering an uplift of 8.6%. Our property portfolio, which is now worth c.£2.2 billion, is split 52% in the UK, 34% in Germany and 14% in France.

Environmental, Social and Governance

In 2020, we completed the drafting of our new sustainability strategy which will come into effect in 2021. The strategy is built around investing in properties, working in partnerships with stakeholders and being a responsible business to deliver positive environmental impacts and socio-economic outcomes. In 2021, we will complete our technical portfolio assessment in order to launch our Net Zero Carbon pathway in our sustainability report later this year with a realistically achievable delivery date. More detail is set out on pages 34 to 38.

This year was clearly more challenging for employees in terms of personal interaction but we put significant emphasis on ensuring employee well-being, albeit necessarily much was done on a remote basis. Our concentration on our employees was reflected in the favourable staff survey results, which are discussed further on page 40. There were several changes in the membership of the Board through retirements and appointments in 2019. In 2020 we implemented the changes in committee composition and chairs previously announced to continue to refresh and improve the balance and skills of the Board and committees.

A critical focus of the Group is to ensure that all stakeholders are considered in our decision-making and pages 70 and 71 give examples of how we discharged our S172 obligations when making significant decisions across our business model.

Looking to the future

The biggest unknown, and biggest debate, in our segment of the property market is around the future of the office. The section on pages 12 to 15 provides an update to the thoughts we set in our half-year results. We remain convinced that offices have a vibrant future alongside working from home and that the benefits of offices in terms of collaboration, culture and employee well-being, amongst others, will be rediscovered and reinforced when we return en masse.

As highlighted, CLS' diversified approach in terms of countries, tenants and financing continues to serve the business well and is being maintained. Our strategy remains clear and we believe our focus on high-quality, non-prime offices in major cities in the three largest European economies continues to be the right approach. We have seen very little impact from the recent Brexit trade deal and the UK exit from the EU but are keeping a close watch on any developments.

Dividends

The interim dividend in September 2020 was held flat with the prior year whilst the economic impacts of Covid-19 were assessed. As a result of the strong full-year financial results and CLS' favourable strategic positioning, the Board has decided to propose an increase in the final dividend of 3% resulting in a 2% increase in the full-year dividend.

Thank you

CLS places particular emphasis on, and takes great pride in, our positive culture and excellent staff which we have highlighted on many occasions. However, it is often only through adversity that the real benefits of these are demonstrated. In 2020, the performance and dedication of our colleagues was outstanding and remains so as the pandemic continues. On behalf of the Board, I offer our heartfelt thanks for all of your efforts.

Lennart Sten
Non-Executive Chairman

10 March 2021

Chief Executive's review

Fredrik Widlund
Chief Executive Officer

"This was an unusual and challenging year for all of us but two things particularly stood out for CLS in addition to ensuring that employees were safe and our buildings compliant with Covid-19 safety measures. Firstly, our focus on our tenants, and the strength of these relationships, was demonstrated in our strong rent collection. Secondly, the benefits of our diversified business model were again reflected in our results as the responses to the pandemic and consequential initial economic recovery differed by country.

Throughout we have ensured the welfare of our staff, who have been exemplary in their commitment to CLS while ensuring that all our buildings have remained open. The robustness of our operational set-up allowed us to achieve a total accounting return of 8.1%, resulting in the Board proposing an increase in the final dividend of 3.0%."

Section 172 (1) Statement

A description of how the Directors have had regard to the matters set out in section 172(1)(a) to (f) when performing their duty under section 172 can be found on pages 70 and 71 and are incorporated into this statement by reference.

Long-term investor

The refocusing of CLS in the last two years left the CLS portfolio well-placed for the future. The transactions executed in 2020 were therefore largely strategic, albeit also somewhat opportunistic, as well as some minor tidying-up.

In 2020, we completed eight acquisitions (six properties and two floors) for £112.8 million (two of which had exchanged in 2019 for £32.8 million) and completed on the disposal of six properties for £63.8 million (four of which had exchanged in 2019 for £10.3 million). This resulted in net additions of £68.5 million.

In the UK, we completed the acquisitions of properties in Harrow and Staines by the end of February which had exchanged in 2019 for £32.8 million. The remaining acquisitions were three properties acquired from Aviva Investors for £59.7 million at a net initial yield of 5.9%. A full case study is set out on pages 24 and 25.

In Germany, we completed on the acquisition of one building in Nuremberg for £16.3 million which is let to Deutsche Telekom for seven years on a yield of 5.8% providing excellent cash conversion over its financing cost. In December 2020 and January 2021, we exchanged on a further five buildings in Berlin, Dusseldorf, Essen and Hamburg, for £152.3 million. All are expected to complete in the first half of 2021 and are expected to result in a net cash outflow of around £70 million after financing.

The two largest disposals, which were in Germany at Albert-Einstein-Ring in Hamburg and Bismarkallee in Freiburg for £53.6 million (29.8% above the December 2019 valuations), are the subject of Strategy in action case studies on pages 30 and 31 but were essentially opportunistic with buyers offering significant premiums to the book values. Two further small disposals for £5.9 million, 10.3% above the December 2019 valuation, were exchanged in December and will complete in the first half of 2021. In February 2021, we exchanged on the disposal of Falcon House in Hounslow, London for £6.1 million. The disposal is at a 21.8% premium to the year end valuation and is forecast to complete in the first half of 2021.

It was especially important to maintain our acquisition discipline this year which resulted in our selective approach. Our key criteria are multi-let buildings with good transport links, which provide opportunities for active asset management. Geographically, the major cities in Germany and Greater London in the UK remain our primary focus for acquisitions. In France, we take a more cautious approach given lettings and rental growth prospects but see value for the right properties and location, and we continue to acquire further floors in fractional ownership buildings spending £3.9 million in 2020 (see page 25).

In 2020 we made good progress on all the limited number of developments and major refurbishments which we are pursuing. These fall into three categories. Firstly, in the UK, we are pressing ahead with a development and a major refurbishment after both schemes received full planning permission in 2020: Vauxhall Walk, a new 28,500 sq. ft (2,648 sqm) 10-floor, office development next to our Spring Mews property; and a major refurbishment of 55,600 sq. ft (5,165 sqm) across five floors at 9 Prescot Street, Aldgate. Both are expected to achieve BREEAM Excellent ratings.

Chief Executive's review
continued

❛ Our long-term approach, and our long-term track record, have demonstrated the soundness of our strategy and business model. ❜

Secondly, we received planning permission in May for Lichthof, a new office building of at least 141,000 sq. ft (13,099 sqm) over six floors which replaces an existing office building in Fasanenhof, Stuttgart and we are now seeking a substantial pre-let before committing to the scheme.

Finally, we received resolution to grant planning permission for a six-floor (43,000 sq. ft (3,995 sqm)) office development in Maidenhead and are pushing this forward to full planning permission at which point we will assess options and timing for this building.

As described later on, we also have opportunities to add significant value by expanding the office capacity at two properties in Germany, as well as an ongoing refurbishment programme across the portfolio to drive further rental growth.

Asset and property management
In last year's annual report, I wrote that "The value that our in-house teams create, and the closeness and interaction with our tenants, are some of the most important foundations for our long-term success. We have seen investors come and go in our markets, often motivated by short term trends or the type of properties that are in vogue at present. We do not believe in that approach. Our clear focus on offices, our tenants and the environment in our buildings builds long-term relationships that encourage retention and keep vacancy low." I deliberately repeat this as 2020 clearly demonstrated the value of our tenant relationships through the 99% of rent (2019: 98%) which was collected.

At 31 December 2020, the value of the portfolio increased by 1.4% in local currencies as a result of revaluation uplifts. Our German business, which was the stand-out performer again, saw an increase of 8.6% driven by rental growth with ERVs growing 3.1% and hardening of capital rates. Although, these bare facts do not capture the efforts of the team in securing notable leases and lease extensions, as well as advancing roof-top extension schemes in Bochum and Adershofer-Tor. In the UK, like-for-like values decreased by 2.3% driven by increased vacancy offsetting ERV growth of 1.6%. However, when acquisition costs of c.6.8% on the £92.5 million UK acquisitions completed in the year are taken into account, overall UK values fell by 2.6%. Values in France increased by 0.3% due to ERV growth of 0.2% and hardening capital rates. In aggregate, the fair value uplifts of the portfolio added 6.8 pence per share to EPRA NTA (£27.9 million).

The overall Group vacancy rate in 2020 increased to 5.3% (2019: 4.0%) which is above our target of 5%. Letting activity was very much tied to each country's economic activity and the level of opening up of the economy with letting activity being therefore ranked as Germany, France and then the UK. We are maintaining this 5% target as it gives an appropriate balance between capturing income and cash flow, as well as giving sufficient opportunity to capture rental growth through new lettings, but recognise that in the current environment, this may not been achieved in the short-term.

In Germany, the net initial yield fell to 4.3% (31 December 2019: 5.0%) and the vacancy rate fell to 4.0% (31 December 2019: 4.3%) as a result of favourable letting activity and the sale of Albert-Einstein-Ring in Hamburg which had greater vacancy. In the UK, the net initial yield fell to 5.2% (31 December 2019: 5.4%) and the vacancy rate increased to 6.2% (31 December 2019: 4.1%) as a result of a number of lease expiries which have yet to be re-let. In France, the net initial yield fell to 4.7% (31 December 2019: 5.2%) while vacancies rose to 5.1% (31 December 2019: 3.1%) due to expiries.

Hansaallee 299, Düsseldorf

Financial results

Profit after tax from continuing operations was £77.4 million (2019: £135.2 million) equivalent to earnings per share of 19.0p (2019: 33.3p). Earnings in 2019 included an uplift of £40.4 million (2020: nil) on the shareholding in Catena and the corporate bond portfolio which were both sold towards the end of 2019. Revaluation gains and profits on sale of investment properties in 2020 of £43.1 million were lower than last year (2019: £66.0 million).

EPRA earnings were resilient in 2020, up at 12.2p (2019: 12.0p), reflecting our very high rent collection rates. Whilst we prudently increased our bad debt charge for some expected credit losses, we were also able to offset this increase through cost reductions.

EPRA NTA, our preferred of the new EPRA net asset measures, increased by 5.8% (2019: 7.1%) reflecting revaluation gains and EPRA earnings as well a £29.7 million gain from the 5.4% weakening of Sterling against the Euro (2019: £31.4 million reduction).

“At the year end, we had liquid resources of £235.7 million (2019: £259.4 million) in addition to £50.0 million of undrawn credit facilities.”

In 2020, we generated £44.3 million net cash from operating activities (2019: £48.9 million) compared with EPRA earnings of £49.5 million (2019: £48.9 million) showing the strong cash generation of our business model. Of this cash, £30.1 million (2019: £28.7 million) was paid as a dividend to shareholders. We balance the use of the cash generated between dividends and reinvestment in the business to drive the total accounting return to shareholders, which was 8.1% in 2020 (2019: 9.4%).

Vision and values

The results of the staff survey we carried out in 2020 were very positive and highlighted CLS' supportive culture. It was especially pleasing to see how widespread the adoption and embedding of our vision and values has been throughout the business and how our employees understand how they each contribute to the success of the Company.

Last year was tough both on individuals and companies and I recognise that our employees made significant sacrifices across the business. Understandably we had to take cost cutting actions but these were largely focused in areas such as external consultants and operational discipline. Consequently, we did not make any redundancies, or use any furlough schemes or other Government support. The reciprocal loyalty shown by our employees to CLS was amazing and I want to publicly thank again our employees for their collective efforts.

Sustainability

Whilst the restrictions which resulted from Covid-19 made trying to achieve some of our portfolio initiatives much harder to accomplish, our commitment to sustainability has not wavered and, in fact, has been redoubled. The increase in our GRESB score to 72 (2019: 70) is testament to this.

We are following a science-based approach to assessing the sustainability characteristics of our portfolio and quantifying where improvements can be made. Consequently, in 2020 we carried out BREEAM In-Use assessments for the vast majority of our managed properties, completing the remainder at the start of 2021, with 80% achieving Good or higher. In 2021, we will carry out energy audits for all properties to give further quantified data to produce our evidence-based Net Carbon pathway.

This data collection will allow us to launch our new Group sustainability strategy and Net Zero Carbon pathway in our sustainability report later this year. In 2021 we intend to seek to execute more green financings following the completion of our first 'green' loan with Aviva in 2020 (more detail on pages 26 and 27). 2020 also saw the roll-out of more solar PV technology on our properties, including the start of the roll-out in Germany, and we will seek to achieve our stretch target of increasing our installed renewable energy capacity by 100% by the end of 2021.

Chief Executive's review
continued

Outlook

I noted at the half-year that there was much debate about the future of the office and we comment further on pages 12 to 15. However, we believe that the debate has moved on such that the need for offices, balanced against working from home, is now accepted. Evidence from economies around the world which have opened up again has highlighted the return to more normal patterns of office use. Whilst there will continue to be much speculation until more normality returns and the debate between de-densification and the settled pattern of work from home can be resolved, it is only by returning to the office that some of the forgotten benefits can be demonstrated. The office market is not going to go the way of retail property, as whilst shopping can be delivered to houses (and returned), there is no substitute for the office-generated atmosphere for collaboration, innovation, mentoring and socialising to name but a few.

I also believe it is imperative to have a clear and well-defined strategy for any organisation, for sure adapting when necessary, but not lose focus when faced with adverse conditions or shocking events like the pandemic or the last financial crisis.

Our long-term approach, and our long-term track record, have demonstrated the soundness of our strategy and business model. We will continue to focus on the three largest economies of the UK, Germany and France, and on our other diversification benefits including our tenant base and funding structure. Whilst 2020 was undoubtedly a tough year, I am confident that CLS is well placed to have many good years to come and will continue to deliver for all our stakeholders.

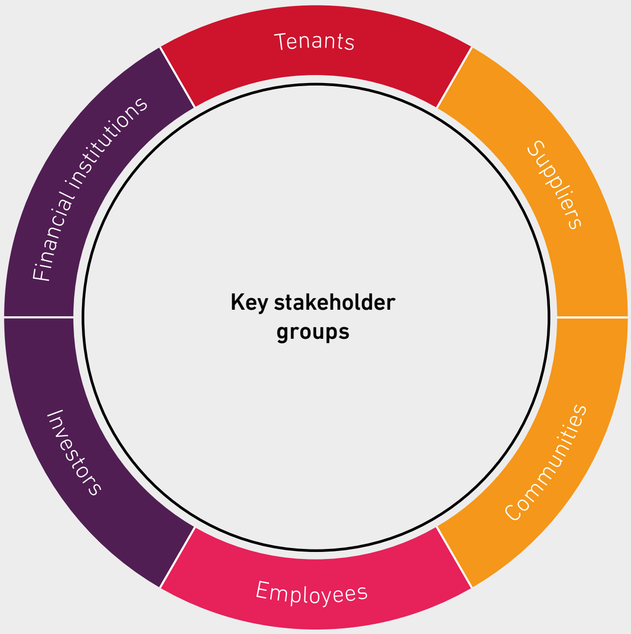
Fredrik Widlund
Chief Executive Officer

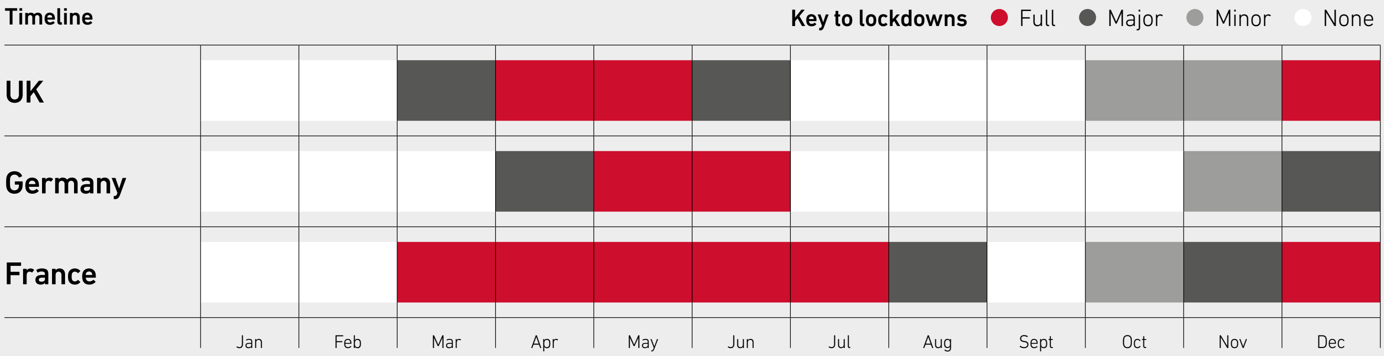
10 March 2021

Connect, Dusseldorf

Covid-19 timeline and key stakeholder impact

In addition to their scheduled meetings, and more frequent updates from the Executive, the Board met additionally in April to discuss the impact of the pandemic on the business and the implementation of its strategy. The Board considered key stakeholder Groups and mitigating actions that should be taken. Based on the operational and financial performance of the business, it took key decisions not to take any form of government subsidy or assistance and maintain the payment of the 2019 final dividend and a 2020 interim dividend, albeit at the same level as 2019.





Tenants

- Our in-house teams worked closely with all tenants in each region to understand the impact of the pandemic on their business.
- Where tenants were in difficulty, individual arrangements were made to implement payment plans or provide rent free periods.
- Offices made Covid-secure to ensure tenants were able to continue their operations.
- Advice given to tenants on how they should apply government regulations.

Suppliers

- Ensured all suppliers' invoices continued to be paid promptly in accordance with our Payment Policy.
- Liaised with all key suppliers to ensure the continuation of contracts and services.

Communities

- Focus on supporting charities and communities in the areas in which we invest by providing increased levels of donations to those most impacted by the pandemic.
- In-house teams provided special assistance to our charitable tenants to ensure they were able to continue to operate.

Employees

- Senior Leadership Team met daily (and then weekly as the situation progressed) to monitor the impact of the pandemic on our operations.
- Different regulations were applied in each country, so employees were asked to work remotely or adopt working patterns that followed local government guidance.
- Offices were made Covid-secure in accordance with local government guidance.
- Surveys conducted to ensure employees had the appropriate equipment to work from home.
- Employee engagement initiatives to maintain health and mental wellbeing.

Investors

- Increased reporting to the London Stock Exchange to inform the market of the Group's operational performance.
- Maintenance of 2020 interim dividend at 2019 levels.
- 2020 final dividend increased by 3.0%.
- Additional meetings with institutional shareholders focusing on the resilience of the portfolio.

Financial institutions

- Maintained consistent communication with key lenders and assured them that the Company was well positioned, with a strong balance sheet and sufficient liquid resources, and that the impact of Covid-19 in the business was low, referring them to our strong rent collection rates.
- Monitored our loans to assess risk of, and any potential steps to avoid, any financial covenant breaches.
- Ensured that our track record of no covenant breaches was maintained.

Our investment proposition

Strong and consistent long-term shareholder returns

Clear strategy

Key investment tenets

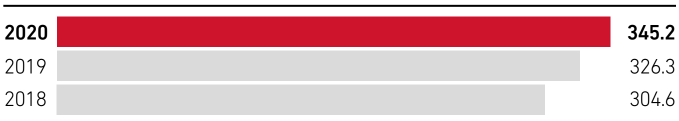
Diversified approach
This approach is across: Countries (we invest in Europe's three largest economies); Tenants (over 740 tenants spread across most sectors); and Financing (26 different lenders).

Sole focus on non-prime offices
Long-term investment in high yielding, multi-let, non-prime offices in London and the South East of the UK and the larger cities in Germany and France.

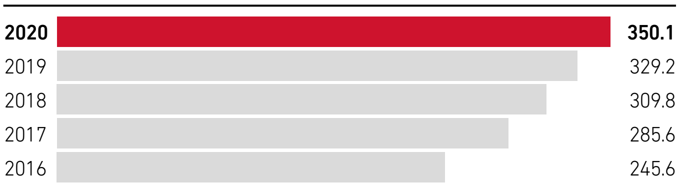
Selected development schemes
Occasional opportunities arise in the portfolio to carry out development projects to capture rental and capital growth; the amount of development is kept below 10% of the portfolio value at any one time. Opportunities to secure alternative uses are pursued usually until planning permission is secured and then the property is sold to a developer.

Delivered outcomes

EPRA NTA per share (pence)



EPRA NAV per share (pence)



Active management

Key investment tenets

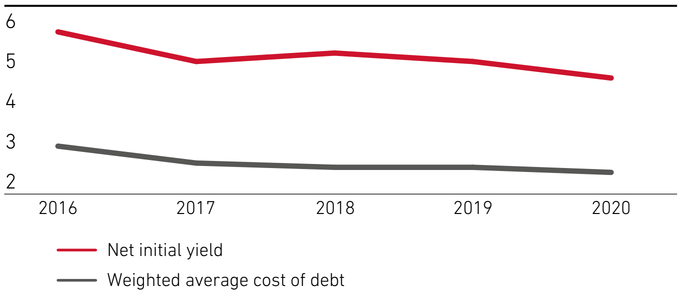
Experienced in-house capabilities
In-house asset, property and facilities management teams result in better cost control, closer asset knowledge and synergies across the property portfolio.

Secure rents and high occupancy
Targeted occupancy levels above 95%, whilst providing affordable rents and flexible lease terms to meet tenant demand and so create opportunities to capture above market rental growth.

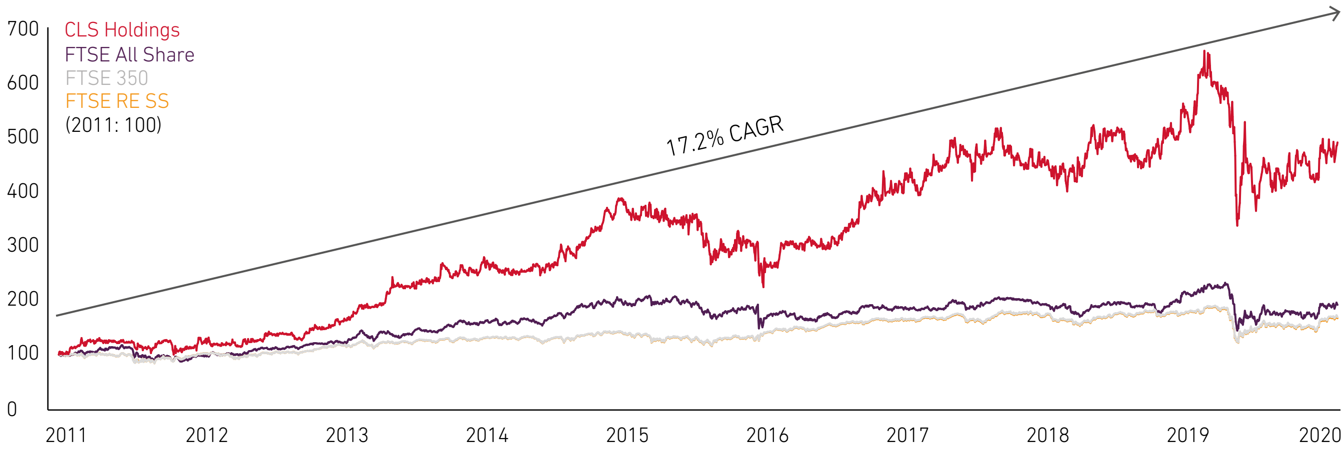
Interest rate management
Financing facilities, which are arranged in-house, seek to balance flexibility, diversity and maturity of funding whilst ensuring a low cost of debt which is targeted to be at least 200 basis points below the Group's net initial yield.

Delivered outcomes

NIY vs cost of debt (%)



Total returns to shareholders



Leading track record

Key investment tenets

Disciplined approach to investment
Acquisitions are assessed against strict return and strategic fit criteria but are pursued on an opportunistic basis with no set capital allocation across countries. Low yielding assets with limited potential or where the risk/reward ratio is unfavourable are sold.

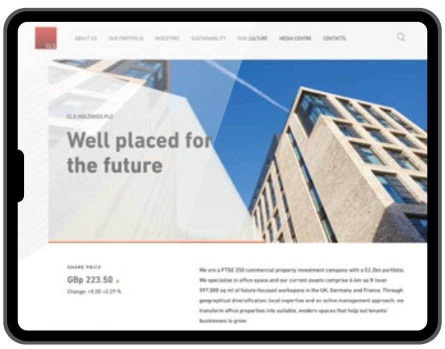
Cash-backed progressive dividend
CLS is a total return share using cash flow generated to pay a progressive dividend and also to reinvest in the business to generate further net asset growth. We aim to grow the dividend in line with the growth of the business, targeting the dividend to be covered 1.5 to 2.0 times by EPRA earnings.

Financing headroom
Our aim is to keep at least £100 million of liquid resources together with financing headroom. This approach gives the ability to move quickly to complete acquisition opportunities as well as the flexibility to secure the optimal financing solution.

Delivered outcomes

Distribution of year's profit (£m)

2020	**30.8**
2019	30.1
2018	28.1
2017	25.9
2016	23.5



Focus on sustainability

Key investment tenets

Responsible profit
Across our business model, in everything we do, we seek to generate responsible profit through employing sustainable long-term decisions with the environment in mind.

Strong ESG performance
We believe in full transparency and therefore continually submit our progress to global ESG benchmark schemes in our industry, such as GRESB and FTSE4GOOD. This also allows us to monitor our progress and gives our stakeholders confidence in our delivery against our commitments.

Climate risk mitigation
Our in-house sustainability programme is focused on mitigating our impact on environmental climate risks and energy security whilst maximising the benefits we deliver to the communities in which we are involved.

Delivered outcomes

GRESB (ESG) score/100

2020	**72**
2019	70
2018	63
2017	56
2016	55

To find out more:

Website: clsholdings.com
Sustainability report: 2020 report will be published in Spring 2021
Analyst coverage: Details of CLS' equity research analysts are on the website
Investor engagement: 2021 details are on the website, 2020 programme is set out on page 72

The future of the office and the office of the future

What's next after the biggest remote working experiment in history?

We wrote about the future of the office in our half year report and much of what we described remains relevant and is repeated below. However, we believe the debate has moved forward with an acceptance that a hybrid office/working from home (WFH) model will be the new normal. The balance between the two will only be determined once we have returned en masse with arguments for both less and more office space. What is clear though is that offices will need to evolve by incorporating the trends of recent years so as to continue to offer a desired product to tenants – something that CLS has always focused on and will continue to do.

Hybrid model
The pandemic, and the associated mass experience of working from home, has accelerated many of the recent office trends. There will be changes to the office environment, new preferred locations, and some winners and some losers; as is the case in any structural disruption whether it is driven by technological, political, environmental or other global changes. Whilst it is too early to draw definitive conclusions, we believe that offices will retain their significant role in society and the real estate market.

We recognise the benefits of home working, such as avoiding a long commute or balancing the responsibilities of home life. It is also clear that there are certain types of role that can be done successfully, and potentially cheaper, remotely. However, the impact of the current situation has shown us that WFH has, for many, reinforced the benefits of the office whereas others have potentially forgotten important aspects. Face-to-face interaction cannot be underestimated for driving collaboration,


CI Tower, New Malden

creativity and business innovation as well as providing motivation and support networks. Many aspects of employee development, networking and training are easier in an office environment as well as hiring and managing employee well-being. These factors come together to provide a clear division between work and home-life, which provides routine, structure, purpose and fulfilment.

There are clear benefits of a centrally managed office infrastructure, such as cyber security. Even greater benefits are derived from embedding and embodying an organisation's culture and a sense of belonging. Companies who have well-defined goals and values often deliver superior performance, and offices play a fundamental role in linking this to our human nature to be social and part of a successful team. It is important to remember that the office also provides many of us with a crucial part of our social life. This combination will continue to be hugely important to attract, motivate and retain the best talent and this is especially true for younger employees.

For many companies as well as individuals, we expect the new norm will be a hybrid of working part of the time from home and part of the time in the office to give the best of both worlds. There may be companies who embrace working from home as a cost cutting measure or others who decide they no longer need disaster recovery sites.

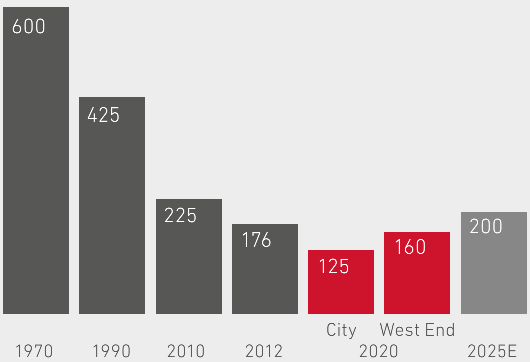
However, we also expect lower workplace densities and less hot-desking which may increase requirements. We also expect differences between countries with Germany less keen on WFH whereas the UK is more keen.

Hybrid model space requirements
At this point in time it is almost impossible to estimate reliably what the balance will be in the hybrid model between days in the office and WFH. In essence, the argument boils down to whether less space will be needed because less of the workforce will be in the office at any point in time because of WFH. On the other hand, there are equally compelling arguments that the densification trend of the last half century will reverse and more space will be demanded by employees. The two graphs set out below illustrate these two competing arguments.

Until we return to more normal times, it will be hard to answer this debate. For attitudes are continually changing over the course of the pandemic, particularly as WFH novelty is replaced by fatigue. As we set out later on, the use of space will undoubtedly change but the problem of how to have all staff in at times to ensure proper inter-team interaction, if office space has been reduced, has yet to be resolved.

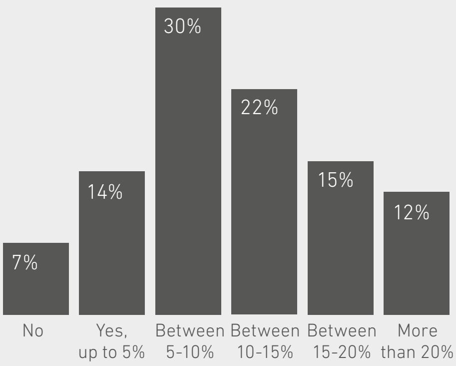
One thing to make crystal clear is that the office and retail markets are not comparable. Many investors missed the impact of ecommerce on shopping habits

Average office densities (square feet per employee)



Source: Brookfield, Knight Frank, Cushman & Wakefield, UBS

Do you expect businesses to scale back their office footprint over the next two years?



Source: RICS

The future of the office and the office of the future
continued

The CLS portfolio

70%
of all buildings have access to private outdoor space or roof terraces

119
average car parking spaces per property

76%
of our properties have cycle spaces

86%
of all our properties have access to windows that can be opened for natural ventilation

and thus the significantly reduced demand for retail space. However, the same decline is not going to happen to office space for two primary reasons:

1) As highlighted above there are some experiential aspects of offices that simply cannot be replicated online in terms of collaboration, mentoring and innovation. Even more importantly culture cannot be built, nurtured and grown online – there is no comparative to the ecommerce ability to return goods. Continual lockdowns have eroded many companies' cultures and the majority of employees are desperate to return to office life; and

2) Office rent as a percentage of salary costs have reduced from the near 50% of salary costs in the 1970s to c.10% today. This compares to retail where occupancy costs of rent and rates remain over half of employment costs.

How CLS offices stack up
CLS offices tend to be relatively low rise, reducing the need for tightly-packed lifts, with more car parking and electric charging points, on-site secure bike storage and shower facilities, and good rail and road transport links, which we believe will be even more favoured in future. In larger cities or regions, we also expect to see a growth in demand for satellite or hub offices and believe CLS is well placed by offering affordable, high quality office space outside the prime city centre locations.

We have set out in the graphic some facts to illustrate the ongoing attractions of our portfolio.

CLS' responses to future trends
Flexibility
This is possibly the most important evolution we have seen over the last decade and it continues. Competing as the three most important factors about property are flexibility, flexibility and flexibility.

This comes in two principal forms, namely flexibility in leasing and flexibility in the physical space. CLS has always embraced, and in some ways preferred, flexible lease terms for our tenants. This is because we like to focus on retention and that means working with our tenants by incorporating break options, regearing leases, moving tenants to other buildings in our portfolio and accommodating expansion and contraction of businesses. Our low vacancy track record speaks for itself.

The physical flexibility is now also being focused on. Employees have a much bigger voice and strong views on what they will and won't tolerate. Traditional office densities are under pressure and more collaboration space is likely to emerge over the short term to embrace agile working. Open space allows you to move away from banks of desks and create breakout areas, different types of meeting rooms and social spaces encouraging staff to collaborate, thereby: strengthening the company culture; improving staff retention; and boosting productivity. Whilst most of these changes are likely to occur behind the tenant's office door, as a landlord we can contribute towards the process starting at the building's front door.

Building enhancements
Bringing nature inside is always something CLS likes to include in our reception areas. It can be as simple as improving the planting to large scale green walls. Equally providing well landscaped outdoor space is important to allow tenants to step away from their office so they can pause, reflect and collaborate.

Our current designs for the Prescot Street £20 million refurbishment and Vauxhall Walk £12 million office development, are looking to break away from the traditional reception desks and instead combine it with a coffee bar and casual seating, encouraging tenants to utilise the space as part of their front room.

The health benefits of good air quality are better understood in the work environment and technology makes it easy and cost effective to monitor. With our new developments, CO_2 monitoring will link automatically to the mechanical ventilation of the office floors thereby increasing air changes when more people are in. Equally there are sustainable benefits, in that if there is low occupancy then the ventilation will adjust down. Furthermore, new developments and major refurbishments will incorporate openable windows.

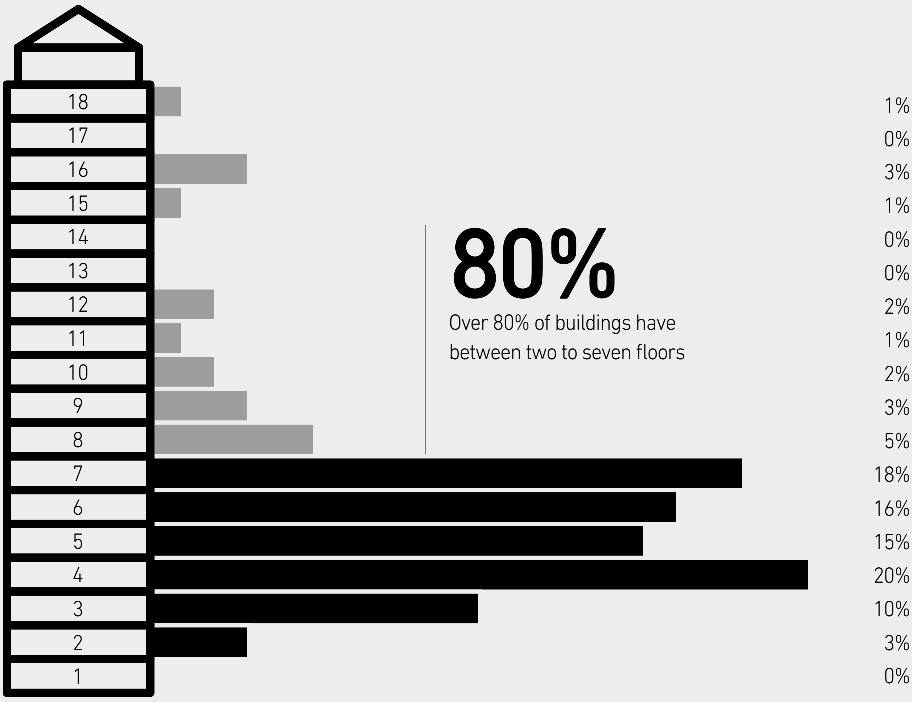
A healthy workforce is a happy workforce and in all our three geographies we continue to identify opportunities to make our buildings better places to work. We are installing shower facilities, bike storage, lockers and changing rooms and where possible private gardens.

Concluding remarks
The office will continue to evolve. However, the pandemic has sped up this evolution, not just in terms of employee amenities such as breakout/leisure areas or quiet spaces. They will also need to be cleaner, healthier and well managed. Ultimately these changes have reinforced the importance of our core value – our tenants, our focus.

> ❛ Face-to-face interaction cannot be underestimated for driving collaboration, creativity and business innovation as well as providing motivation and support networks. ❜


Spring Mews, Vauxhall

Number of floors in the CLS buildings



80%

Over 80% of buildings have between two to seven floors

CGI image: Nagelsweg 37-39, Hamburg

> “Office spaces need to maintain flexibility, be innovative and create environments that people want to work in rather than have to work in.”

Simon Wigzell
Head of Group Property

The top five things people miss about the office

1. Random interactions
2. In-person meetings
3. In-person collaboration
4. Social events
5. Networking events

Source: CBRE

Business model and strategy

Who we are and what we believe

Through our business model, we seek to be a responsible business by employing sustainable long-term thinking with the environment in mind. As well as benefiting our own business and shareholders, this supports other key stakeholders like our tenants in their efforts to reduce their environmental impacts and achieve their sustainability objectives.

We actively manage our portfolio with in-house teams across all functions of the business. This allows us to engage with our tenants to build long-term relationships and develop a detailed understanding of their needs. It also allows us to embed sustainable behaviours throughout the business which support and drive our progress towards our commitments.

Our vision

To be a leading office space specialist and a supportive, progressive and sustainably focused commercial landlord.

We will achieve this by aligning our strategic vision to our tenants' business ambitions, reinforcing our diversification in our key markets and elevating the importance of sustainability across all aspects of our business. Doing this will not only drive our business forward, it will help to enhance our profile within the sector.

Our purpose

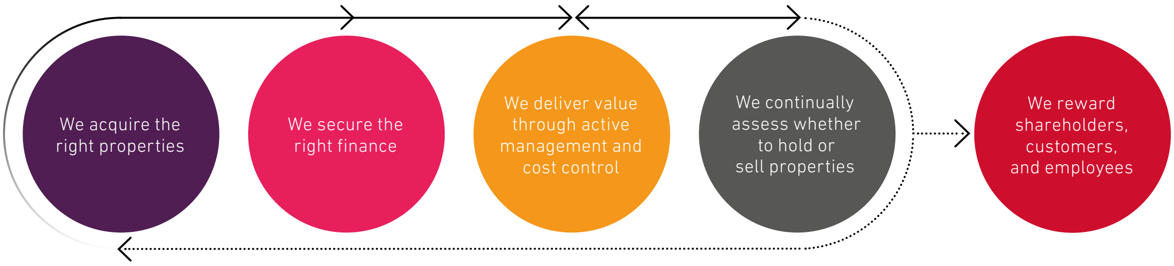
Our purpose is to transform office properties into sustainable, modern spaces that help businesses to grow.

Our investments are based on our long-term vision, continuously modernising our portfolio into viable, future-focused and sustainable properties. We apply the same approach to our tenants, understanding their own business ambitions. By providing the right environment and sharing our expert insight, we help them make more informed choices and grow their businesses in a more responsible, considered way.

How we are ensuring that the business is sustainable

Sustainability is an integral aspect and focus of the Company's purpose. Our sustainability strategy is designed to create and embed an understanding of, and to set the benchmark for, how we put sustainability initiatives into practice throughout the Group.

Our business model underpins our vision and purpose



See pages 18-19 on how we create growth through reinvestment

Inter-connectedness

Our vision and purpose is interlinked with our business model. In turn our business model is underpinned by our values.

With rigorous investment criteria, we acquire the right properties that will allow us to transform them into sustainable modern spaces.

Our focus on sustainability ensures we future proof our buildings which in turn helps our tenants become more sustainable.

Through active in-house asset management, we gain the ability to understand our tenants' needs and create spaces for them to succeed and grow.

We continually assess our buildings to ensure they are able to meet the needs of our tenants and provide long-term value for the Group.

Our values, which are represented through our employees, are key to unlocking the success of our business model that rewards all of our stakeholders.

Our values

Our tenants, our focus

We pride ourselves in the way we build relationships with our tenants. We get to know them and understand their business needs, so they feel listened to and valued. We are responsive and flexible, ensuring they stay with us for the long term.

Agility unlocks opportunity

Our agile approach allows us to see potential and opportunities in ways others can't. It means we can respond to changing market conditions and make decisions quickly. We act with flexibility and speed to make the most of possibilities the moment they arise.

Openness creates closeness

We treasure our inclusive, close-knit and open culture. Everyone has visibility and a voice. Our open-door policy encourages everyone to share opinions, creating greater transparency, honesty and trust.

Collaboration gets the job done

We confidently take ownership of projects from beginning to end, making the critical decisions that get the job done. We get involved and collaborate across departments and markets, contributing ideas.

Business model and strategy
continued

Realising value and reinvesting for the future

❛Our purpose is to create sustainable, long-term value through owning and actively managing high-yielding office properties in key European cities.❜

Contracted rent
£107.9m

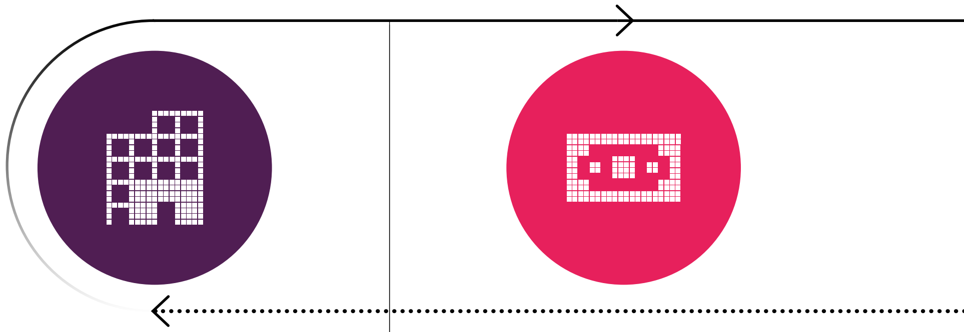
No. of tenants
743

Property value
£2.2bn

No. of properties
97

Total floor space
6.4m sq. ft

Growth through reinvestment



We acquire the right properties

We invest in commercial real estate in the UK, Germany and France. 92% of our properties are offices.

We look to acquire properties in high quality, non-prime locations with good transport links and located in key European cities.

Most of our properties are multi-let to a wide variety of occupiers, giving us the opportunity to add value whilst spreading our risk.

The cost of buying investment properties is met partly from the Group's liquid resources and partly from external financing. Liquid resources are supplemented by disposal proceeds from selling assets which present limited future opportunities to add value.

We have the ability to move quickly due to our strong balance sheet.

Our in-house sustainability programme is focused on mitigating our impact on climate change and continually improving our properties.

We secure the right finance

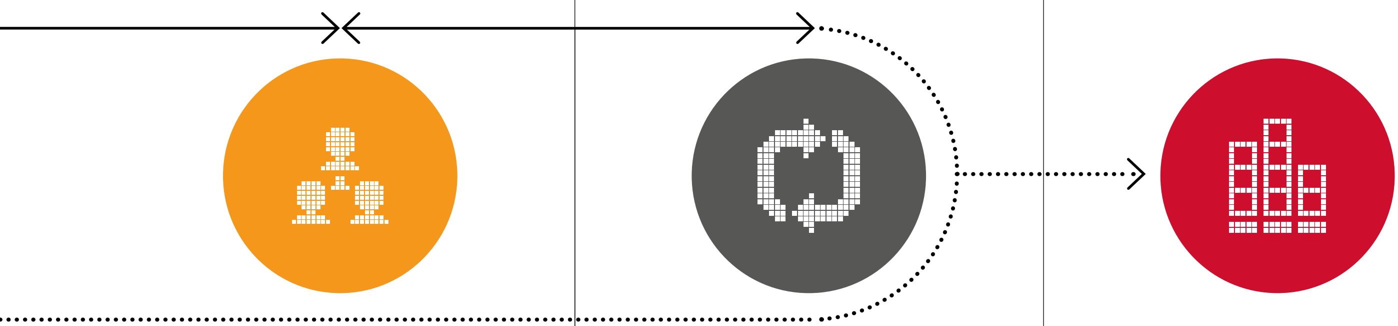
Most of our properties are held in their own SPVs, and are financed with bank loans borrowed by the SPV on a non-recourse basis to the rest of the Group.

We have the flexibility to borrow at fixed or floating rates of interest and, by borrowing against each asset, we are able to use a level of gearing suitable to the specific property.

Where properties are more suited to being financed together, such as on the acquisition of a larger portfolio, we finance them under one loan, often with the flexibility to withdraw properties from charge and to substitute others.

Our bank borrowing is typically for five or seven years, and as most of our debt is obtained from local banks, we have active relationships with 26 lenders around Europe, which spreads our risk.

In everything we do to secure the right finance, we always generate responsible profit through creating sustainable long-term decisions with the environment in mind.



We deliver value through active management and cost control

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

In-house management includes asset management (leasing), property management (refurbishments), facilities management (day-to-day maintenance), development management, tenant billing and debt collection, and purchase ledger and service charge management.

By performing all of these functions in-house we control costs through efficient working and we maintain our revenue stream through providing a first-rate service to our customers.

This approach also allows us to develop and embed environmental behaviours across our managed landscape which supports our impact on climate change. All of the above gives our shareholders confidence in our day-to-day management.

We continually assess whether to hold or sell properties

Our active management is also applied at a portfolio level, continually assessing whether properties meet return criteria and/or we can continue to add value.

We have an asset management plan for each asset which we flex depending upon tenant requirements and leasing activity. Refurbishments are undertaken to maintain the portfolio and capture rental growth.

Our portfolio approach also includes assessing whether greater value can be captured through a change of use, for example, a residential conversion. In such cases, after planning permission has been obtained, the property will usually be sold to a developer.

At the appropriate time, we will also dispose of properties which are too small or too low yielding or for which the risk/reward balance is unfavourable.

One of our decision criteria is the sustainability rating of the property and the cost to make enhancements.

We reward shareholders, customers and employees

We aim to grow the dividend in line with the growth of the business, targeting the dividend to be covered 1.5 to 2.0 times by EPRA earnings. The proposed full year dividend represents £30.8 million of the £49.5 million of EPRA earnings in 2020. The balance is reinvested in the business, increasing the size of the Group. In this way shareholders can be rewarded partly in cash and partly in the capital appreciation of their shares. As we are not a REIT, we are not restricted in the amount we are required to distribute to shareholders, which benefits the business in the longer term.

Our tenants are our customers. They benefit from a landlord who understands their needs and who provides cost-effective accommodation through investing its profits back into its business.

We reward employees for their work and their loyalty, through salaries and bonus schemes which reflect the success of the business, thereby aligning their interests with our shareholders and our customers.

Strategy at a glance

Creating sustainable, long-term value

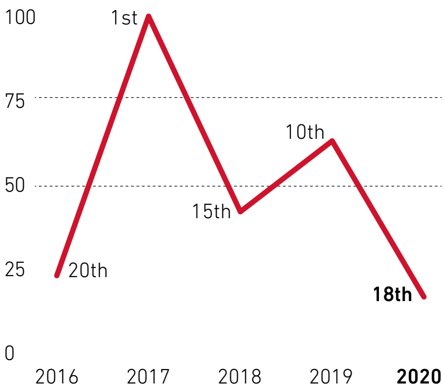
Link to business model	Strategy	Strategy implementation	KPIs/OPIs
We acquire the right properties	Invest in high-yielding properties, predominantly offices, with a focus on cash returns	We target modern, high quality properties with good asset management opportunities in non-prime locations in larger European cities.	**TSR – Relative**
	Diversify market risk by investing in geographical areas with differing characteristics	We invest in the UK, Germany and France and in sterling and euros.	**Total accounting return**
	Diversify tenant base	We have a wide range of tenants in a variety of sectors, as well as being geographically diverse.	**Customer retention**
We secure the right finance	Target a low cost of debt	We keep the cost of debt well below the net initial yield of the properties to enhance the return on equity. We use interest rate caps and hedges to control interest rate risk.	**Cost of debt**
	Utilise diversified sources of finance to reduce risk	We maintain strong links with banks and other lending sources across Europe. We restrict the exposure of the Group to any one bank. We usually own properties in special purpose vehicles, financed by non-recourse bank debt in the currency used to purchase the asset.	
	Maintain high level of liquid resources	We operate an in-house treasury team which manages cash to maximise returns.	
We deliver value through active management and cost control	Maintain high occupancy rates	We use in-house local property managers who maintain close links with occupiers to understand their needs. We focus on the quality of service and accommodation for our customers.	**Vacancy rate** **Administration cost ratio**
	Maintain a diversified customer base underpinned by a strong core income stream	We avoid heavy reliance on any one customer or business sector.	
	Maintain strict cost control	We perform as many back office functions as possible in-house and monitor our performance against our peer group.	
We continually assess whether to hold or sell properties	Focus on holding those properties with the potential to add value through active asset management	We have an asset management plan for each property which we flex to capture rental and capital growth via leasing and refurbishment activity.	**TSR – Relative** **Total accounting return**
	Sell those properties which are low yielding or where the risk/reward ratio is unfavourably balanced	We seek to optimise the timing of sales depending on market conditions, the characteristics of the property and the overall portfolio composition.	

Our performance in 2020	Priorities for 2021	Link to principal risks
• Our TSR in 2020 was -22.8%; we came 18th out of 26 in the FTSE 350 Real Estate Super Sector Index. • Return on equity was 8.2% (2019: 9.7%). • Total Accounting Return was 8.1% (2019: 9.4%). • Eight acquisitions (six properties and two floors) made for £112.8m at 5.8% NIY.	• We shall continue to reinvest disposal proceeds and other liquid resources in better prospects. • We expect those opportunities will include properties with an element of vacancies for us to address and add value. • We expect better investment opportunities will arise in Germany and the UK.	**Property risk** **Sustainability risk** For more information see pages 56 and 57
• Weighted average cost of debt reduced to 2.28% (2019: 2.42%), the lowest level it has been. • During the year we financed, refinanced or extended six loans for £261.5m at an average interest rate of 2.08%, of which £231.3m was at fixed rates which averaged 2.16%. • We have 45 loans from 26 lenders. • No bank provides more than 15.8% of our borrowings. • 83 of our 97 properties are owned by special purpose vehicles. Principal amounts of debt are non-recourse to the rest of the Group and all are in the currency used to purchase the asset. • At 31 December 2020, we had liquid resources of £235.7m and undrawn bank facilities of £50.0m.	• With 84% of the Group's debt already at fixed rates, we have the versatility to chose whether to take out new loans at fixed or floating rates. • Of the £105.4m of loans repayable in 2021, £87.1m relates to loans expiring in 2021 and will be refinanced on a case-by-case basis. The remainder of £18.3m are contractual quarterly capital repayment instalments payable during the year on loans which will expire after 2021. • We intend to maintain at least £100m of liquid resources to provide the Group financing flexibility.	**Financing risk** For more information see pages 58 and 59
• At 31 December 2020 our occupancy rate was 94.7% (2019: 96.0%). • We have 743 tenants (2019: 779). • 25% of our income is derived from government occupiers and a further 25% from major corporations. • The weighted unexpired lease term is 4.9 years (2019: 4.7 years). • Our administration cost ratio for 2020 was 16.7% (2019: 17.7%).	• We will prioritise letting the vacancies generated by refurbishments. • We may also buy more vacancies in the year which will receive immediate attention. • We will maintain close and regular contact with customers, particularly those in the UK as the effects of Brexit continue. • We will maintain strict financial control on the cost of running the business as it continues to expand.	**Sustainability risk** **Political and economic risk** For more information see pages 56, 57, 60 and 61
• Our TSR in 2020 was -22.8%; we came 18th out of 26 in the FTSE 350 Real Estate Super Sector Index. • Return on equity was 8.2% (2019: 9.7%). • Total accounting return was 8.1% (2019: 9.4%). • Six properties sold for £63.8m at 4.1% NIY.	• We will continue to leverage the CLS in-house management model to maintain customer relationships and underlying value. • We will continue to provide affordable rents and flexible lease terms to meet tenant demand and so create opportunities to capture above market rental growth. • We will continue to dispose of properties with limited potential.	**Business interruption risk** **People risk** For more information see pages 58 to 61

Key performance indicators

Measuring the tangible performance of our strategy

Total shareholder return – Relative (%)



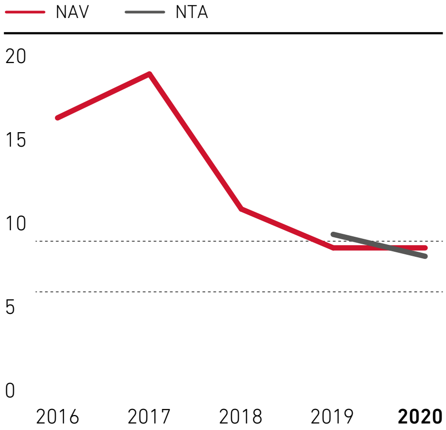
Definition
The annual growth in capital in purchasing a share in CLS, assuming dividends are reinvested in the shares when paid, compared to the TSR of the other 26 companies in the FTSE 350 Real Estate Super Sector Index.

Why this is important to CLS
This KPI measures the increase in the wealth of a CLS shareholder over the year, against the increase in the wealth of the shareholders of a peer group of companies.

Our target for 2020
Our target total shareholder return (relative) was between the median and upper quartile.

Progress
The TSR was -22.8%, making CLS the 18th ranked share of the FTSE 350 Real Estate Super Sector Index of 26 companies which was below our target for 2020.

Total accounting return (%)



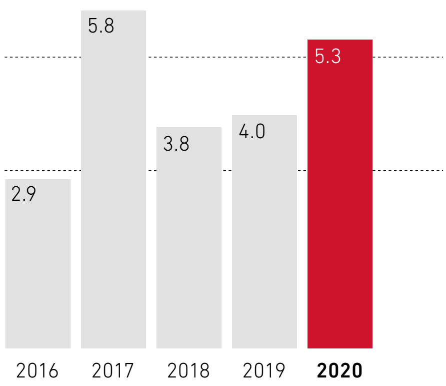
Definition
As described in more detail in note 5, EPRA NTA has replaced EPRA NAV as the Group's primary measure of net assets. Total accounting return is the aggregate of the change in EPRA NTA plus the dividends paid, as a percentage of the opening EPRA NTA.

Why this is important to CLS
This KPI measures the increase in EPRA NTA per share of the Company before the payment of dividends, and so represents the value added to the Company in the year.

Our target for 2020
Our target total accounting return was between 6% and 9%.

Progress
In 2020, the total accounting return was 8.1%.

Vacancy rate (%)



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

Why this is important to CLS
This KPI measures the potential rental income of unlet space and, therefore, the cash flow which the Company would seek to capture.

Our target for 2020
We target a vacancy rate of between 3% and 5%; if the rate exceeds 5%, other than through recent acquisitions, we may be setting our rental aspirations too high above the current market; if it is below 3% we may be letting space too cheaply.

Progress
At 31 December 2020, the vacancy rate was 5.3%.

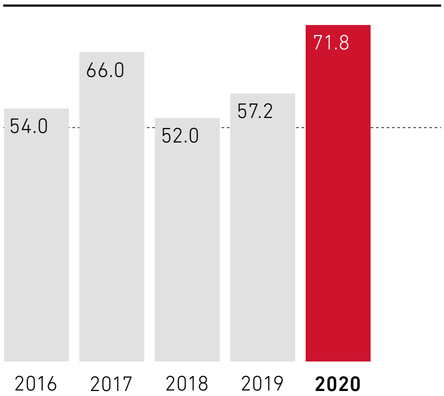
Link to remuneration
All of the above Group's key performance indicators are linked to executive remuneration, see pages 90–109

Key for all graphs ········ Target

Other performance indicators

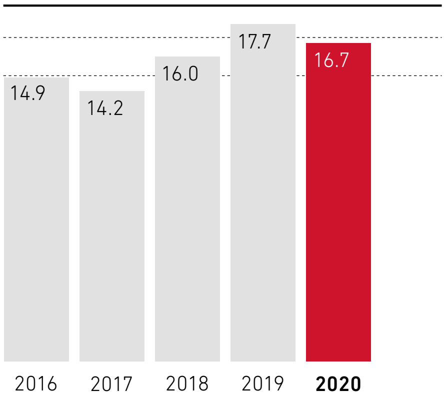
For 2020, we reassessed the Group's key performance indicators and aligned them with the measures which are linked to Directors' remuneration. In addition to these key performance indicators, the Group also has other performance indicators by which it measures its progress and these include:

Customer retention (%)



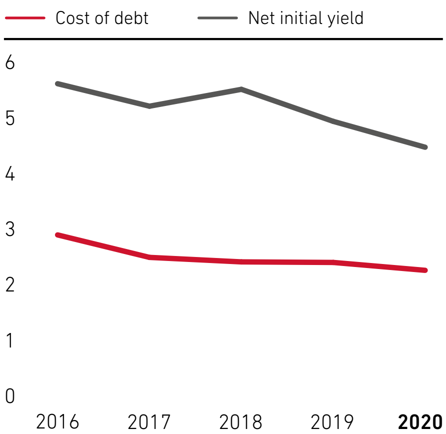
Through our active asset management we seek to retain more than 50% of our tenants by value following lease expiries.

Administration cost ratio (%)



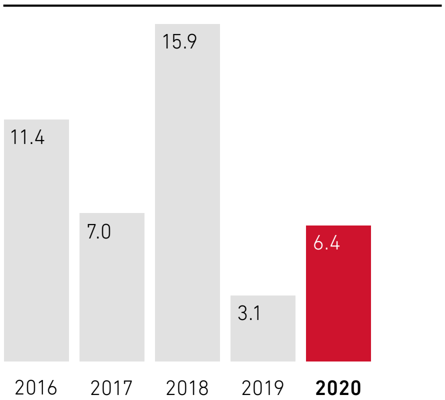
This measures the administration cost of running the core property business by reference to the net rental income that it generates, and provides a direct comparative to most of our peer group. We aim to maintain this ratio between 15% and 17%.

Cost of debt (%)



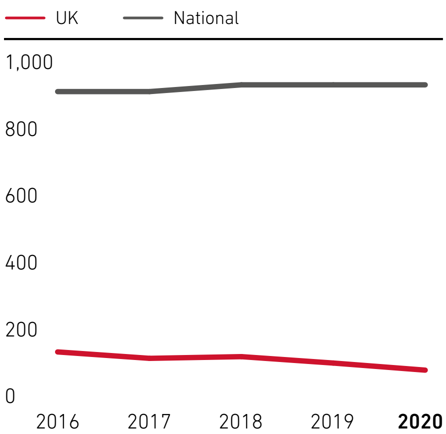
We seek to maintain a cost of debt at least 200 bps below the Group's net initial yield. At 31 December 2020, the cost of debt 2.28% was 254 bps below the net initial yield (4.82%).

Sustainability (%)



We seek to minimise our impact on the environment by targeting a reduction in carbon emissions of 25% in the managed portfolio by 2025 (baseline 31 December 2018). Our progress to date is demonstrated in the graph above which shows the year-on-year reductions.

Health and safety (per 100,000)



We work hard to ensure that the health and safety of our employees, customers, advisors, contractors and the general public is not compromised and pride ourselves on remaining below the UK National Accident Frequency rate. This rate is calculated by dividing the number of accidents reported in the year by the number of people occupying our buildings.

Strategy in action

Acquisitions

Aviva portfolio, United Kingdom

As the market in 2020 was challenging and uncertain, maintaining investment discipline was key. However, we still identified a select few opportunities to make acquisitions which fit our strategic objectives.

"The Aviva portfolio acquisition builds our presence in London and the South East further, delivering attractive yields as well as opportunities to actively manage the buildings to create additional value."

We acquire the right properties

This portfolio acquisition from multiple Aviva Investor funds clearly demonstrates our ability to undertake complex, off-market transactions which target assets in key geographical locations. Negotiations with Aviva on a larger portfolio started before the full onset of Covid-19 and these negotiations were continued during lockdown alongside even greater due diligence resulting in the acquisition of the three assets at a price which worked for both parties.

The portfolio consists of: One Church Road, Richmond; Priory Place, Chelmsford; and Kings Court, Leatherhead. One Church Road is located adjacent to Richmond Station, providing fast access to Clapham Junction and London Waterloo, and benefits from car parking and bike storage spaces. The 46,995 sq. ft office building is multi-let to four tenants.

Priory Place is a 41,036 sq. ft building located in the centre of Chelmsford, the principal commercial town in Essex. The asset is close to Chelmsford Station, enabling a 30-minute train journey to Liverpool Street Station, and benefits from 80 car parking spaces. Priory Place is currently multi-let to five tenants with a significant proportion of the building let to HM Courts & Tribunals Service.

Kings Court is in central Leatherhead, an eight-minute walk from the station, with a direct train line to London Waterloo and London Victoria stations. The three-storey building comprises 30,759 sq. ft of office space is let to two tenants and has 166 car parking spaces along with bike storage.

The portfolio is 94% let with a WAULT of 3.8 years to breaks and delivers £3.7 million net rent per annum, reflecting a net initial yield of 5.9%. The buildings were acquired unencumbered but present opportunities for different financing solutions. There are also significant opportunities to add value through additional refurbishments, sustainability enhancements and other active asset management initiatives which will continue to drive further rental growth.

Priory Place, Chelmsford

Section 172 consideration

Despite facing a challenging market in 2020, the Board was keen to continue to meet its strategic objectives by identifying and acquiring the right properties. It was crucial that each investment opportunity was considered thoroughly and that the Group's investment criteria were closely watched.

Throughout the year, the Board carefully considered all identified properties and the acquisitions it approved were deemed as supportive of the Group's long-term strategy. The Board endorsed the acquisition of the Aviva portfolio as it recognised this would enhance the Company's reputation as a specialist in office spaces in London and the South East. The Board also recognised the positive environmental impact of the refurbishment possibilities in this portfolio which would allow the Company to transform these spaces into more sustainable offices.

For more information on s.172 see pages 70 and 71

CGI image: Park Avenue, Lyon (Credit: SUD Architectes)

Portfolio acquisition price

£59.7 million

Comprising three assets

Capital value

£503 per sq. ft

Attractive compared to the wider market

Rental income

£3.7 million

Includes 23% let to the Secretary of State until 2042

Net initial yield

5.9%

Reversionary yield 7.3%

WAULT to breaks (expiries)

3.8 years (7.9 years)

Let to 12 office tenants

Acquisition of the remainder of Park Avenue and start of refurbishment, France

Park Avenue, comprising 7,100 sqm of offices over nine floors, was built in 1989 and was one of the first acquisitions made in France by CLS. We initially acquired five floors (3,900 sqm) with six other co-owners purchasing the remaining areas. CLS' strategy over the years was to extend our ownership with progressive acquisitions of various floors such that by the end of 2019 we owned 85% of the property. Finally, after lengthy negotiations with the last two co-owners, we were able to take full control of the building in 2020 for a €3.3 million investment.

Full ownership and control of the building allows CLS to carry out a large redevelopment of the site. The objective of the refurbishment is to create value by: modernising the building and its aesthetics; and enhancing the sustainability, creating a building which offers a place of work and well-being in line with current office standards. There are two stages of works, firstly a €1.2 million renovation of 3,900 sqm of internal accommodation areas, which was started in August for delivery in April 2021, after the departure of the main tenant Carsat. The second stage for €7.0 million, to be completed during 2021 and 2022, covers the refurbishment of the façade and common areas.

Strategy in action
continued

Financing

First 'green' loan, United Kingdom

The priorities identified at CLS' October 2019 Strategy Day were lengthening our weighted average debt maturity and aligning financing with our sustainability strategy, whilst maintaining loan flexibility, low funding costs and diversity of funding sources.

"Our largest, and longest, ever loan was also our first 'green' loan demonstrating our commitment to sustainability, which is at the heart of our vision and purpose."


One Elmfield Park, Bromley

We secure the right finance

In September 2020, we completed a £154 million loan with Aviva Investors which is secured on a portfolio of 12 UK properties. This loan allowed CLS to refinance three existing loans of £67 million, which were due to expire in 2020 and 2021, as well as to gear unencumbered properties, and resulted in net additional cash to CLS of £86 million, after costs. Subject to certain conditions, CLS will be able to remove or substitute properties as security for the loan.

60% of the properties by value securing the loan are office buildings including 166 College Road, Harrow and Twenty Kingston Road, Staines, which were acquired during 2020, with the remainder being the hotel and student accommodation of our mixed-use Spring Mews property in Vauxhall. The offices had a WAULT of 5.2 years at completion.

The £154 million loan, which had a loan-to-value of 55%, is made up of two equal tranches of 10 and 12-year maturity, at an average fixed rate of 2.62%.

The loan has been independently assured as a 'green' loan in line with LMA sustainability principles with up to a 10-basis point margin reduction dependent on the delivery of specific sustainability targets. At the date of completion, CLS' weighted average debt maturity increased from 3.5 years to 4.6 years. The additional funds increased CLS' cash reserves and allowed for the evaluation of further acquisition opportunities.

Section 172 consideration

The Board considered how to further develop its financing and sustainability strategies and their positive impact on related stakeholder groups. The innovative green loan brought further diversification to its loan book, whilst also supporting CLS' vision to be a sustainability focused landlord, with KPIs linked to the delivery of our future sustainability targets.

The Board concluded that the loan would also have a positive impact on the Group's aim of lowering its cost of debt. It also facilitated the fostering of a new business relationship with a well-recognised and established lending institution in the UK real estate industry. The Board supported the wider positive impact the loan would have on the environment, our sustainability commitments to our tenants and the wider investment community. The loan would also enhance the Group's reputation with our investor base and our peers within the real estate industry.

For more information on s.172
see pages 70 and 71

Size of loan

£154 million

CLS' largest loan

Sustainability margin incentive

10 basis points

CLS' first green loan

Loan tenor

Average 11 years

Split equally between 10 and 12 year tranches

Interest rate

2.62% fixed rate

Lowered the average cost of debt in the UK

Number of properties

12

60% offices plus Spring Mews mixed-use scheme

Nagelsweg 37-39, Hamburg

Refinancing and restructuring of the Metropolis portfolio financing, Germany

In August 2017, CLS acquired 12 properties in Germany from Züblin Immobilien known as the Metropolis portfolio. The properties were financed in 2017 with a then €92.7 million (64% LTV) portfolio loan with Deutsche Pfandbriefbank AG ("Pbb"). The loan was made up of two tranches expiring in December 2020 and December 2022, reflecting the intention of CLS to dispose of some of the properties in the short to medium term, bearing interest at floating and fixed rates respectively (on average 1.34%).

As a result of changes in the Metropolis portfolio, including the sale of Albert-Einstein-Ring in Hamburg and the proposed development of Vor dem Lauch in Stuttgart, CLS decided to restructure the portfolio loan to release properties from the security of the loan and to extend the maturity of the financing whilst also avoiding the payment of punitive early repayment costs. The restructuring and refinancing was completed in December 2020 as a seven-year €73.9 million (55% LTV) portfolio loan with Pbb at 1.35% fixed rate initially, reducing to 1.30% fixed rate from December 2022. The restructuring delivers a flexible financing transaction that allows specific properties to be released without repayment or break costs applying and also extends the original loan by a further five years.

Strategy in action
continued

Asset Management

Vauxhall Walk development, United Kingdom

One of CLS' key differentiators is active, in-house asset management to drive significant value through keeping vacancy low, securing new leases to capture rental increases and maintaining tight cost control. Refurbishment plays an important role as does selective direct development.

> "The Vauxhall Walk development represents a fantastic opportunity to complete the Spring Mews mixed-use development and capture rising office rents in the up and coming Vauxhall area."

We deliver value through active management and cost control

The freeholds of five units at 92-98 Vauxhall Walk, a corner site and the last piece of the 'jigsaw' of the Spring Mews redevelopment site, were acquired over a period of 14 years.

Our in-house development team assessed the viability of a number of different uses on the site, including an extension to the Staybridge Hotel, and a mixed-use office and residential scheme. A Grade-A office redevelopment was decided upon as the most viable given the returns and best fit with the Company's strategy.

Through detailed negotiation with the Local Authority, the development team was able to maximise the site's potential. As such an application for a 10-storey building, an increase of seven storeys from the existing building equivalent to a four-fold increase in the amount of office (from 6,900 sq. ft to 28,500 sq. ft NIA), was made. A resolution to grant planning consent was given in May 2020 with detailed planning consent secured in December 2020.

The new building will include nine floors of Grade A office space, with the ability to split each floor into two tenancies to allow CLS to be flexible in our offer to tenants. The ground floor will provide an open plan reception/café area and an affordable office unit. The building will also benefit from communal and private roof terraces at ninth floor level, which are south facing and overlooking Vauxhall Pleasure Gardens. It has been designed to be in keeping with the rest of the existing Spring Mews estate with a brick façade. The building will become one of CLS' most sustainable buildings with: the inclusion of a hybrid VRF system to reduce refrigerants; complete electrification of its heating and cooling (no fossil fuels); and both BREEAM Excellent and an EPC A targeted. Demolition of the c.£17 million scheme started in early 2021. Construction is due to start in early Summer with completion targeted before the end of 2022. The estimated rental income is expected to be £1.4 million once fully let.

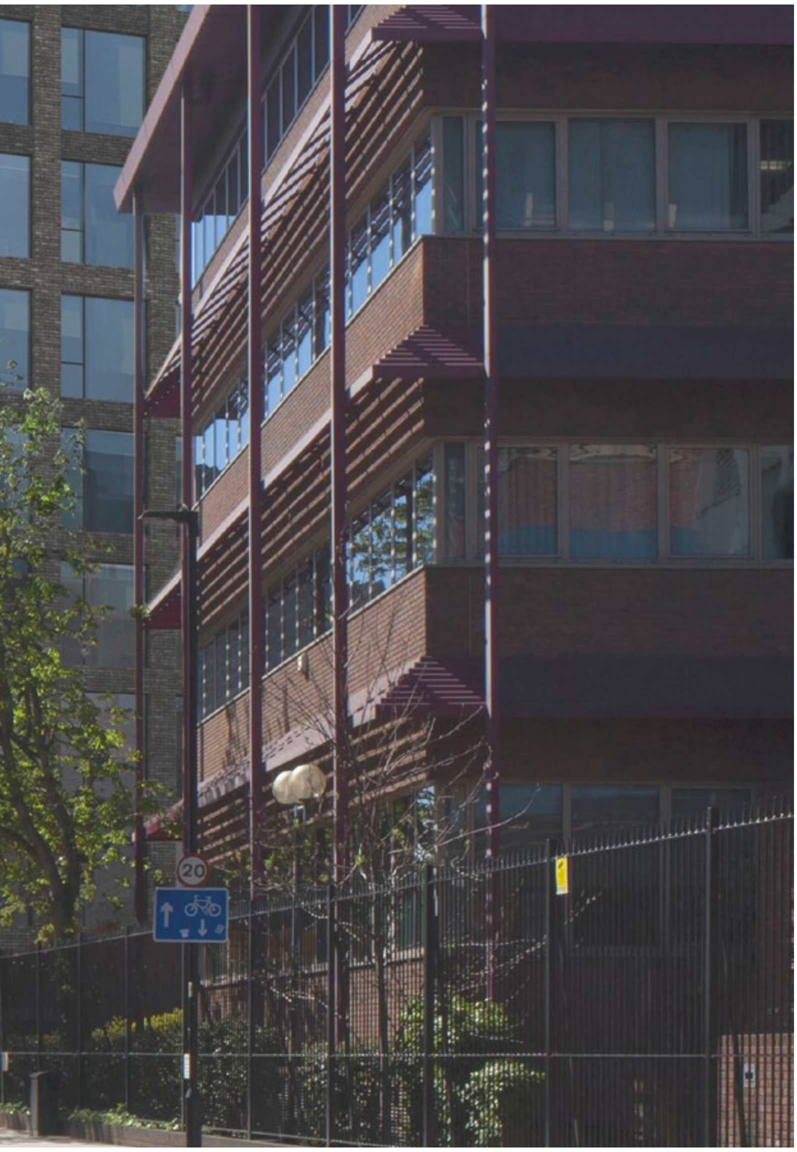

Vauxhall Walk, Vauxhall

Section 172 consideration

The Board recognised that, with the acquisition of these Vauxhall Walk units, there was an excellent redevelopment opportunity which would have a beneficial impact on the value of the Group's portfolio as well as boosting the value of the surrounding area. The development would also allow the Company to have a favourable impact on the environment.

In the process of acquiring the necessary planning consents to maximise the site's potential, the Company was able to foster a sound working relationship with the Local Authority and, in the process of development, will be able to do the same with other key groups who will be crucial in delivering the development project. The completion of the project will also further the Company's reputation as a sustainability focused landlord.

For more information on s.172 see pages 70 and 71



Petits-Hôtels, Paris

Estimated capital expenditure and land value

£17.1 million

Currently finalising the tenders

Office size

28,500 sq. ft (2,648 sqm)

Across 10 floors

Estimated rental value

£1.4 million

Targeted profit on cost in excess of 15%

Sustainability

BREEAM Excellent and EPC A targeted

Will be one of CLS' most sustainable buildings

Timing

Started on site in early 2021

Estimated completion in Q4 2022

Major new letting at 20/22 rue des Petits-Hôtels, France

Petits-Hôtels is a 22,389 sq. ft (2,080 sqm) multi-let office building located in Paris between Gare du Nord and Gare de l'Est, which was acquired by CLS in 1998 for €4.9 million. The main tenant, which runs a business centre, was letting 858 sqm over four levels with a lease expiry in September 2020. Prior to negotiating with our tenant, we asked for marketing advice from two local agents and considered the possibility of new lettings for each unit. Due to the specific lay out and small-sized areas, we determined that completion of a renewal would be the preferred option.

The market in the City of Paris, where the vacancy rate is below 3% and rents are high, is very dynamic. The challenge for CLS was to agree a long-term commercial lease, which was above the building's ERV (€400/sqm) considering that the tenant's existing passing rent was 20% below ERV. Ultimately our active in-house asset management team was able to secure a firm nine-year lease at €420/sqm, leading to a significant valuation uplift at year end with the building now valued at €19.3 million.

Strategy in action
continued

Disposals

Albert-Einstein-Ring, Germany

CLS is a long-long term investor but we continually assess whether to hold or sell properties. If we can secure a significant premium to book value and/or deploy capital in better opportunities, we will sell.

❛ Whilst Hamburg remains one of our key markets, this disposal captured value for our investors upfront and released capital that enabled us to recycle it into new opportunities with a better income profile – as demonstrated by exchanging on five properties in December 2020 and January 2021. ❜

We continually assess whether to hold or sell properties
Albert-Einstein-Ring 17/19/21 was acquired by CLS in 2017, as part of the 12-asset Metropolis portfolio, and consists of 13,419 sqm (144,441 sq. ft) of offices. The property is located in the Bahrenfeld area of Hamburg and within the development area Science City Bahrenfeld. Although the property offered long-term potential, as the area and public transport are to be improved over the coming decade, the buildings experienced higher levels of vacancy and no longer met our portfolio criteria.

The City of Hamburg is developing a new quarter in Bahrenfeld including science, business and residential on an area of 125 hectares. The connection to local rail transport and the expansion of attractive recreational and leisure areas will make Science City Bahrenfeld an attractive place to live.

The development plans became more concrete during 2018/2019 and we began discussions with the City of Hamburg to understand their development plans and their potential interest in Albert-Einstein-Ring. Initial negotiants led to an off-market transaction which was executed by the German property team in about three months at the onset of Covid-19 restrictions. The sale at a price of €36.45 million was 38.0% above the 31 December 2019 valuation and reflected a net initial yield of 3.6%.

Albert-Einstein-Ring, Hamburg

Section 172 consideration

As part of its annual strategic review, the Board continually evaluates the properties in the Company's portfolio to determine whether some no longer support the Company's long-term success. In 2020, the Board concluded that Albert-Einstein-Ring and Bismarckallee, whilst offering long-term potential, no longer met the Company's portfolio criteria. The Board therefore decided to sell the properties allowing the recycling of capital and refresh the portfolio, making the Company more desirable to our investors.

The Board realised that the sale of these properties would also secure significant returns for CLS and provided additional capital for future investments in the Company's key markets. During the process of developing Albert-Einstein-Ring prior to its sale, the Company was able to foster a relationship with the Local Authority, which ultimately led to an off-market sale that was beneficial to both parties.

For more information on s.172
see pages 70 and 71

2017 acquisition price

€20.9 million

Part of the €169.5 million Metropolis portfolio

31 December 2019 valuation

€26.4 million

Annual valuation growth of 12.4% since acquisition

Financing

€11.9 million

Part of the Pbb portfolio loan (see page 27)

Property details

13,419 sqm/32% vacancy by ERV

As at 30 June 2020

Sales price of €36.45 million

38% above the 31 December 2019 valuation

Net initial yield of 3.6%

Bismarckallee, Freiburg

Sale of Bismarckallee in Freiburg, Germany

In 2013, CLS decided to invest in strong B-Cities in Germany with the aim to identify assets in or close to A-locations. Bismarckallee 18-19, the former headquarters of Dresdner Bank Freiburg, was acquired by CLS in 2013 for €13.1 million (GIY 9.1% and WAULT 1.9 years). The building was built in 1973 and is located in Freiburg´s prime office location opposite the main station and has c.8,400 sqm lettable space.

CLS successfully re-let the total vacant space of c. 6,000 sqm in 2015 to Volksbank, the largest local savings and loans bank, on a six-year lease plus tenant only options to extend. In 2020, given the age of the property and its favourable location, and with the Sparkasse vacating in 2021, CLS undertook various feasibility studies to investigate a potential refurbishment or a new development scheme. The latter has been discussed intensively with the Freiburg City planning department. In addition, a market sounding took place amongst local and national developers in order to understand their appetite for the asset.

In October 2020 Bismarckallee was sold for €22.5m to a local development firm with a remaining WAULT of less than one year. The sales price reflects a GIY of 5.1% and a premium of 18.4% to the 31 December 2019 valuation. Bismarkallee shows CLS´ ability to source investment opportunities throughout Germany, add value by re-letting vacant spaces at ERV or above and to use our market timing expertise and business network to secure the right transaction.

Engaging our stakeholders

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

Our stakeholders

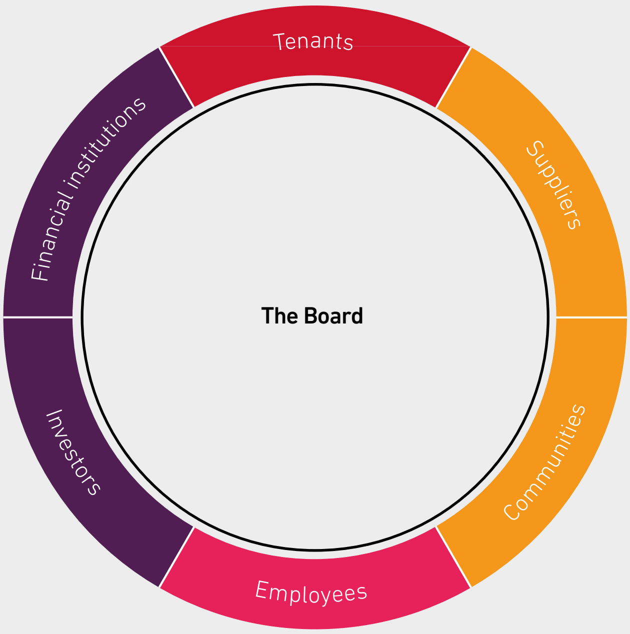
Why are they important?

We think that engaging with our key stakeholders is fundamental to our ability to make well informed decisions which ultimately have a positive impact on the business, in the communities in which we invest and the people with whom we do business.

Positive engagement and collaboration with our stakeholders supports the implementation of our long-term strategy for growth.

We engage with our stakeholders through a variety of channels throughout the year. We have seen a positive impact on the decisions we have taken during the year as a result of the input from this stakeholder engagement.

Our vision and values, which can be found on page 17, reflect how our stakeholders perceive us and, in turn, how we conduct ourselves in our interactions with them.



Covid-19

The impact of the pandemic affected each of our stakeholders in different ways. Specific engagement with our key stakeholders is outlined on pages 8 and 9.

Tenants

How we listened to our stakeholders
- Tenant meetings

What key topics were raised?
- Improvements to communal areas
- Input into tenants' refurbishments
- Involvement in sustainability initiatives
- Appreciation of in-house teams and fast response to issues

How did we respond?
- Programme of refurbishments
- Active asset, property and facilities management to deal with issues quickly
- Enhancing communications through on-line portals

Employees

How we listened to our stakeholders
- Employee surveys
- Open door policy for raising issues
- Our Workforce Advisory Panel

What key topics were raised?
- Improvements to workplace policies and practices
- Levels of staffing to match growth in portfolio
- Increased workforce interaction from Non-Executive Directors

How did we respond?
- Reviewed workplace policies, practices and benefits
- Increase number of operational employees
- Programme for Non-Executive Director involvement

Suppliers

How we listened to our stakeholders
- Quarterly review meetings with principal suppliers
- Fair tendering process to ensure we work in partnership with suppliers

What key topics were raised?
- Recognition of the Group's prompt payment of invoices
- Working towards sustainable practices
- Support for continual feedback

How did we respond?
- Commitment to ensure new contracts pay the Real Living Wage
- Ensure communication of Group objectives to enable collaborative approach

Communities

How we listened to our stakeholders
- Supporting local organisations in the areas in which we invest
- Working closely with communities and councils on refurbishment and development projects

What key topics were raised?
- Improvements to public realms
- Financial and in-kind support for local charities and other organisations

How did we respond?
- Increase in funding for local charities and organisations
- Adapted refurbishments/redevelopments in light of feedback
- Commitment to the Group's policy of prompt payment of invoices

Investors

How we listened to our stakeholders
- Q&A session at analyst presentations
- Regular meetings with investors
- Feedback through our key advisors

What key topics were raised?
- Impact of Brexit
- Long-term growth strategy
- Importance of Group wide sustainability initiatives
- The future of the office

How did we respond?
- Brexit impact risk assessment
- Presentation on long-term growth strategy to investors
- New sustainability strategy
- Engagement about future office hybrid model

Financial institutions

How we listened to our stakeholders
- Frequent meetings with all lenders
- Presentations from institutions

What key topics were raised?
- Changes in legislation
- Economic and market research and trends
- Ongoing compliance with loan covenants

How did we respond?
- Communication of Group strategy at individual meetings
- Regular updates on portfolio changes
- Ensuring best practice in compliance reporting

Environmental, social and governance review

Properties that make a difference

Despite 2020 being a hugely disruptive year, our commitment to sustainability stands firm and we have continued to make solid progress. We end the year with a new sustainability team, new strategic sustainability aspirations and a broad list of corporate and property-specific achievements.

Following a process of stakeholder feedback, peer review and insight analysis, we defined our new strategic sustainability aspirations. These are: having a positive environmental impact; creating shared value for our stakeholders; and being a responsible business.

Our priorities for 2021 are to calibrate material long-term targets that will underpin our new strategy, including the production of a Net Zero Carbon pathway and the development of new management tools and processes to embed our sustainability strategy across our value chain. Once complete, the new strategy will be launched in our next annual sustainability report that will be published this summer, but in the meantime we are working towards the following targets throughout 2021:

Rhones-Alpes, Lyon

Investing in properties and people to share a sustainable future with our stakeholders

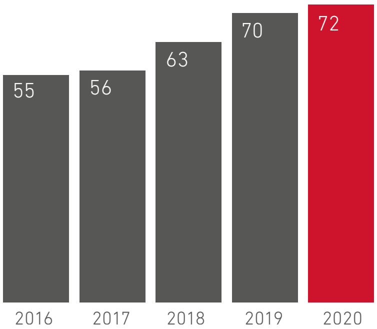
Strategic theme	2021 targets
A positive environmental impact	We invest in our properties and collaborate with our tenants to manage natural resources sustainably, support local environments and build resilience to climate risks; delivering future-ready assets. • Produce a company-wide Net Zero Carbon strategy aligned to a science-based carbon reduction target. • Increase our capacity for generating renewable electricity from solar PVs by 100% on FY20. • Roll out smart water meters across 50% of the managed portfolio. • Implement one initiative to support local nature and biodiversity on at least 50% of our assets under management. • Achieve 100% diversion from landfill and 75% recycling rate for operational waste from UK & French assets under management.
Creating shared value	We aspire to create and share value with our stakeholders by engaging collaboratively with our tenants, supporting our local communities and partnering with our supply chain. • All assets under management to deliver an initiative in support of workplace health and wellbeing. • All employees to participate in at least one community or charitable volunteering initiative. • Establish an appropriate methodology for calculating the Social Value from our operations.
Being a responsible business	Strong governance and transparency are the basis for demonstrating our values, supporting our people and working in partnership with our stakeholders to uphold high standards for all. • Increase the percentage of Group debt covered under a sustainability-linked 'green' loan to over c20%.

Environmental, social and governance review
continued

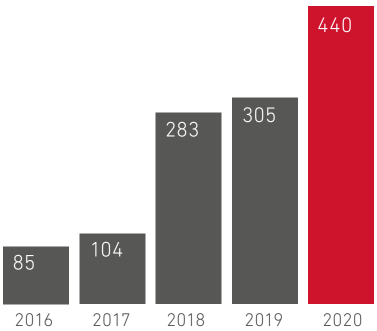
Highlights

91%	Proportion of total Group electricity from renewable or low-carbon sources
6%	Absolute reduction in total Group Scopes 1, 2 & 3 GHG emissions
72	GRESB rating, up 2 points from last year
100%	Waste diverted from landfill for UK and France managed assets
15%	Of total Group debt covered under sustainability-linked 'green' loans
80%	Of managed portfolio achieving at least a "Good" BREEAM In-Use rating
34	Community and charitable organisations supported through monetary donations

GRESB (ESG) score/100



Capacity of installed solar PV (kWp)



A positive environmental impact

Sustainable buildings

We succeeded in progressing our commitment to sourcing clean, sustainable energy for our properties throughout 2020. Over the summer we procured new contracts for 100% renewable electricity across both our French and German portfolios, along with a new carbon neutral gas contract for our German properties. In addition, we have continued to invest in our own renewable energy generation capacity; adding a further 135kWp of solar PV capacity across our German portfolio.

In 2020 we embarked on a portfolio-wide programme of BREEAM In-Use assessments across our managed assets. Having already de-risked the portfolio in 2017 to ensure no assets with an EPC rating below a D, our BREEAM In-Use program provided us with a baseline sustainability appraisal using the leading commercial property sustainability rating system. The programme suffered severe interruptions from Covid-19 travel restrictions, but by the end of 2020 we had completed 100% of the certification across our UK and French properties, and 80% of our German properties were awaiting certification. A minimum rating of "Good" was achieved by 80% of the managed assets within the Group.

During 2020 we delivered a variety of projects and initiatives to improve the energy efficiency of our portfolio. Examples include:

The 8,254 sq. ft refurbishment at our Chancery House property resulted in a new energy efficient lighting design consisting of new high-efficiency LED lamps, new movement sensors and dimmable controls to more closely align lighting levels with occupancy.
In addition, new insulation was installed to the heating and cooling pipework in accordance with industry standard BS5422 to minimise energy losses across the system.

At our Reflex property, we completed the refurbishment of the first floor in October 2020 which included the installation of a new Variable Refrigerant Flow (VRF) system that enabled the entire floor to be disconnected from the existing gas boiler system. New energy efficient LED lighting and PIR controls were also installed as part of the refurbishment and the project achieved a SKA Gold sustainable fit-out certification.

We undertook reviews of the building management system controls at our CI Tower and Spring Mews properties which delivered energy efficiency opportunities such as improved winter chiller operation and reduced boiler run hours. We also corrected instances where controls had deviated from their as-commissioned settings.

By installing a new inverter drive and time-clock controls to the car park ventilation system at our Hygeia property, we estimate a reduction in fan operation of 35% will be achieved across the year.

In September, we launched new monthly sustainability scorecard reports across our UK portfolio which present property-specific energy efficiency performance to the Executive team, and stimulated closer dialogue between the sustainability and facilities management teams, resulting in operational anomalies being caught and actioned early to bring performance back under control.

Additionally, we have undertaken limited independent assurance on our 2020 greenhouse gas and energy disclosures to ensure we have a robust baseline from which the new strategy will be developed.

Our core environmental priority for 2021 is the development of our Group-wide Net Zero Carbon pathway, which will be aligned to a science-based carbon reduction target. To support this we are undertaking a full Scope 3 carbon emissions baseline and undertaking asset-level energy audits.

We will continue to expand our coverage of automatic data collection technology across our energy and water supplies in 2021 to improve the quality and accuracy of our data, and enable the roll out of smart performance reports and analytical tools.

Solar PV Station, Jarrestrasse, Hamburg

Reflex, Bracknell

Environmental, social and governance review
continued

Impact Area	EPRA Sustainability Performance Measures (Environment)				Total portfolio					
					Absolute performance (Abs)			Like-for-like performance (LfL)		
	EPRA Code	Units of measure	Indicator		2019	**2020**	% change	2019	**2020**	% change
	Boundary			Number of applicable properties	81	85	5%	58	58	0%
Energy	Elec-Abs, Elec-LfL	kWh	Electricity	for landlord shared services	16,911,565	19,073,885	13%	14,411,048	13,804,962	-4%
				(sub)metered exclusively to tenants	10,205,895	10,194,212	0%	9,252,627	7,381,901	-20%
				Total landlord-obtained electricity	27,117,460	29,268,097	8%	23,663,675	21,186,863	-10%
				Proportion of landlord obtained electricity from renewable and low carbon sources	74%θ	91%	23%	77%	94%	22%
	DH&C-Abs, DH&C-LfL		District heating and cooling	Total landlord-obtained district heating and cooling	8,548,750θ	8,488,029	-1%	7,748,414	7,449,642	-4%
	Fuels-Abs, Fuels-LfL		Fuels	for landlord shared services	20,428,524θ	22,141,926	8%	18,585,888	18,647,850	0%
				(sub)metered exclusively to tenants	399,363θ	295,969	-26%	399,363	295,969	-26%
				Total landlord-obtained fuels	20,827,887	22,437,895	8%	18,985,251	18,943,819	0%
	Energy-Total-Group	kWh	Total energy	Total Group energy	56,494,097	60,194,022Δ	7%	50,397,340	47,580,324	-6%
	Energy-Total-UK		Total energy	Total UK energy	30,163,377	31,850,023	6%	–	–	–
	Energy-Total-UK	%	Total energy	Total UK energy as % of total Group energy	53%	53%	–	–	–	–
	Energy-Int	kWh/m²/year	Energy intensity	Landlord-obtained energy intensity	135θ	143	6%	127	120	-6%
Greenhouse gas emissions	GHG-Dir-Abs	tonnes CO_2e	Direct	Scope 1	4,333θ	4,722Δ	9%	3,856	4,093	6%
	GHG-Indir-Abs	tonnes CO_2e	Indirect	Scope 2 (location based)	6,746θ	6,220Δ	-8%	5,655	4,362	-23%
			GHG emissions	Total Group Scope 1 & 2 emissions	11,079θ	10,942Δ	-1%	9,511	8,455	-11%
	GHG-Total-Abs-UK	tonnes CO_2e	GHG emissions	Total UK Scope 1 & 2 emissions	–	4,947	–	–	–	–
		%		Total UK Scope 1 & 2 emissions as % of total Group emissions	–	45%	–	–	–	–
	GHG-Indir-Abs	tonnes CO_2e	Indirect	Scope 2 (market based)	–	1,619Δ	–	–	–	–
				Scope 3	2,963θ	2,204	-26%	2,565	1,713	-33%
	GHG-Total-Abs		GHG emissions	Total Scope 1,2&3 emissions	14,042θ	13,146	-6%	12,076	10,168	-16%
	GHG-Int	kg CO_2e/m²/year	GHG emissions intensity	Scope 1&2 emissions intensity	27θ	26Δ	-4%	24	21	-13%
				Scope 1&2&3 emissions intensity	34θ	31	-9%	30	26	-13%
Water	Water-Abs, Water-LfL	m³	Water	for landlord shared services	178,083	127,580	-28%	159,968	102,198	-36%
				(sub)metered exclusively to tenants	–	–	–	–	–	–
				Total landlord-obtained water	178,083	127,580	-28%	159,968	102,198	-36%
	Water-Int	m³/m²/year	Water intensity	Total building water intensity	0.43	0.30	-30%	0.40	0.26	-35%

Δ Assured 2020 figure θ Restated 2019 figure Green font reflects positive change

This year we have engaged DNV, an independent expert in assurance and risk management, to undertake limited independent assurance over our 2020 greenhouse gas emissions and energy metrics. The specific metrics that have been subject to assurance are indicated in table above by the following symbol Δ. Further details on the scope and methodology behind our greenhouse gas reporting, and a copy of DNV's Assurance Statement can be found on our website https://www.clsholdings.com/sustainability/our-perspective.

Having reviewed our energy data processes during assurance, we have identified several metrics from 2019 that require restating to ensure alignment with the 2020 methodology or where corrections have occurred. Restated figures have not been subject to assurance, and are indicated by θ in our EPRA table.

The two dominant influences on our 2020 environmental performance metrics are the expansion of the portfolio through our new acquisitions and the impact of the Covid-19 pandemic resulting in significantly reduced occupancy throughout the year.

Our total absolute Scopes 1, 2 & 3 GHG emissions have reduced by 6% in 2020. Reductions in electricity consumption from the 58 like-for-like buildings split by landlord and tenant areas of 4% and 20% were achieved; resulting in a total like-for-like electricity reduction of 10% across the Group. However, an absolute increase in electricity consumption of 8% is observed across the Group resulting from the acquisition of seven new buildings into the portfolio.

A new renewable electricity contract for the German portfolio has increased the proportion of our 2020 electricity consumption sourced from renewable or low-carbon sources by 23%, meaning 91% of the total Group electricity is now carbon-free.

We have seen an absolute reduction in water consumption across the Group of 28%, and on a like-for-like basis this increases to 36% once acquisitions and disposals are removed. This has arisen as a result of the significant periods of low or no occupancy throughout the Covid-19 pandemic in 2020.

Creating shared value

Our stakeholders

Communities

Our commitment to supporting our local communities and charitable causes stood firm amidst the turbulence caused by the Covid-19 pandemic throughout 2020. A total of 34 community and charitable organisations were supported by our philanthropic donations. In addition, emergency rent relief was provided to some of our charitable tenants and subsidised hotel accommodation made available for essential health workers at the height of the pandemic.

We have identified food poverty, homelessness, and youth education, skills & training as being our core focus areas for our charity donations in 2021, and we are aiming to establish our social value baseline as an organisation by the end of the year.

Tenants

Due to the prolonged periods of lockdown throughout 2020 it was not possible to undertake the annual tenant survey. However, we maintained close and regular engagement with our tenants through fortnightly virtual meetings, that have since evolved into monthly drop-in virtual meetings which we intend to continue throughout 2021. In these forums, topics such as opening times and Covid-19-safe protocols, such as cleaning and ventilation, are discussed. We are proud that all of our managed assets achieved Covid-19-safe status and remained fully open for our tenants. Our active asset, property and facilities management service has enabled us to respond to tenant requests quickly, supported by a newly established central response team throughout the Covid-19 pandemic. For the minority of tenants who were forced to close during lockdown, we have supported their financial needs with rental payment support and lease break flexibility.

Employees

We promote all aspects of employee engagement; we encourage all employees to share ideas and to get involved in challenging and developing our policies and practices.

With a predominantly flat management structure, we are able to ensure that all employees are informed of matters concerning their interests and the financial and economic factors affecting the business. Weekly team meetings are held across the Group and our Executive Directors present our annual and half-yearly results to all employees, which is followed by a question and answer session. This is designed to give everyone an understanding of the business, and how their work contributes to the Group's performance.

We believe having shared goals facilitates high performance. Every 12 months we undertake a performance review of each employee, setting their objectives for the forthcoming year and this is followed up by a six-monthly review. The individual objectives reflect the Group objectives set by the Chief Executive Officer, which in turn are based on the Group's key performance indicators.

We have a dedicated intranet which allows us to promote new policies, procedures, Group activities and employee events.

Engagement

Engagement is about understanding the needs of our employees. This enables us to create a better working environment which, in turn, drives performance, loyalty and success.

We seek the views of our employees in a number of ways such as through staff satisfaction surveys, conducted through a third party advisor so as to ensure anonymity, and employee engagement initiatives.

In 2019, the Workforce Advisory Panel, chaired by Non-Executive Director Elizabeth Edwards was established. The panel meets quarterly to discuss workforce related policies and practices. See pages 74 and 75 for more detail on the Workforce Advisory Panel.

The completion of our purpose, vision and values project in 2019 concluded all of the outcomes of our previous staff survey. The Board commissioned a follow up survey in 2020 to gather the views of our employees on topics which included: employee engagement and effectiveness; employee benefits; development opportunities, respect and recognition; and confidence in leaders. The full results of the 2020 staff survey will be presented to all staff in early 2021, and an outline of the key results and next steps are set out on page 40.

Environmental, social and governance review
continued

Staff survey 2020
The survey was externally facilitated by Korn Ferry which allowed employees to respond honestly and anonymously. The overall feedback was very positive and also highlighted areas in which the Group could improve.

Survey results
The barchart below show high levels of engagement and enablement within our workforce, associated with high performing organisations. This was reflected in the responses received in the open comments section of the survey.

Top dimensions	1. Clear and Promising Direction	96%
	2. Authority and Empowerment	83%
	3. Confidence in Leaders	83%
Strengths	1. I believe that CLS has the right strategic priorities and goals.	94%
	2. I have a good understanding of CLS' strategic priorities and goals.	97%
	3. I have trust and confidence in CLS' senior leadership team.	90%

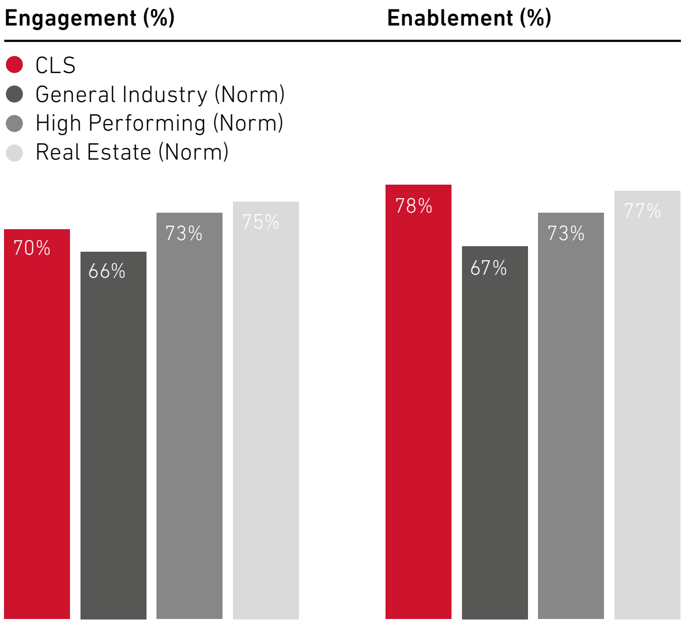
Our employees considered the Group's key strengths to be: confidence in its leaders; an open and transparent culture; the collaborative nature of its people; good communication with senior management; and an understanding of the Company's core values and strategic direction.

Areas in which the Group could improve and continue to support its employees included: more health and wellbeing initiatives; to undertake a review the Group's flexible working policy following the pandemic; and continue to provide opportunities for employees across countries and functions to meet and collaborate.

The trends below show that our employees have great confidence in the leadership team, that they fully support the Company's long-term strategy, and believe the Company has the right priorities.

Survey outcomes
A presentation to all staff on the detailed findings of the survey will be given in 2021 and we will enlist the support of the Workforce Advisory Panel to review and consolidate the results of the survey, with the assistance of an external facilitator, into actionable objectives for the Company which we will then implement over the next 24 months.

"The best parts of CLS are the way that it treats its staff and its culture, not only in relation to its staff but the way in which it manages its buildings and generally conducts itself in the market."



Source: Korn Ferry

Being a responsible business

Our people

Recruitment

Finding the right people is important to our long-term success. We believe having a diverse workforce is one of our key strengths and gives us a competitive advantage which allows us to collaborate across departments and markets, contributing ideas and creating new initiatives to drive us forward.

Our policies and procedures ensure our commitment to equal opportunities and diversity in employment. Our recruitment and interview policy follows this commitment and we ensure that it is fully understood by all those in the recruiting process. No employee or applicant is treated less favourably on the grounds of gender, marital status, race, colour, nationality, ethnicity, religion, disability or sexual orientation, nor is disadvantaged by conditions or requirements, including age limits, which cannot be justified objectively. Entry and progression within the Group is solely determined by the job criteria, personal aptitude and competence.

Our recruitment and interview policy follows best practice in the employment of people with disabilities. Full and fair consideration is given to every application for employment from people with disabilities whose aptitude and skills can be used in the business, and to their training and career development. This includes, wherever possible, the retraining and retention of staff who become disabled during their employment.

We are proud that we are able to attract, motivate and retain high calibre employees, which, in turn, has benefited the performance of the Group.

Training and development

All employees are actively encouraged to undertake training to achieve professional qualifications and to keep up to date with developments in their specialised areas.

Each employee is allocated a personal training budget which they can use for their professional development. We ensure that those with direct reports undertake management training on areas such as diversity, appraisals and performance. We also promote non-core training, such as mental health, first aid and foreign language skills, which, whilst not central to a particular role, allow employees to broaden their skills base and opens communication across the Group.

As part of our knowledge sharing and personal development policy, we have set up internal workshops in which teams present on their specific role within the organisation, thereby developing employees' wider business knowledge and understanding of how the Group's activities inter-relate. We also encourage all members of staff to consider areas of wider professional development that may be of interest to other teams, such as changes to planning laws or data protection legislation, and we organise seminars with the assistance of our network of external advisers.

Remuneration

Our overall remuneration and benefits package is designed to attract, motivate and retain employees. Our remuneration structure is simple, combining salary and benefits with an annual discretionary bonus and a long-term retention bonus based on the Group's performance over a two year period. In addition, the Group has a share incentive plan, which has been open to all UK employees since 2017. During 2019, we extended this scheme to our employees in Germany and Luxembourg. The scheme matches employee contributions in the ratio of 1:1. Take-up amongst UK employees is over 50%, which is above the average for this type of scheme and testament to its success.

Culture

Everyone has visibility and a voice. Our culture is professional, inclusive and friendly reflecting our Purpose, Vision and Values.

Our open-door policy encourages everyone to share opinions, creating greater transparency, honesty and trust. We have employees from 20 countries, which helps to foster a diverse, collaborative, cosmopolitan environment. We have around 100 employees looking after a property portfolio of £2.2 billion so we recognise how vital they are to our success. We foster an environment of openness and feedback by consulting regularly with our employees and other stakeholders through various channels, including our employee intranet and tenant surveys, to understand their needs and ensure our culture evolves with the business and modern working practices. We pride ourselves on the way we build relationships and our flexible approach allows us to see potential and opportunities in ways that others don't. We act with agility and speed to make the most of possibilities as they arise.

Gender diversity

	Male	Female
Board	67%	33%
Senior Operations Board	71%	29%
Group wide employees	47%	53%

For more information see our website
www.clsholdings.com

Environmental, social and governance review
continued

Responsible business

We recognise that managing the risks and opportunities from climate change on our business requires a strategy that spans the full breadth of our value chain – from the securing of finance to the day-to-day operation of our properties.

Sustainability remains one of the six core risk themes for the CLS Group, with each individual risk captured within the Sustainability Risk Register tool maintained by the sustainability team and reviewed twice a year or when a material change in the risk landscape occurs. We continue to retain full membership of the Better Buildings Partnership industry body where we are provided access to environmental legislation updates for the UK and Europe.

We took the decision in 2020 to reassess our sustainability reporting outputs to ensure our reporting is robust, transparent, relevant, and with the greatest internal administrative efficiency. For this reason we have decided to no longer submit reports under CDP as we believe the disclosures contained within our Company and Sustainability reports provide full visibility of our sustainability performance against core performance indicators, in addition to our ongoing participation in GRESB which is the leading sustainability reporting and benchmarking scheme for the real estate industry. We were pleased to achieve a further two GRESB points this year, and an additional green star taking our total score for 2020 to 72 points and three green stars. Additionally, and for the first time, we have subjected our 2020 greenhouse gas and energy disclosures to limited independent assurance in accordance with the ISAE 3000 revised Assurance Standard.

The CLS business model is well aligned to the new EU Taxonomy Regulations through our investment in the refurbishment of existing commercial properties. As the requirements of the Taxonomy mature across the finance industry we expect CLS debt for the purposes of property refurbishment to become an attractive prospect, particularly if aligned to the delivery of our Net Zero Carbon pathway. Having secured our first sustainability-linked loan in 2020, we will seek to incorporate sustainability into more of our finance agreements in 2021 and beyond.

Embedding sustainability into our supply chain remains a key aspect of our strategy. In 2020 we procured new contracts for our gas and electricity supplies across the French and German portfolios, achieving 100% renewable electricity contracts for both, and 100% carbon offset gas across Germany. Our procurement focus in 2021 will be on the UK portfolio gas, water and waste in addition to defining our sustainability requirements for construction projects.

Business ethics
The Board recognises the importance of the Group's responsibilities as an ethical employer and views matters in which the Group interacts with the community both socially and economically as the responsibility of the whole Board. Following the enactment of the Bribery Act 2010, the Group implemented an anti-bribery policy which further demonstrated its commitment to business ethics. To ensure continued compliance with the Bribery Act 2010, training is given to new employees and an annual online compliance check is completed by all employees.

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

For the year ended 31 December 2020 CLS settled 98% of all undisputed invoices in the UK within 60 days, and 82% within 30 days, thus complying with the PPC. In addition, we report on the Group's UK companies' payment practices twice yearly in accordance with The Reporting on Payment Practices and Performance Regulations 2017.

Living Wage
In the UK, we are committed to providing both our employees and our contractors with the real Living Wage and in London, with the London Living Wage. All new contracts with suppliers, including facility management contracts, when renewed, must commit to paying the London Living Wage as a minimum.

The Modern Slavery Act 2015

The Modern Slavery Act 2015 requires any UK commercial organisation with a turnover of more than £36 million to prepare a statement setting out the steps taken during the financial year to ensure that slavery and human trafficking is not taking place in its business or in its supply chain. The Group's statement, which is signed by the CEO, can be found on our website.

The Group upholds the highest standards of business ethics. Through its internal controls and procurement management and reporting processes, the Board is confident that the Company is in compliance with this law.

Health and safety

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

UK

The Group sets health and safety objectives covering our workforce and portfolio and is monitored by the Health and Safety Committee. Each managed or occupied property within the UK portfolio undergoes an annual risk assessment against which our targets can be measured. Our targets address three key areas: Risk Management & Control; Document Compliance; and Incidents. These areas are reviewed each quarter through the Health and Safety Committee and reported to the Board.

As at the date of this report, the percentage of risks which were under control were: 99.3% for Risk Management & Control; and 90.6% for Document Compliance. Our Accident Frequency Rate in 2020 was 95 accidents per 100,000 people (National Accident Frequency Rate: 930/100,000).

Germany

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

Facilities (such as fire safety, electricity supply, ventilation, lifts, and heating) are reviewed as required by law or business standard and at least once a year by authorised personnel. Reports and protocols are reviewed by the operational team. We ensure that all scheduled reviews are conducted in accordance with local laws. Facilities managers provide comprehensive reports on a monthly basis to the operational team. As at the date of this report, 95% of all identified risks were under control.

France

All CLS buildings have to comply with the Code du travail (Labour Code), which defines our responsibilities. Each tenant is in charge of its own security on its own premises in accordance with the security obligations of the building.

The building facilities (such as the electricity supply, and building and mechanical safety checks) are reviewed once or twice a year by a statutory controller. The reports of the statutory controller are reviewed and acted upon by our operational team. This process is audited externally twice a year. The accountability remains with CLS France. As at the date of this report, 97% of regulatory audit reports have been processed.

United Kingdom

Number of properties	
London	35
South East	10
Birmingham	1
Aberdeen	1

Value of property portfolio
£1,125.7m

Vacancy rate
6.2%

Percentage of Group's property interests
52%

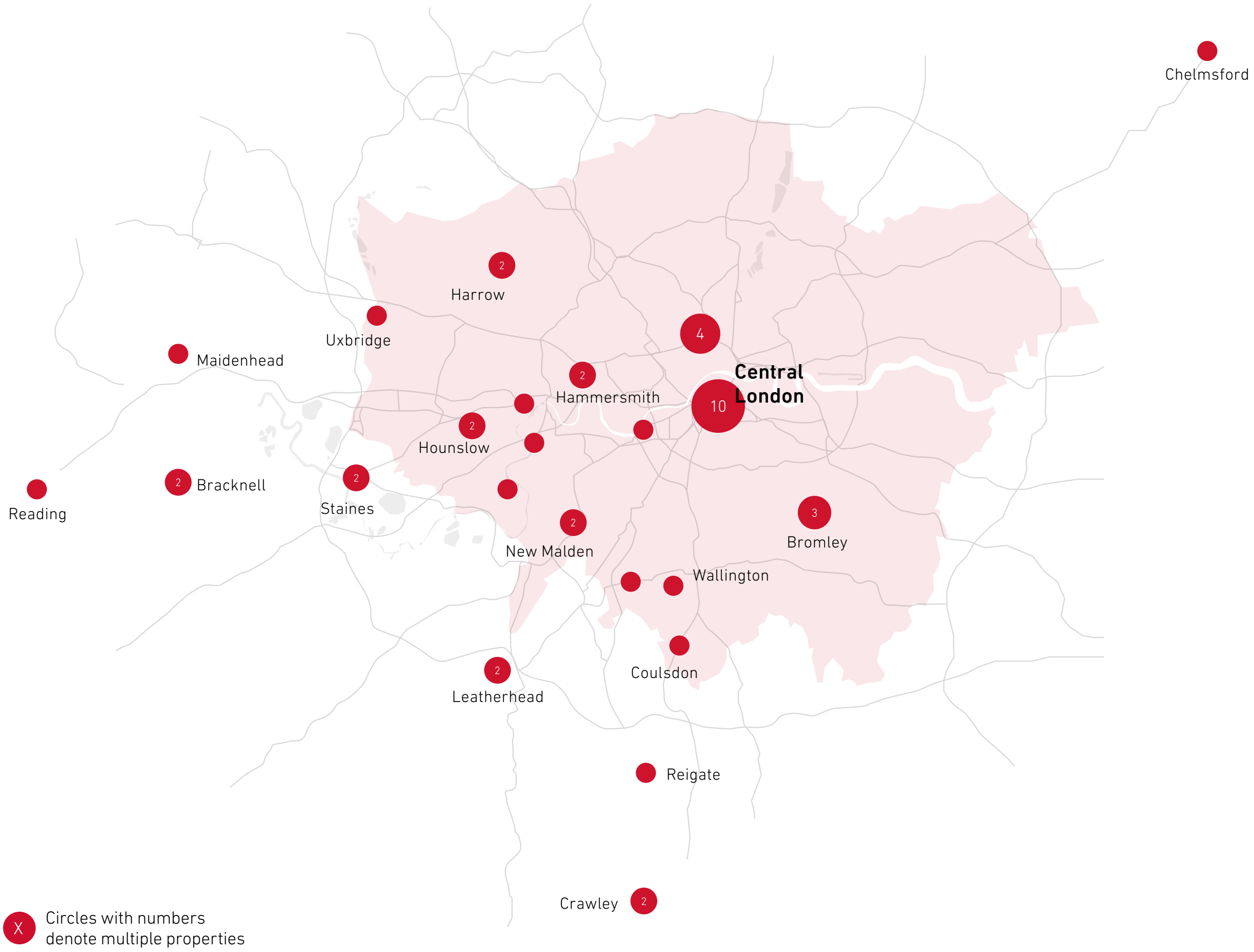
Lettable space
2.2m sq. ft

Number of properties
47

Government and major corporates
62.8%

Number of tenants
256

Weighted average lease length to end
4.7 years



Market overview

The UK economy was significantly impacted by Covid-19 and the resulting lockdowns and restrictions from March onwards such that there was a record drop in GDP of 10%. This consequently had a significant impact on the investment market with volumes falling to c.£43 billion (2019: c.£55 billion) and letting activity in the London and South East office market falling by 48% to 14.3 million sq. ft. Letting activity was reduced with the corresponding impact on vacancy but we saw selective value in the investment market and hence were net acquirers. Going into 2021 we remain cautious, until there is greater clarity on the economic recovery but with increasing optimism. Ultimately, we remain convinced of the attractiveness of London and the South East given supportive long-term fundamentals.

Acquisitions

In 2020, against the backdrop of an uncertain market, we maintained our strict investment discipline but we still identified several acquisition opportunities which met with our acquisition criteria. We completed on the acquisition of five properties for £92.5 million at a net initial yield of 6.0% (two of which, Kingston and Staines, for £32.8 million had exchanged in 2019) and exchanged on a further property at Radius House in Watford for £16.9 million which completed in January 2021. The three properties which exchanged and completed in the year for £59.7 million were a portfolio from Aviva with properties in Chelmsford, Richmond and Leatherhead, and the acquisition is the subject of a Strategy in action case study on pages 24 and 25. On the whole, the acquisitions presented active asset management opportunities in terms of lease re-gears, vacancy reduction and/or refurbishment to capture higher rents together with an underpinning of government income.

Disposals

As set out in the case study on this page, 2020 was a year of minor tidying up of the portfolio. We completed the sale of three properties for £9.4 million and exchanged on a further two for £5.9 million with one completing in early 2021 and the other due to complete by the end of H1 2021. As a result of considerable vacancy and residential conversion potential, the net initial yield was 2.2%. There is only one small regional UK property remaining, being Aqueous II in Birmingham.

In 2021, we may sell a select few, mainly smaller, properties in the UK. These properties are those that are too small to have a meaningful impact and/or for which there is greater value as an alternative use, principally residential conversion. To that end, in February 2021 we exchanged on the sale of Falcon House in Hounslow for £6.1 million, a 21.8% premium over the 2020 year end value.

Asset management

The vacancy rate in the UK increased to 6.2% at 31 December 2020 (2019: 4.1%) which was largely driven by lease expiries and the reduced ability to re-let due to lockdowns and other restrictions resulting from Covid-19 and completed refurbishments, now available to let. In 2020, we let or renewed leases on 163,710 sq. ft (15,209 sqm) and lost 275,898 sq. ft (25,632 sqm) of space from expiries or new vacancies. Excluding those arising from contractual indexation uplifts, 54 rent reviews, lease extensions and new leases during the year added £3.8 million of rent at an average of 1.4% above 31 December 2019 ERVs. The portfolio was 8.3% reversionary at the year end.

As a result of Covid-19, the occupation and thus the revenue at our hotel and student accommodation were considerably lower, falling by £2.8 million and £0.8 million respectively compared with 2019.

Developments and refurbishments

In December, as highlighted in the Strategy in action case study on pages 28 and 29, detailed planning consent was granted for a new 28,500 sq. ft (2,648 sqm) 10-floor, office development at Vauxhall Walk next to our Spring Mews property. Demolition has now commenced and construction is due to start in early summer. Once completed, we expect to achieve EPC A and BREEAM Excellent ratings. In November, we received resolution to grant planning permission for a six-floor (43,000 sq. ft (3,995 sqm)) office development in Maidenhead and we are still assessing options for this building.

In November, listed building consent and planning permission was granted for a major refurbishment of 9 Prescot Street, Aldgate. The refurbishment of 55,600 sq. ft (5,165 sqm) across five floors is expected to achieve BREEAM Excellent and improve the EPC rating from D to B. A number of refurbishments to capture rental increases are ongoing with the most significant being in New Malden at Apex Tower, which so far has been awarded a BREEAM In-Design rating of Very Good, and CI Tower, which has been awarded a BREEAM Refurbishment rating of Very Good.

Valuation

The UK portfolio was valued at £1,125.7 million at the year end, reflecting net additions of £88.5 million, capital expenditure of £7.4 million and a valuation decline of £30.0 million equivalent to a 2.6% year-on-year valuation decrease. The like-for-like valuation decrease was 2.3% with the greater portfolio valuation fall reflecting acquisition costs, which have yet to be recovered in the valuation. The yield decreased to 5.3% (2019: 5.4%) and like-for-like contracted rents fell by 0.9% whilst like-for-like ERVs grew by 1.6%.

Finessing the portfolio

Value realised through sale as residential conversion

£12.2 million

Total disposals

6.8% ahead of book value

Various UK locations

In 2018 and 2019, we refocused the Group including the £65.0 million disposal of the regional UK portfolio in December 2019. In 2020, the sale of two of the regional portfolio (in Norwich and Salford), which had exchanged in December 2019, completed by the end of February and we exchanged on Atholl House in Aberdeen which completed in early 2021. The three properties totalled c.£3 million and were sold at book value.

In 2020 we also took advantage of the opportunity to sell two smaller UK properties given their greater value as residential conversions. Heather Court in Sidcup completed in April and Quest House in Hounslow exchanged in December, with completion expected in April 2021. The total consideration of £12.2 million was 6.8% ahead of the book values before exchange.

Business review
continued

Germany

Number of properties

Hamburg	9	Dortmund	2
Munich	7	Cologne	1
Stuttgart	3	Nuremberg	1
Berlin	2	Wiesbaden	1
Dusseldorf	2	Bochum	1

Value of property portfolio
£747.7m

Vacancy rate
4.0%

Percentage of Group's property interests
34%

Lettable space
3.0m sq. ft

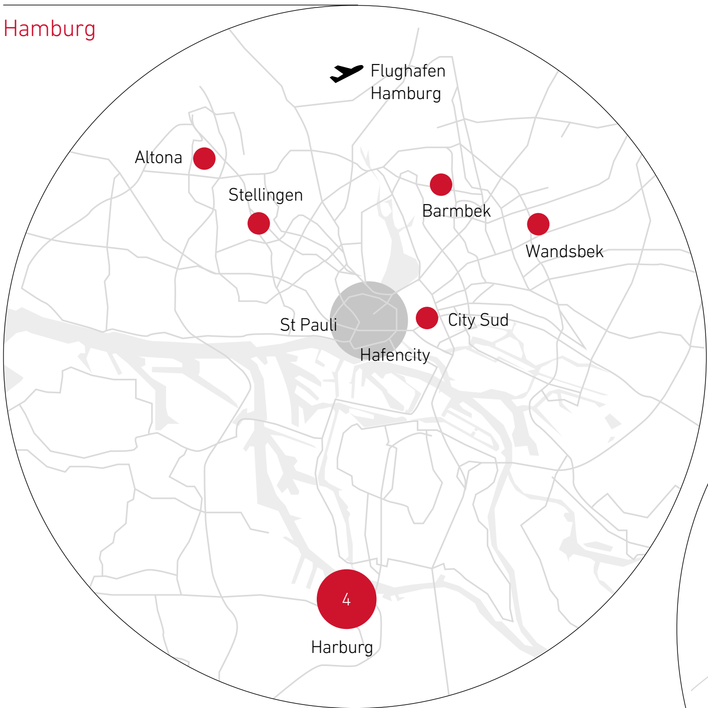
Number of properties
29

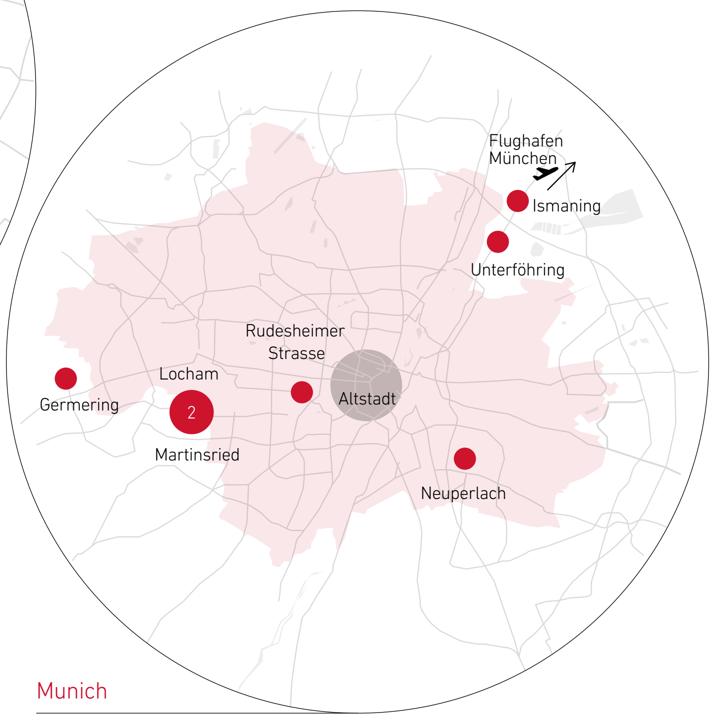
Government and major corporates
32.4%

Number of tenants
311

Weighted average lease length to end
5.2 years

Hamburg





X Circles with numbers denote multiple properties

Munich

Market overview

The German economy and the real estate market, like other countries, experienced significant falls in 2020 but there are signs that the market and activity is recovering relatively quickly. German GDP shrunk by 5% in 2020 but is forecast to increase by 4% in 2021 and be back to pre-Covid-19 levels by early 2022. Whilst consumer spending was reduced significantly, German manufacturing industry, especially since late summer 2020, has again reached pre-Covid-19 production levels, mainly driven by exports to China.

Real estate investment volumes fell to c.€60 billion in 2020 from its high of over €70 billion. This was similar to activity in 2018, significantly above the 10-year average and Q4 2020 was a record quarter. Letting activity in the A cities of 2.7 million sqm was c.30% below the previous year (2019: 3.5 million sqm). However, construction activity has decreased and more than half of the supply is pre-let. Consequently, vacancy remains near record lows (on average well below 5%) and was reflected in continuing rental increases.

Market sentiment for 2021 remains positive with investors viewing Germany as a resilient "safe-haven" given its diversified economy and low interest rates. Moreover, compared to other countries, and while the move to increasing leasing flexibility is global, there is lower appetite for working from home which should further support office demand.

Acquisitions

In 2020, we only completed on the acquisition of one property. However, as set on in the CEO statement on page 5, we exchanged on a further five properties in three separate transactions in December 2020 and January 2021. We will set out more details at the half-year when these acquisitions have been completed and financed.

The acquisition for €18.2 million, which completed in June 2020, is a well-located, modern, four-storey office property in Nuremberg wholly let to Deutsche Telekom (T-Mobile). The property at Georg-Elser-Strasse 7, comprising 5,913 sqm (63,647 sq. ft) of space, has a WAULT of seven years to breaks with €1.1 million net rent per annum, reflecting a net initial yield of 5.8%. The associated financing was from Sparkasse Nuremberg, a new lender to the Group. The seven-year, 70% LTV financing is at an all-in fixed rate of 0.96% including costs.

Disposals

In June, we agreed the sale of Albert-Einstein-Ring in Hamburg for €36.45 million to the City of Hamburg. The deal reflected the strong intention of the City to acquire an asset that will be an important part of the large and long-term urban regeneration project in the western fringes. In October, we agreed the sale of Bismarckallee in Freiburg, a 42-year-old landmark property in the CBD of Freiburg, for a price of €22.5 million to a local developer. Combined the disposals achieved a price 29.8% above their last valuations at a net initial yield of 4.5% and a profit on sale of €12.9 million. More detailed case studies of both disposals are set out on pages 30 and 31.

Asset management

The vacancy rate in Germany decreased to 4.0% (2019: 4.3%) due to solid levels of letting activity and the sale of Albert-Einstein-Ring which had some vacancy. We let or renewed leases on 375,339 sq. ft (34,870 sqm) and lost 485,130 sq. ft (45,213 sqm) of space from expiries or new vacancies. Excluding those arising from contractual indexation uplifts, 34 rent reviews, lease extensions and new leases added €8.4 million of rent at an average of 15.9% above 31 December 2019 ERVs. On a like-for-like basis, ERVs rose by 3.1% in the year and at the end of 2020 the portfolio was 8.7% net reversionary. Despite several years of rising ERVs, we still believe that there is the potential for further rental growth given low vacancies, limited new supply and replacement costs notably ahead of existing rents.

Developments and refurbishments

Our existing portfolio offers several development and refurbishment opportunities to add value. The most significant development, for which we received planning in May 2020, is the Lichthof building in Stuttgart, comprising at least 141,000 sq. ft (13,099 sqm) of lettable space which is over 50% larger than the current building. We are currently marketing the building to secure a significant pre-let before proceeding.

Other opportunities include the Technical Town Hall in Bochum where the existing tenant City of Bochum has signed a lease contract, including an extension, for the construction of additional office space of c.2,000 sqm (see the case study on this page). We are also progressing a roof-top extension of c.3,500 sqm at Adlershofer Tor in Berlin with a planning application submission expected in the third quarter of 2021.

Valuation

The German portfolio was valued at £747.7 million at the year end, reflecting net disposals of £23.1 million, capital expenditure of £6.3 million, foreign exchange gains of £38.5 million and a valuation increase of £59.0 million equivalent to a 8.6% year on year rise. The like-for-like valuation increase was 8.9%. The main valuation drivers have been a continued increase in ERVs plus the ongoing yield compression in all markets in which CLS is invested. The net initial yield fell to 4.3% (2019: 5.0%) whilst like-for-like ERVs increased by 3.1% and like-for-like contracted rents increased by 1.5% as we have actively sought to capture rental growth.

Driving capital value

Lease end date

May 2049

Valuation uplift in 2020

31.7% in local currency

Technical Town Hall, Bochum

In Germany, CLS is pursuing an ABBA strategy of A-City and B-Location or B-City and A-Location. To that end, in Autumn 2006 CLS acquired the former "Rathaus Center Bochum", a retail and administration centre in the CBD for €17.3 million and a GIY of 6.25%. The retail space (c.3/4 of the building) was completely vacant and the office floors were let to the City of Bochum with a remaining WAULT of three years. In 2007, CLS and the City agreed to establish the city moved into the new Technical Town Hall based on 23,800 sqm lettable space. CLS invested €21m to convert the retail space to offices and the City moved into the new Technical Town Hall in 2009 on a 30-year lease.

In 2019, the City asked CLS for c.2,000 sqm extra space which in 2020 resulted in a lease amendment until 2049 that obliges CLS to deliver a roof-top extension within a certain time period following planning, which is expected in spring 2021. This lease agreement has driven the value of the asset to €90.9m as at 31 December 2020 which reflects a GIY of 3.23%.

Business review
continued

France

Number of properties

Paris	13
Lyon	5
Lille	3

Value of property portfolio
£309.6m

Vacancy rate
5.1%

Percentage of Group's property interests
14%

Lettable space
0.9m sq. ft

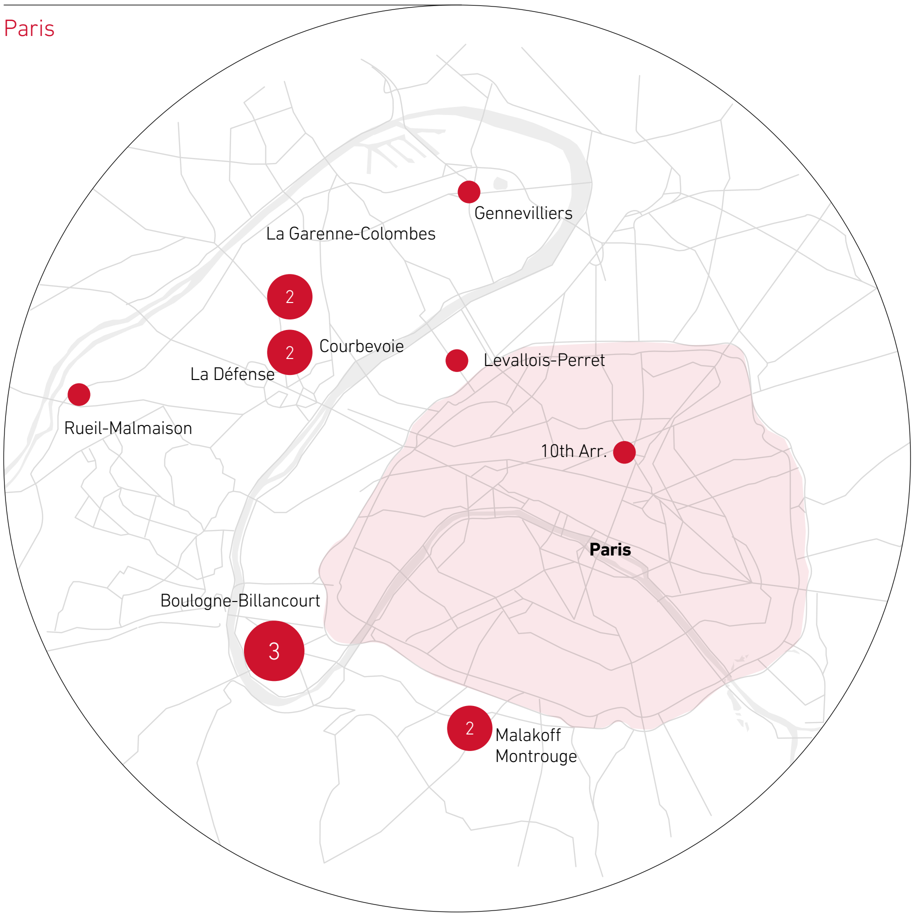
Number of properties
21

Government and major corporates
45.1%

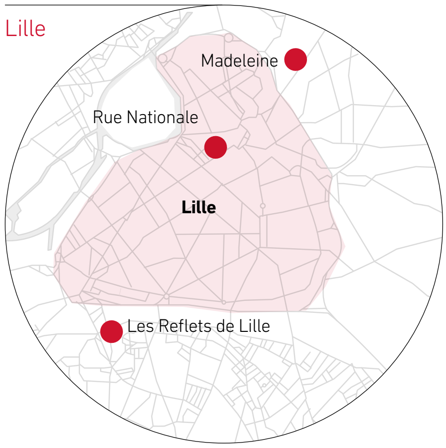
Number of tenants
176

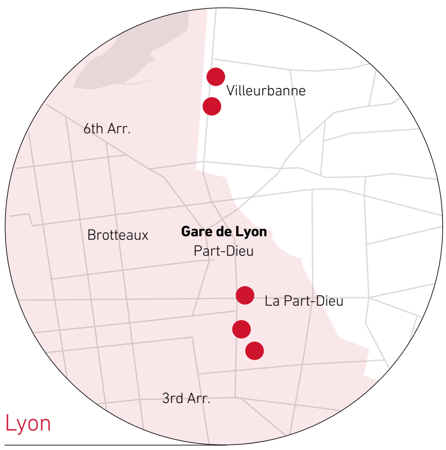
Weighted average lease length to end
4.9 years

Paris



Lille





Lyon

X Circles with numbers denote multiple properties

Market overview

The French economy and GDP fell by 8% in 2020 and is forecast to expand by 6% in 2021. As a result of the second national lockdown in November, the forecast for economic growth is a gradual improvement as the vaccine is rolled out across the population. Temporary emergency measures and the medium-term recovery plan announced by the French government provide strong fiscal support, balancing measures on the supply and demand sides. Investment volumes in 2020 was relatively stable at €23 billion, which is in-line with long-term averages, but below the record level in 2019 of €36 billion. However, letting activity was substantially down at 1.3 million sqm (2019: 2.7 million sqm).

Acquisitions

Fractional ownership of buildings is especially common in Lyon and our strategy is to wholly own all our buildings at the right price. In September 2020, to increase our ownership in Rhône-Alpes in Lyon, we completed the acquisition of an extra floor of 1,722 sq. ft (160 sqm) for €0.6 million at a net initial yield of 4.9%. In the same vein, in December 2020, we acquired two additional floors in Park Avenue in Lyon-Villeurbanne. The purchase for €3.3 million was of 10,301 sq. ft (957 sqm) of offices which are single-let with a net initial yield of 4.7%. This acquisition allows us to own 100% of the building.

Disposals

The disposal of Foch in Paris for €0.9 million, which exchanged in December 2019, completed in February 2020.

Asset management

The vacancy rate in France increased to 5.1% (2019: 3.1%) from the impact of Covid-19 and the resulting reduced letting activity. In 2020, we let or renewed leases on 121,146 sq. ft (11,255 sqm) and lost 180,034 sq. ft (17,315 sqm) of space from expiries or new vacancies. Excluding those arising from contractual indexation uplifts, 28 rent reviews, lease extensions and new leases added £2.3 million of rent at 31 December 2020 ERVs. On a like-for-like basis, ERVs was up 0.2%.

Developments and refurbishments

A series of important refurbishments took place in 2020 and will be continued in 2021 to upgrade our buildings as set out in the case study on this page. Page 25 also sets out the refurbishment of Park Avenue which is now ongoing after we secured full ownership.

As set out in the later section, sustainability is a priority for the Group and France. In 2020, 14 assets achieved successfully BIU certification and the co-owned assets in Lyon will shortly be assessed. In 2021, we are also targeting to install smart meters across all the French property portfolio ensuring compliance with the new French regulation "Décret Tertiaire" and energy audits will also be undertaken to identify energy efficiency and carbon reduction opportunities.

Valuation

The French portfolio was valued at £309.6 million at the year end, split between net acquisitions of £2.9 million, capital expenditure of £4.2 million, foreign exchange gains of £16.4 million and a valuation uplift of £0.8 million. The valuation uplift represents a 0.3% year-on-year valuation increase in local currency (like-for-like 0.6%). A significant uplift (12.4% in local currency or £1.9 million) was achieved for our sole central Parisian building "Petits-Hôtels" due to the completion of a new nine-year lease above previous rent, (see page 29). The valuation increase drove a reduction in the net initial yield to 4.7% (2019: 5.2%).

Jean Jaures, Levallois

Refurbishing the portfolio

Total capital expenditure in 2020

€4.7 million

Total forecast capital expenditure in 2021

€18.7 million

Various French locations

A series of important refurbishments, totalling €5.3 million, took place in 2020 to: upgrade our assets; improve their sustainable performance; and capture rental increases and letting opportunities. The most significant ones were: the façade cleaning and insulation works in Bellevue which increased energy efficiency and boosted the re-letting prospects; installation of air conditioning in Solferino which contributed to enhanced well-being of the tenants and working conditions and also led to an ERV increase; and, lastly, the complete renovation of 1,151 sqm of vacant space on the 4th and 5th floors in Sigma which, combined with an effective marketing campaign, helped to get the building fully let within a short time, despite the difficult backdrop.

Our aim is to enhance each asset's value by: following our sustainability strategy and standards; and delivering active in-house property and asset management. In 2021 we will continue to deliver up ambitious redevelopments and refurbishments especially in Lyon at d'Aubigny, a 1989 office building located in the business district of La Part Dieu (75% owned by CLS), with a brand-new façade, including new windows, for a total cost estimated at €2.1 million.

Chief Financial Officer's review

Andrew Kirkman
Chief Financial Officer

Resilient business model and robust balance sheet continue to deliver results

"In 2020, we significantly extended the average maturity of our debts whilst achieving record low interest costs and maintaining substantial liquid resources. Our diversity of tenant base and country markets (alongside financing relationships) helped CLS deliver another year of strong results."

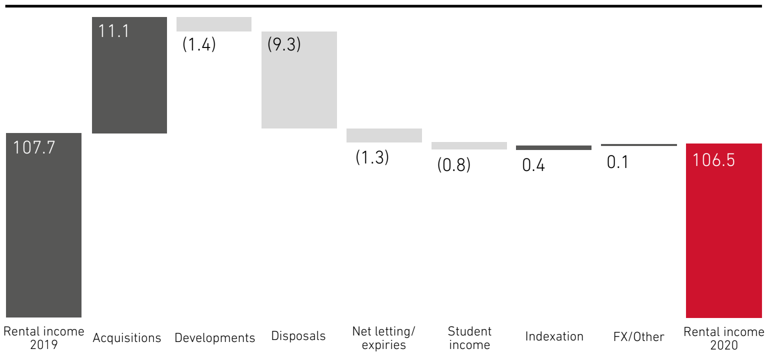
Summary

EPRA net tangible assets per share, the most relevant to CLS' business model of the new EPRA net asset measures, rose by 5.8% to 345.2 pence (2019: 326.3 pence) and basic net assets per share by 5.7% to 311.9 pence (2019: 295.1 pence). For reference, the old EPRA net asset value per share rose by 6.3% to 350.1 pence (2019: 329.2 pence). Profit after tax from continuing operations and attributable to the owners of the Company of £77.4 million (2019: £135.2 million) generated basic earnings per share of 19.0 pence (2019: 33.3 pence) and EPRA earnings per share of 12.2 pence (2019: 12.0 pence).

CLS uses a number of alternative performance measures ('APMs') alongside statutory figures. We believe that these assist in providing stakeholders with additional useful information on the underlying trends, performance and position of the Group. Note 5 to the financial statements gives a full description and reconciliation of our APMs.

Following our inclusion in the EPRA indices from September 2020, we will report from 2021 onwards on the full suite of EPRA measures including EPRA vacancy, cost ratio and capital expenditure.

A. **Rental income** (£m)



Exchange rates

Approximately 54% of the Group's sales are conducted in the reporting currency of sterling and 46% in euros. Compared to last year, relative movements of sterling against the euro had a notable impact on the Group's results for the year both in terms of the translation of our balance sheet and the monetary assets recognised in the income statement. At 31 December 2020 sterling was 5.4% weaker against the euro than twelve months previously and sterling's average rate weakened against the euro by 1.4%.

Exchange rates to the £	EUR
At 31 December 2018	1.1122
2019 average rate	1.1406
At 31 December 2019	1.1825
2020 average rate	1.1251
At 31 December 2020	1.1185

Income statement

Rental income in 2020 of £106.5 million, as set out in graph A, was £1.2 million lower than in 2019. Acquisitions added £11.1 million but this was more than offset by income lost from disposals (£9.3 million), net lease expiries as vacancy increased (£1.3 million) and lower student income (£0.8 million).

Given the difficult trading backdrop in 2020, even greater attention was placed upon staying close to our tenants and monitoring rent collection. Rent collection statistics in 2020 and the first quarter of 2021, as set out below, remained strong throughout.

	H1 2020	H2 2020	2020 Year	Q1 2021
UK	99.5%	98.4%	98.9%	97.9%
Germany	99.8%	99.5%	99.7%	98.5%
France	98.7%	99.5%	99.1%	99.4%
Total	**99.5%**	**98.9%**	**99.2%**	**98.3%**

Despite the high level of rent collection, we have taken an appropriate increase in our 2020 bad debt charge of £1.8 million (2019: £0.3 million), which has been offset by an equal level of cost savings. Index-linked rent represents 48.5% of the total contracted rent of the portfolio which is a slight increase from 46.2% in 2019.

Other property income, which fell to £5.9 million (2019: £6.8 million), included a reduction of £2.8 million in hotel revenue from Spring Mews to £1.9 million (2019: £4.7 million) as a result of Covid-19 restrictions. However, this was offset by higher dilapidations and other income of £4.0 million (2019: £2.1 million). In aggregate net rental income fell by 0.6% to £109.8 million (2019: £110.6 million).

We monitor the costs of running the business closely and the administration cost ratio (administration costs as a percentage of net rental income) is a Group key performance indicator. In 2020, given a necessary sharper focus on cost control to counter Covid-19 related income impacts, the administration cost ratio fell to 16.7% (2019: 17.7%).

The net surplus on revaluation of properties of £31.5 million (2019: £57.4 million) reflected differing contributions by country: in local currencies, Germany again had the strongest year with a 8.6% rise in values, France rose by 0.2% and the UK fell by 2.6%.

The profit on sale of properties before tax of £11.6 million (2019: £8.6 million) represented a 22.9% excess of net proceeds over book values of the eight properties sold in the year. The profit on sale in 2020 is a continuation of our track record of buying and selling well. Over the last five years, CLS has bought £640.9 million of property at an average net initial yield of 6.1% and sold £579.3 million of property at an average net initial yield of 4.6% realising a profit before tax of £75.3 million.

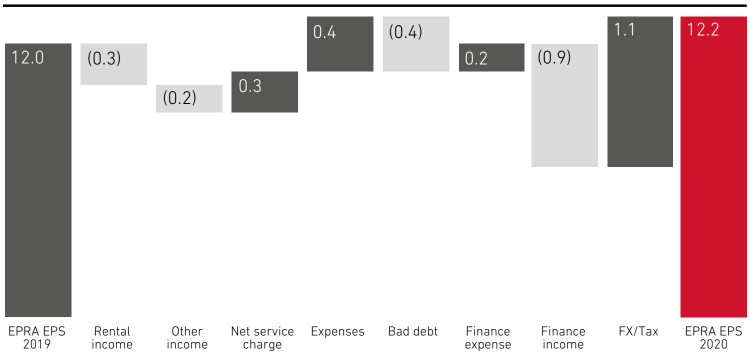
Following the sales of our shareholding in Catena and our corporate bond portfolio in 2019, core finance income fell to £1.1 million (2019: £5.0 million). Interest received fell to £1.0 million (2019: £2.8 million) and dividends to £0.1 million (2019: £2.2 million). In addition, finance income included realised foreign exchange gains of £2.1 million (2019: £3.6 million loss included in finance costs).

Finance costs of £26.0 million (2019: £29.4 million) included unrealised losses on derivative financial instruments of £1.6 million (2019: £0.5 million) and foreign exchange movements of £nil within expenses (2019: £3.6 million). Excluding the derivative financial instruments and foreign exchange movements, finance costs fell to £24.4 million (2019: £25.3 million) as we left a number of properties unencumbered at the start of the year so as to complete a portfolio financing and the Group was able to reduce its cost of borrowing further.

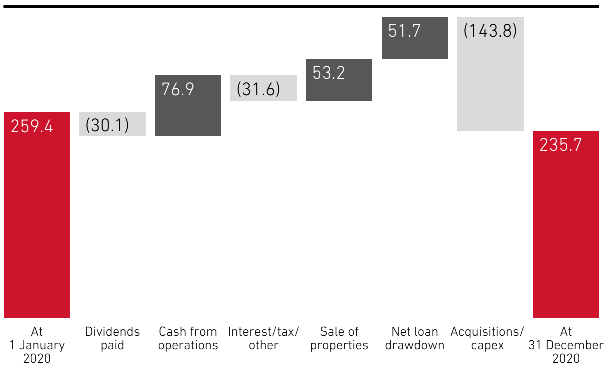
The effective tax rate of 19.8% (2019: 15.0%) was above the weighted average rate of the countries in which we operate, primarily due to a deferred tax charge of £5.0m relating to the reversal of the proposed reduction to 17% in the UK corporation tax rate.

Overall, as set out in graph B, EPRA earnings were higher than last year at £49.5 million (2019: £48.9 million) and generated EPRA earnings per share of 12.2 pence (2019: 12.0 pence). The increase was primarily due to operational cost savings and favourable foreign exchange movements more than offsetting an appropriate increase in the bad debt provision and a reduction in finance income.

B. **EPRA EPS movement** (p)



C. **Movement in liquid resources** (£m)



Chief Financial Officer's review
continued

EPRA net tangible assets and gearing

At 31 December 2020, EPRA net tangible assets per share were 345.2 pence (2019: 326.3 pence), a rise of 5.8%, or 18.9 pence per share. As set out in graph D, the main reasons for the increase were EPRA earnings per share of 12.2 pence, property valuation movements and profit on disposal of 9.0 pence per share and foreign exchange movements net of other items of 5.1 pence per share less dividends of 7.4 pence per share.

Balance sheet loan-to-value (net debt to property assets) at 31 December 2020 increased to 33.7% (2019: 31.4%) as a result of net acquisitions. The loan-to-value of secured loans by reference to the value of properties secured against them was 48.8% (2019: 48.0%). The value of properties not secured against debt fell to £138.8 million (2019: £143.6 million).

Following the end of the Roehampton University nominations agreement and the reversion of all the rental risk for all the rooms back to CLS, the services that we provide are no longer ancillary. Therefore, as at 31 December 2020, the student accommodation was reclassified from investment property to PPE. Consequently, the revenue for 2021 onwards will be shown in other income. Revenue for 2020 was £4.5 million (2019: £5.3 million).

Cash flow and net debt

As at 31 December 2020, the Group's cash balance had fallen to £235.7 million (2019: £259.4 million) as set out in graph C. Net cash flow from operating activities generated £44.3 million, a reduction of £4.6 million from 2019, mostly due to the acceleration of UK tax instalments in 2020. £30.1 million was distributed as dividends with the remainder reinvested in the business to grow net tangible assets. Acquisitions of £124.6 million and capital expenditure of £19.2 million were partly funded by proceeds after tax from property disposals of £53.2 million and the net drawdown of loans of £51.7 million. The net result of property and financing transactions being the investment of £38.9 million in our property portfolio.

Gross debt increased by £79.0 million to £970.7 million (2019: £891.7 million) due to the net drawdown of loans of £51.7 million, amortisation of loan issue costs of £2.1 million and the increase of £25.2 million due to the weakening of Sterling against the Euro. In the year, £182.5 million (£180.0 million net of fees) of new or replacement loans were taken out, loans of £100.8 million were repaid and £27.5m of contractual periodic or partial repayments were made. In addition, £79.0 million of loans were extended by up to seven years. Year end net debt rose to £735.0 million (2019: £632.3 million). In addition, CLS had undrawn bank facilities of £50.0 million, of which £30.0 million was committed. At 31 December 2020, as demonstrated in graph E, the maturity of our debt was considerably lengthened to now include ten and twelve year loans such that the weighted average unexpired term of the Group's debt rose substantially to 4.6 years (2019: 3.5 years) due to specific targeted financings as set out below.

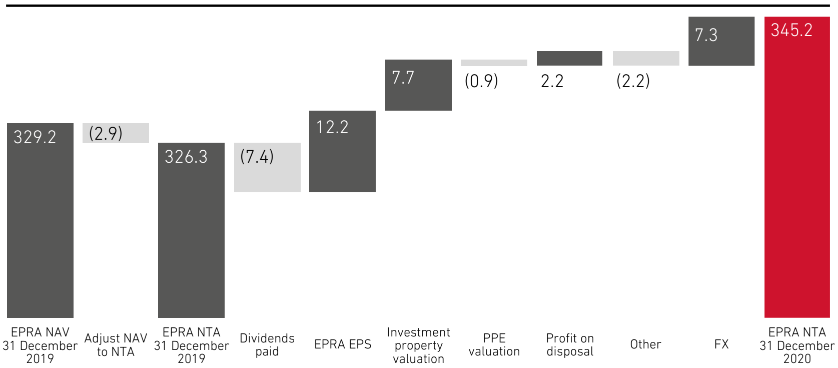
The weighted average cost of debt at 31 December 2020 was 2.28%, 14 basis points ('bps') lower than 12 months earlier and a new all-time low for CLS, as shown in graph F. The movement was as a result of four factors: *rates* as the UK base rate reduced (8 bps reduction); *financing activity* from refinancing UK debt at a lower all-in rate (5 bps reduction); *currency* due to a reduction proportion of more expensive UK financing due to weaker sterling (5 bps reduction); partly offset by *mix* with more expensive UK debt drawn and cheaper euro debt repaid during the year (4 bps increase). In 2020, interest cover remained at a healthy level of 3.3 times (2019: 3.4 times).

Financing strategy and covenants

The Group's financing strategy remains to utilise non-recourse bank debt in the currency used to purchase the asset. In this way credit and liquidity risk can be managed easily, around 44% of the Group's exposure to foreign currency is naturally hedged and an efficient use can be made of the Group's assets.

Most of the Group's investment properties are held in special-purpose vehicles ('SPVs') and the majority are financed on the basis of one property, one company and one loan. This is particularly advantageous in Germany and France where secured, SPV financing rates are very low. In addition, the Group has a number of portfolio loans or secured notes which have tended to arise where a portfolio is acquired, such as the Metropolis properties in 2017, and each is financed by a single loan. The advantage of these portfolio loans is that they can be structured to afford the Group greater flexibility such that properties, with the appropriate attributes, can be substituted into and out of such portfolios.

D. **EPRA NTA Movement**



We set out last year that the Group was going to explore the use of more portfolio lending, particularly in the UK given relative country financing costs. In accordance with that strategic objective, at the end of September, we executed our first green loan with Aviva Investors. The £154.0 million loan secured on a portfolio of 12 properties was also CLS' largest and longest loan, at an average of 11 years. I'm pleased to report that we are on track to deliver the three sustainability objectives to achieve the margin reduction for the first year of the loan. This financing was the principal reason for the significant increase in the Group's weighted average debt maturity increasing to 4.6 years (2019: 3.5 years).

To the extent that Group borrowings are not at fixed rates, the Group's exposure to interest rate risk is mitigated by financial derivatives, mainly interest rate swaps. In the recent medium-term low interest rate environment, the Group continued to choose to take advantage of the conditions, fixing most of the medium-term debt taken out during the year.

In 2020, the Group financed, refinanced or extended six loans to a value of £261.5 million for a weighted average duration of 9.3 years and at a weighted average all-in rate of 2.08%, and of these £231.3 million were fixed at a weighted average all-in rate of 2.16%. Consequently, at 31 December 2020, 84% of the Group's borrowings were at fixed rates or subject to interest rate swaps, 2% were subject to caps and 14% of debt costs were unhedged; the fixed rate debt had a weighted average maturity of 4.8 years, and the floating rate 3.3 years.

The Group's financial derivatives, predominantly interest rate swaps, are marked to market at each balance sheet date. At 31 December 2020 they represented a net liability of £5.6 million (2019: £4.1 million).

At 31 December 2020, the Group had 45 loans (35 SPVs, eight portfolios and two facilities) from 26 lenders. The loans vary in terms of the number of covenants with the three main covenants being ratios relating to loan-to-value, interest cover and debt service cover. However, some loans only have one or two of these covenants, some have other covenants and some have none. The loans also vary in terms of the level of these covenants and the headroom to these covenants.

On average across the 45 loans, CLS has between 26% and 52% headroom for these three main covenants. In the event of an actual or forecast covenant breach, all of the loans have equity cure mechanisms to repair the breach which allow CLS to either repay part of the loan, substitute property or deposit cash for the period the loan is in breach, after which the cash can be released.

Distributions and total return to shareholders

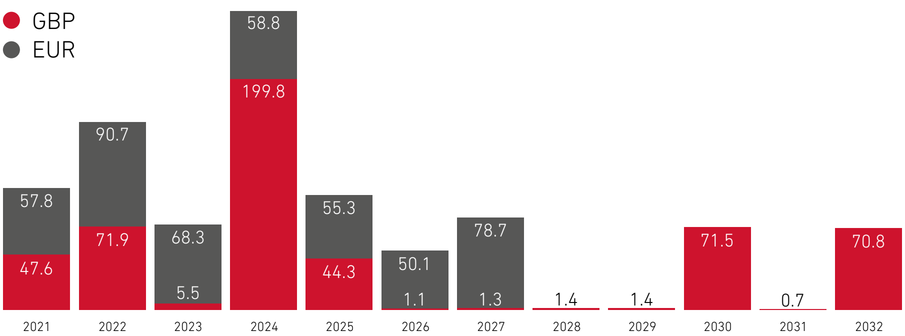
In April 2020, the final proposed dividend for 2019 of 5.05 pence per share (£20.5 million) was paid as planned. In September, despite the ongoing economic uncertainty, CLS maintained its interim dividend for 2020 at the same level as 2019 and an interim dividend of 2.35 pence per share (£9.6 million) was paid. The proposed final dividend for 2020 is 5.20 pence per share (£21.2 million). This represents a full year distribution of 7.55 pence per share (£30.8 million) which was covered 1.6 times by EPRA earnings per share.

The 2020 dividend is an increase of 2.0% over the prior year and the total return to shareholders, being the increase in EPRA NTA plus the dividends paid in the year, was 8.1% (2019: 9.4%).

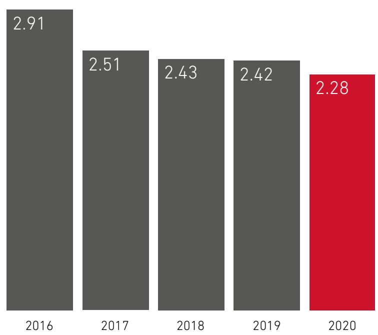
Andrew Kirkman
Chief Financial Officer

10 March 2021

E. **Debt maturity** (£m)



F. **Average cost of debt** (%)



Our principal risks

Risk management framework

The risks, being both principal and emerging, which the Group faces are reviewed and monitored in Senior Operations Board meetings throughout the year and presented to the Board and Audit Committee at least every six months for further discussion and oversight. The Senior Operations Board comprises the CEO and CFO, a representative from each regional business as well as core Group functions such as HR and IT.

In addition, major business-wide decisions such as property acquisitions, disposals and significant strategy changes are discussed at the Executive Committee Meetings and reviewed by the Board before implementation, subject to authorisation limits. The Executive Committee meets weekly and comprises the CEO, CFO and Head of Group Property.

An update on risks and the control environment is presented at each Audit Committee meeting including the results of any internal control review procedures undertaken in the period. Senior managers also attend Audit Committee meetings to discuss specific risk areas and are accompanied by external advisors where relevant.

Risk management processes, which include health and safety, human resources and sustainability risk management, are employed within the business and updates are reported to the Board at each meeting.

As discussed further below, Covid-19 did not change our risk processes but increased the frequency of our considerations.

Our risk management structure is set out below:

Board
- Overall responsibility for risk management and internal controls
- Monitors the long-term viability of the business
- Sets strategic objectives and considers risk as part of this process
- Determines the level of risk appetite
- Sets Executive Committee delegated authority limits

↓

Audit Committee
- Key oversight and assurance function on risk management, internal controls and viability
- Reports to the Board on the effectiveness of risk management processes

↓

Executive Committee
- Day to day operational oversight of risk management
- Consideration of business wide decisions and their impact on risk appetite

↓

Senior Operations Board
- Oversight function of business activities and risk considerations
- Identifies strategic objectives and assesses risk

Management of risks throughout the business

Each business area operates various processes to ensure that key risks are identified, evaluated, managed and reviewed appropriately. For example:

- a monthly asset management portfolio review for each region is prepared and circulated to the Board which outlines key business risks, developments and opportunities; and
- the development team convenes risk and opportunity workshops with the design team at the feasibility stage of development projects. Regular reviews are then part of the design development to ensure the continuous identification and management of risks throughout the development process.

The potential risks associated with loss of life or injury to members of the public, customers, contractors or employees arising from operational activities are continually monitored. Competency checks are undertaken for the consultants and contractors we engage and regular safety tours of our assets are undertaken by the property management team.

In addition, the wellbeing of our employees is a key focus for the Group and various activities are supported by the Board including the delivery of annual mental health workshops and company-funded employee contributions to promote healthy lifestyle initiatives such as gym memberships. In this way some of the people risks are somewhat mitigated.

Risk appetite

The Board recognises its overall responsibility for undertaking a robust risk assessment and for establishing the extent to which it is willing to accept some level of risk to deliver its strategic priorities.

Our risk appetite is reviewed at least annually and assessed with reference to changes both that have occurred, or trends that are beginning in the external environment, and changes in the Principal risks and their mitigation. These will guide the actions we take in executing our strategy. Whilst our appetite for risk will vary over time, in general we maintain a balanced approach to risk. The Group allocates its risk appetite into five categories:

Very Low: Avoid risk and uncertainty
Low: Keep risk as low as reasonably practical with very limited, if any, reward
Medium: Consider options and accept a mix of low and medium risk options with moderate rewards
High: Accept a mix of medium and high risk options with better rewards
Very High: Choose high risk options with potential for high returns

The Board has assessed its risk appetite and current status for each of the Group's principal risks as follows:

	Board risk appetite	Principal risk assessment
Property	Medium	High
Sustainability	Medium	Medium
Business Interruption	Low	Medium
Financing	Medium	Medium
Political & Economic	Medium	High
People	Medium	Medium

The Board's risk appetite in relation to the Group's principal risks is broadly aligned. As shown in the table above, there is divergence of risk appetite and risk status in relation to the property, business interruption, and political and economic principal risks. The Board accepts there are factors in relation to these principal risks that are outside the Group's control and are likely to change over time. Mitigating actions have been put in place to ensure these risks are adequately managed and monitored to reduce the potential impact on the Group. The Board also recognises that not all risk can be fully mitigated and that they need to be balanced alongside commercial considerations.

Risk environment

The general risk environment in which the Group operates has increased over the course of the year. This is largely due to the Covid-19 outbreak as well as the continued level of uncertainty that was associated with the Brexit process.

Covid-19 presented a new and major risk to the business. It is impossible to predict the long-term impacts on the Global and UK economies and subsequently the consequential impact on our key markets and our business. The impact of the pandemic was most strongly felt at our Spring Mews hotel and student accommodation but we take comfort from the robust rent collection rates (99% for 2020) from the remainder of our portfolio.

Throughout the year, the Board monitored the continually changing situation and considered its effect on the business and will continue to do so going forward. Some of the potential long-term effects that may result from the pandemic are discussed in our consideration of "The future of the office and the office of the future" on pages 12 to 15.

We acted swiftly in dealing with the exceptional challenges caused by Covid-19 with our focus on ensuring the safety of our people and tenants and that our assets were securely maintained. Further discussion of our reaction to the pandemic is included on pages 8 and 9.

In considering our principal risks, set out on pages 56 to 61, any potential impact as a result of Covid-19 has been taken into account.

Brexit continued to be an area of specific focus in 2020 and, whilst the new year has brought some level of clarity to the situation, until the full ramifications of our exit arrangement with the EU become clear and other trade and international arrangements have been agreed, the risk will be elevated due to the continued uncertainty in relation to the economic, political and regulatory outlooks.

Principal risks

Our principal risks are set out in the diagram below and are also discussed in the following pages along with our risk mitigation actions and plans. Whilst we do not consider there has been any material change to the nature of the Group's principal risks over the last 12 months, not surprisingly, several risks have increased as a result of the challenging external environment and significant ongoing uncertainty.

Our risk assessment

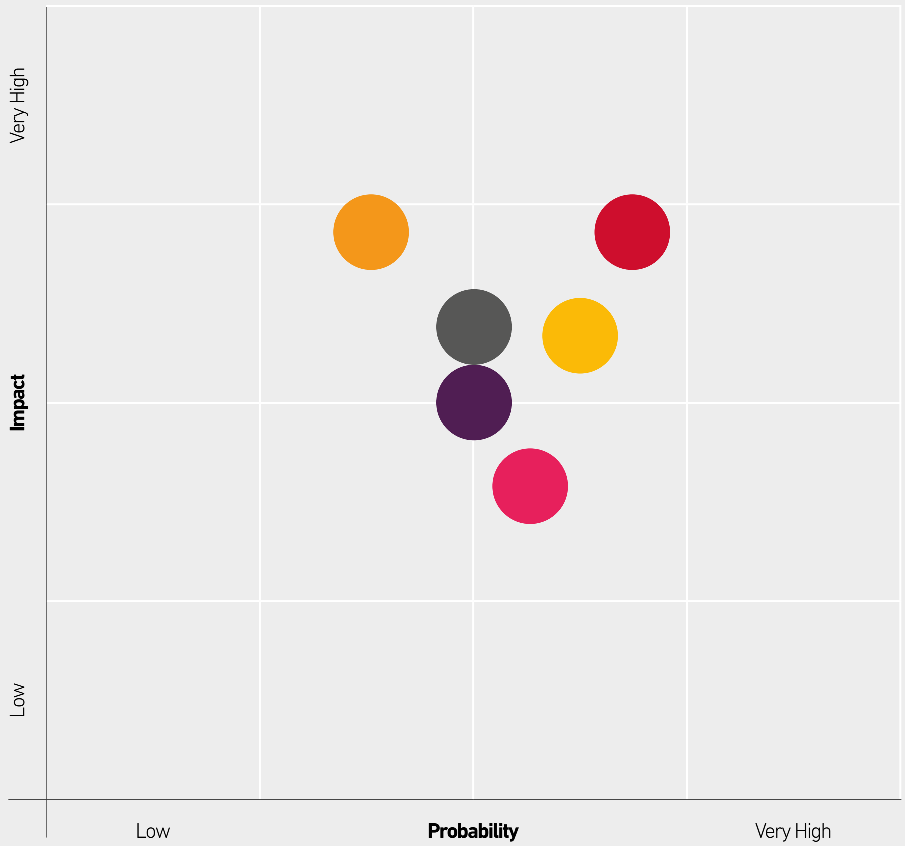
Risk heatmap

The risk heatmap illustrates the relative positioning of the potential impact and probability of the Principal Risks on the Group's strategic objectives, financial position or reputation after mitigation.

Internal or external forces, or a combination of both, will continuously have the potential to alter this positioning and hence these risks are closely monitored within our risk management framework throughout the year.

Key

- Property
- Sustainability
- Business Interruption
- Financing
- Political & Economic
- People



Our principal risks
continued

Property risk

Market fundamentals and/or internal behaviours lead to adverse changes to capital values of the property portfolio or ability to sustain and improve income generation from these assets.

Risk assessment: **High**

Change in risk profile in year: **Increase**

Key risk indicators
- Cyclical downturn in property market which may be indicated by an increase in yields
- Changes in supply of space and/or demand
- Poor property/ facilities management
- Inadequate due diligence and/or poor commercial assessment of acquisitions
- Failure of tenants
- Insufficient health and safety risk protection

KPI/OPI link
TSR(R)
TAR
VR
ACR

Business Model Link

Risk mitigation in action

As part of our diversified approach, acquisitions continue to be made in the UK, Germany and France in line with the strategic objective to grow both rental income and capital returns through filling vacancies and refurbishment. We have rigorous and established governance and approval processes and we have continued to be resolute with our pricing discipline in assessing opportunities.

Eight disposals were agreed across the business in 2020 of assets which were low yielding with limited asset management potential or where the risk/reward ratio was unfavourably balanced.

More detail is provided in the Country business reviews on pages 44 to 49.

We have a high quality and diversified tenant base and monitor any concentration to individual tenants or sectors. A focused review of the strength of the tenant covenant is carried out when assessing each new lease opportunity.

We closely monitor all health and safety related issues and our in-house teams ensure compliance with all regulations with external oversight. Reports outlining progress, issues and potential risks are presented at each Board meeting.

Sustainability risk

As a result of a failure to plan properly for, and act upon, the potential environmental and social impact of our activities, changing societal attitudes, and/or breach of any legislation, this could lead to damage to our reputation and customer relationships, loss of income and/or property value, and erosion of shareholder confidence in the Group.

Risk assessment: **Medium**

Change in risk profile in year: **Increase**

Key risk indicators

Transition risks:
These include regulatory changes, economic shifts, obsolescence and the changing availability and price of resources.

Physical risks:
These are climate-related events that affect our supply chain as well as the buildings' physical form and operation; they include extreme weather events, pollution and changing weather patterns.

KPI/OPI link
TSR(R)
TAR
VR
ACR

Business Model Link

Risk mitigation in action

All physical and transition risks are captured by the sustainability risk register maintained by our in-house sustainability team which is reviewed twice a year or when a material change in the risk landscape occurs. Additionally, each of our buildings is reviewed annually.

At the September Board meeting we approved a new sustainability strategy which will be published in our next annual sustainability report.

We completed BREEAM In-Use assessments on all managed assets with 80% achieving at least a "Good" rating.

We employed an external consultant to provide independent assurance for our Scope 1 and 2 greenhouse gas 2020 disclosures.

We continue to carry out ongoing risk reviews of environmental legislation for any upcoming changes.

We have commissioned a portfolio-wide programme of energy audits to support the production of the roll-out of our Net Zero Carbon pathway in 2021.

We will launch a Resource Management Plan for all managed assets to ensure they are as energy efficient as possible, aiming for net zero carbon.

We procured new contracts for 100% renewable electricity for both our French and German portfolios (to complement the existing contract in the UK), in addition to a new carbon neutral gas contract for our German properties.

Risk mitigation priorities for 2021

We will continue to target properties with asset management opportunities in good non-prime locations as well as focusing on disposing of properties with limited potential and reinvest the proceeds in locations and properties with the opportunity to add value through active asset management.

We will increase the monitoring of the covenant strength and health of our tenants and provide support where appropriate.

Commentary

Whilst it is too early to predict the full impact of Covid-19 and its effect on how office occupiers will want to utilise their space, it may accelerate the trend for flexible working and decision-making may be delayed. This risk has increased in the year as a result of the uncertainty over values caused by the impact of Covid-19 on underlying variables as well as the impact on the economic health of our tenants and delays in our development plans.

The CLS in-house management model allows us to build close links with our customers in order to understand their needs and to provide timely insights into potential occupier/property issues and facilitate resolution. These ties have allowed us to react quickly and provide the improvements in safety measures to protect our tenants during this difficult year.

Risk mitigation priorities for 2021

Our focus in 2021 will be developing our Net Zero Carbon pathway which will be aligned to a science-based carbon reduction target and we are undertaking a full Scope 3 carbon emissions baseline.

We continue to maintain our focus on energy reduction at our existing assets while also identifying potential climate related physical risks on new acquisitions. A new Sustainability acquisitions checklist will be rolled out in 2021 to improve our due diligence on acquisitions further.

Sustainability assessments will continue to be a key focus of asset management decision making across the business in each region.

We will be implementing a Sustainability Design Guide to address energy efficiency/health and wellbeing issues for development and refurbishments.

We will continue to expand the coverage of our automatic data collection across our energy and water supplies to enable the roll-out of portfolio-wide performance reports.

Commentary

Whilst we have identified an increase in this risk this year, the overall assessment remains at Medium. This increase is in response to the trend of global increases in emissions and the increasing world-wide focus on this area, as well as the resulting focus on carbon reduction.

Increased monitoring of all carbon-related activities, both directly and indirectly, was a priority for 2020 given an increase in government policies around reporting the carbon impact on supply chain and direct use.

Business Model and Strategy

- We acquire the right properties
- We secure the right finance
- We deliver value through active management and cost control
- We continually assess whether to hold or sell properties

For more information on our Business Model and Strategy please see pages 16 to 21

Key and other performance indicators (KPI/OPIs)

TSR(R)	Total shareholder return (Relative)
TAR	Total accounting return
VR	Vacancy rate
ACR	Administration cost ratio

For more information on our key performance indicators please see pages 22 and 23

Our principal risks
continued

Business interruption risk

Data loss or disruption to corporate or building management systems or catastrophic external attack or disaster may limit the ability of the business to operate resulting in negative reputational, financial and regulatory implications for long term shareholder value.

Risk assessment: **Medium**

Change in risk profile in year: **No change**

Key risk indicators
- Cyber threat
- Large scale terrorist attack
- Environmental disaster, power shortage or pandemic

KPI/OPI link
TSR(R)
TAR
VR
ACR

Business Model Link

Risk mitigation in action

The Group's business continuity plan was reviewed and updated during the year.

An annual review of each property's specific emergency plan is carried out which considers a range of different physical, utility and catastrophic risks.

As remote working became the norm for a large part of the year we ensured that there was the necessary system infrastructure to cope with the increase in the volume of remote access as well as the ability to carry out key operational procedures such as payment authorisations.

Independent reviews of our cyber defences are performed periodically and following the 2020 review the Group is now "Cyber Essentials Plus" certified. Multi-factor authentication for user access was implemented.

Financing risk

The risk of not being able to source funding in cost effective forms will negatively impact the ability of the Group to meet its business plans or satisfy its financial obligations.

Risk assessment: **Medium**

Change in risk profile in year: **Increase**

Key risk indicators
- Inability to refinance debt at maturity due to lack of funding sources, market liquidity, etc.
- Unavailability of financing at acceptable debt terms
- Risk of rising interest rates on floating rate debt
- Risk of breach of loan covenants
- Foreign currency risk
- Financial counterparty risk
- Risk of not having sufficient liquid resources to meet payment obligations when they fall due

KPI/OPI link
TSR(R)
TAR

Business Model Link

Risk mitigation in action

The Group continues to maintain a wide number of banking relationships to diversify funding sources.

During the year the Group executed its longest, largest and first 'green' loan. The £154.0 million loan was secured on a portfolio of 12 properties at an average of 11 years. Including this loan, we financed, refinanced or extended six loans to a value of £261.5 million for a weighted average duration of 9.3 years and a weighted all-in rate of 2.08% and of these £231.3 million were fixed at a weighted average all-in rate of 2.16%.

The Group's weighted average cost of debt at 31 December 2020 fell to 2.28% (2019: 2.42%). At the same time, as a result of deliberately targeting longer term loans, the Group's average debt maturity increased to 4.6 years (2019: 3.5 years).

The Group's debt portfolio is split 53% in sterling and 47% in euros providing a 'natural' hedge against foreign currency risk.

On average across the Group's 45 loans, we have between 26% and 52% headroom across the three main covenants. In the event of an actual or forecast covenant breach, all of the loans have equity cure mechanisms to repair the breach which allow us to either repay part of the loan or deposit cash for the period the loan is in breach, after which the cash can be released.

More detail is provided in the Chief Financial Officer's review on pages 50 to 53.

Risk mitigation priorities for 2021

Ensure compliance with the NIST cyber security framework and update employee cyber training.

Simulate a major business interruption to test the Group's updated business continuity plan.

The Group's insurance coverage is regularly reviewed and revised where relevant.

Commentary

Whilst the risk of a pandemic has materialised during the year, due to our mitigation of this risk through robust IT infrastructure and the positive Group results and continuing strong rent collection rates for the year, the ongoing risk to long-term shareholder value is deemed to remain unchanged.

Whilst companies continue to be subject to an increasing number of attempted cyber attacks and the pandemic has resulted in an increase in Covid-19 related phishing and fraud attempts, we have continued to develop and invest in our mitigation controls to reduce these risks. We recently ranked fourth best company out of over 500 companies covered by our cyber security provider and also fourth of the 20 FTSE250 companies covered.

Risk mitigation priorities in 2021

The Group has facilities with 26 lenders and will continue to maintain its existing relationships and develop new ones, whilst also exploring the feasibility of other funding sources in 2021 to further diversify funding sources and achieve longer debt maturities. The Group will continue to focus on its core financing risk mitigation strategies including:

- Obtaining bids from multiple counterparties to compete for new lending;
- Fixing a high proportion of new debt, in particular in France and Germany due to the negative interest rate environment;
- Ensuring that new debt facilities have appropriate covenants and provisions to allow borrower cure of covenant breaches;
- Matching foreign currency liabilities with foreign currency assets by borrowing in the local markets to create natural hedging relationships;
- Monitor lender exposure and ensure that no one lender represents more than 20% of total Group debt; and
- Manage cash balances with the aim of maintaining a minimum of £100m of liquid resources on average to mitigate refinancing and liquidity risk.

Further 'green' loans will also be targeted.

Commentary

Markets have been adversely affected globally by the pandemic. As a result, Governments and central banks have cut interest rates and increased economic stimuli.

In our core markets, the appetite and support of lenders varies and for real estate, covenant strength and quality of property remain key.

Maintaining our strong lending relationships across multiple, diversified finance providers remains a key strength of the Group in more volatile markets.

Business Model and Strategy

- We acquire the right properties
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For more information on our Business Model and Strategy please see pages 16 to 21

Key and other performance indicators (KPI/OPIs)

TSR(R) Total shareholder return (Relative)
TAR Total accounting return
VR Vacancy rate
ACR Administration cost ratio

For more information on our key performance indicators please see pages 22 and 23

Our principal risks
continued

Political and economic risk

Significant events or changes in the Global and/or European political and/or economic landscape may increase the reluctance of investors and customers to make timely decisions and thereby impact the ability of the Group to plan and deliver its strategic priorities in accordance with its core business model.

Risk assessment:	**High**
Change in risk profile in year:	**No change**

Key risk indicators
- Transition of the UK exit from the EU
- Global geopolitical and trade environments

KPI/OPI link
TSR(R)
TAR
VR
ACR

Business Model Link

Risk mitigation in action

As part of the Group's budgeting and forecasting processes, a range of scenarios were modelled to determine how various changes to property values, rental income and interest cost may impact the business model and funding.

This review also provided a key input into the conclusions formed in the viability statement on page 63.

CLS has a diversified approach in terms of countries, tenants and financing which provides some in-built risk mitigation.

People risk

The failure to attract, develop and retain the right people with the required skills, and in an environment where employees can thrive, will inhibit the ability of the Group to deliver its business plans in order to create long term sustainable value.

Risk assessment:	**Medium**
Change in risk profile in year:	**No change**

Key risk indicators
- Failure to recruit senior management and key executives with the right skills
- Staff turnover levels
- Lack of succession planning
- Poor employee engagement levels

KPI/OPI link
TSR(R)
TAR
VR
ACR

Business Model Link

Risk mitigation in action

A staff survey was carried out in 2020 which was focused on employee engagement and enablement and was benchmarked against the Real Estate industry. Employee engagement was at 70% and enablement at 78%, up from the previous 2016 survey results of 68% and 52% respectively. 90% of employees would recommend CLS as a good place to work and 83% stated that their job provided opportunities to do interesting and challenging work.

Following discussions at our Workforce Advisory Panel, a review of the Group's benefits was undertaken and enhancements to the German team's benefits were made. The Panel has also assisted in highlighting the need for additional resourcing in certain areas of the business which, following investigation, resulted in the employment of relevant additional staff.

An annual review of employee salary and benefits is carried out to ensure they are at appropriate levels. Our annual appraisal process focuses on future development opportunities and we continue to maintain high levels of training and development.

We ensure that we have a modern workplace and work practices including effective IT systems including all relevant IT resources to enable work from home.

Risk mitigation priorities for 2021

We will continue to maintain geographical, customer and financing diversification of the business model.

As there becomes more transparency following the UK's exit from the EU and additional trade arrangements are agreed, we will continue to monitor the situation as it unfolds and any implications on our business model and strategy.

Where appropriate, we will continue to engage in relevant industry forums to discuss and contribute to policy and regulatory changes that may have a direct or indirect impact on the property sector and our business.

Commentary

GDP forecasts for 2021 have continued to reduce and whilst the long-term economic impacts of Covid-19 are difficult to predict, the economies of our core markets face challenging short-term outlooks with an increased risk of a global recession. Strong levels of government spending and measures announced by central banks will help mitigate some of the impact of Covid-19.

Risk mitigation priorities for 2021

We will continue:

- our workforce engagement through the Workforce Advisory Panel, Group training activities and events;
- to ensure remuneration and benefits are at market levels;
- the annual review of succession planning at all levels to be presented to the Board;
- to progress our health and wellbeing programme; and
- to ensure we have appropriate systems in place to allow employees to perform at their best, in line with our vision and values.

Commentary

We employ a diverse team of people with a range of skills and experience and we ensure that CLS is a great place to work so that our employees remain motivated and engaged to deliver the Group's strategy.

Covid-19 presented a health and safety crisis to our people and made day-to-day operations more difficult and complex. The safety of our people is paramount and we were swift in restructuring our offices and encouraging our office-based staff to work from home as well as actively monitoring our staff wellbeing throughout this prolonged period of lockdown.

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For more information on our key performance indicators please see pages 22 and 23

Our principal risks
continued

Emerging risks

We define emerging risks to be those that may either materialise or impact over a longer timeframe. They may be a new risk, a changing risk or a combination of risks for which the broad impacts, likelihoods and costs are not yet well understood, and which could have a material effect on CLS' business strategy.

Emerging risks may also be superseded by other risks or cease to be relevant as the internal and external environment in which we operate evolves. The Senior Operations Board, which has representatives from each area of the business, is tasked with identifying emerging risks for the business and discussing what impact these risks may have on the business and what steps we should be taking to mitigate these risks. The Board reviews these assessments on an annual basis. In 2020, both the Board and the senior operations team were surveyed about their views on emerging risks. A non-exhaustive list and the time when they may have a material effect on the business are set out below:

Risk	Potential Impact	Mitigation	Time Horizon: Short < 2yrs	Time Horizon: Medium 2-5 yrs	Time Horizon: Long > 5 yrs
Regulation/ compliance	Increased capital cost of maintaining property portfolio	Continue with ongoing assessment of all properties against emerging regulatory changes and benchmarking of fit-out and refurbishment projects against third-party schemes.		●	●
Increasing energy costs	Increased cost base of operating properties will reduce attractiveness of tenancies to existing and potential customers	Ongoing consideration of, and investment in, energy efficient plant and building-mounted renewable energy systems.	●	●	●
Changes in technology	The challenge to adapt office facilities to changing work practices/environment expectations of customers	Each region updates the Senior Operations Board on trends, including technology, through the business. The in-house management model also gives valuable insights into tenants' ongoing needs and potential trend changes that can be incorporated into future fit-out of properties.		●	●
Changes in office occupation trends	Changes in social attitudes to agile working practices may reduce demand for space compared to historic trends	In-house asset management model provides the means for the property team to: proactively manage customers; and gain real-time insight and transparency on changes in needs and trends.	●	●	●
Workforce	Failure to adapt to evolving expectations of an intergenerational working population may reduce attractiveness as an employer in the market	The establishment of the Workforce Advisory Panel and the staff survey process provide forums for employees to communicate views on the working environment. The Group also interacts with recruitment agents to keep abreast of trends in the employment marketplace.	●	●	●
Climate change	Increased risk of weather related damage to property portfolio and reputational impact of not evolving sustainability goals in line with global benchmarks and/or public expectations	Our sustainability strategy continues to evolve and has been developed in alignment with Global Real Estate Sustainability Benchmarks (GRESB), consideration of the UN Sustainable Development Goals (SDGs) and climate risk modelling.		●	●

Viability statement

In accordance with Provision 31 of the Code, the Board has assessed the prospects of the Group over a longer period than the twelve months that has in practice been the focus of the going concern statement.

Covid-19, and the associated responses, are having a profound impact on the global economy and it is currently the single biggest negative influence on the Group leading to both current and forecast impacts as well as far greater levels of uncertainty. CLS is weathering these impacts well with high rent collection, low bad debts and a continuing ability to meet its financing and refinancing needs.

Usually the Board reviews a going concern assessment every six-months alongside the approval of the financial statements. Currently, however, we are producing the analysis quarterly given this heightened level of uncertainty.

For the year end going concern and viability assessments, a new four-year forecast was reviewed and approved by the Board at its November 2020 meeting. The forecast and the assessments apply the same methodology that was used for the 2019 year-end viability statement.

The latest forecast reflects current negative expectations arising as a result of Covid-19, in terms of lower property valuations, reduced rent and increased bad debts whilst also incorporating mitigating cash preservation measures in terms of cost savings, and reduced and delayed capital expenditure and acquisitions.

This forecast is used as the base case for our going concern and viability assessment which has focused on the cash, liquid resources and working capital position of the Group. The Directors are confident that loans expiring within at least the next 12 months will be refinanced as expected given existing banking relationships and ongoing discussions.

Two downside scenarios, being mid and severe cases, have also been prepared. The key potential property risks have been incorporated in the modelling by assuming: lower rents; increased service charges and property expenses; falling property values; and reduced loan to value covenants on refinancing reflecting expected greater risk aversion by banks. More general economic factors such as higher interest and tax rates, and foreign exchange changes through a strengthened sterling have also been assumed.

The downside scenarios modelled are based off the negative market and economic impacts experienced during the 2007-2009 global financial crisis with the mid case being somewhat less extreme and the severe case being somewhat more extreme (for example property falls of 35% over four years and 40% over two years respectively). It is worth noting that these scenarios are potentially overly harsh as: it is unlikely all the changes would occur at the same time; the assumptions have been applied equally to all regions and thus there is no benefit given for the geographic and tenant diversity benefits of the Group; and the base case already reflects current expectations of the impact of Covid-19.

The modelling has focused on the cash position of the Group and potential covenant breaches. On average across its 45 loans, CLS has between 26% and 52% headroom for the three main covenant ratios of loan to value, interest cover and debt service cover. In addition, our loan agreements have equity cure mechanisms and in the downside scenarios it is assumed that sufficient, available cash is used to avoid covenant breaches.

It has also been assumed that acquisitions, capital expenditure and dividends are either reduced or cancelled. Finally, property sales at the reduced modelled values are assumed.

In the downside scenarios, a minimum cash balance of £100 million has been maintained and no use has been made of the current £50 million of undrawn facilities. In the severe case, only 9% of the property portfolio, at the assumed lower valuations, would need to be sold to maintain this £100m cash buffer. In a downside scenario, the £50 million of facilities could be withdrawn but if they were not withdrawn and were used, less than 1% of properties would need to be sold.

The longer term operational and financial implications of Covid-19 are hard to forecast accurately. However, based on flexing the key financial assumptions impacting core drivers of CLS' cash flows, it appears that the potential negative outcomes can be mitigated without risking the going concern and longer-term viability of the Group.

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

Going concern

The current macro-economic conditions have created a number of uncertainties as set out on the previous pages. The Group's business activities, and the factors likely to affect its future development and performance, are set out in this strategic report. The financial position of the Group, its liquidity position and borrowing facilities are described in the strategic report and in notes 17 to 20 of the Group financial statements.
The Directors regularly stress-test the business model to ensure that the Group has adequate working capital and have reviewed the current and projected financial positions of the Group, taking into account the repayment profile and covenants of the Group's loan portfolio, and making reasonable assumptions about future trading performance. The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and further details of this analysis are set out in the viability statement on this page. Therefore, the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

Our 2020 strategic report, from page 4 to 63, has been reviewed and approved by the Board of Directors on 9 March 2021.

Approved and authorised on behalf of the Board

David Fuller BA FCIS
Company Secretary

10 March 2021

Chairman's introduction

Lennart Sten
Non-Executive Chairman

"We have adapted well to the operational challenges of 2020. The strength of the Board's relationships and governance framework have enabled us to continue to successfully deliver on our strategy to the benefit of all stakeholders."

Driving performance through culture

Q. This has been a challenging year for business; what impact has Covid-19 had on the business?

A. We have focused on working closely with our key stakeholders. Having a close relationship with our tenants has allowed us to react to their changing situations and support them as best we can. This has undoubtedly helped with our rental income collection but also keeping our Covid-secure offices open so that tenants can continue to operate their businesses.

Working remotely has had both a positive and negative impact. Positive because our recent investment in IT has paid dividends and we have shown that it is possible to work remotely; this is something that is here to stay. Negative because of the impact on our culture. We are fortunate to have strong values which have made us more determined. However, the lack of social interaction has impacted some of the areas we took for granted like the importance of group social events, helping new recruits into the business, in-person team meetings and those "water cooler" chats.

Q. Has the Board had to adapt its way of working to govern effectively?

A. Most definitely. We have all become video conferencing experts, but we have also increased the focus on discussing, reviewing and monitoring our key risks and emerging risks to ensure the business is in robust shape.

Q. Several Directors hold additional directorships. How do you ensure each has sufficient time to meet their duties?

A. We have a process that requires all Directors to seek approval for additional directorships. As part of this process we discuss their time commitments and whether there is sufficient additional scope to take on further directorships.

Q. Have there been any changes to the Board during the year?

A. Following the changes made at the end of last year, 2020 has been one of "bedding in" and ensuring our new NEDs understand CLS, both in terms of our business and culture. Having this consistency during the pandemic has been extremely beneficial to the strength of the Board's decision making.

Q. How has the Board sought to balance the needs of stakeholders throughout the year?

A. With all key decisions, we consider the impact on each of our stakeholders individually. Sometimes our decisions affect some stakeholders more than others, but one can have a knock-on effect on the other. We discuss these impacts in detail to ensure the best outcome.

Q. The Board has developed a new ESG strategy – what has driven the creation of the new strategy?

A. There is no doubt the next decade is going to be critical for the world to avert a climate crisis, and it is already a defining issue for the real estate industry and for our business. Sustainability forms part of our purpose and vision, and our new strategy will position our business onto a Net Zero Carbon pathway aligned to the UN target to limit global warming to 1.5 (degrees celsius), while embedding resilience into our operations to deliver long term value growth. In addition to our environmental aspirations, our new sustainability strategy recognises the role we can play within our local communities to create social value, which will be delivered through a new CSR plan currently under development. More details on our new strategy will be in our Sustainability Report, published later in 2021.

Q. This year you held an externally facilitated Board evaluation; what were the main outcomes of this?

A. We were very pleased with the feedback from the process. We are doing things in the right way and the Board is working well together. However, clearly our interaction has been limited and we hope to redress this imbalance when restrictions allow, both in terms of seeing each other but also visiting our portfolio. We also want to increase our visibility within the organisation and will look to set up a programme to meet more of our employees below senior management level.

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

A. Our main priority is to ensure the business is secure and stable whilst supporting our key stakeholders. We have a strategic plan for growth this year and we will work closely with our teams to achieve these goals to generate further long-term sustainable growth. Our new sustainability strategy will be published later this year, together with our commitment to a Net Zero Carbon pathway, so we will be closely monitoring our progress against the targets we set ourselves.

Lennart Sten
Non-Executive Chairman

10 March 2021

UK Corporate Governance Code

Principles and how the Company addresses them

Compliance with the code

The principal corporate governance rules which applied to the Company in the year under review were those set out in the UK Corporate Governance Code published by the Financial Reporting Council ("FRC") in April 2018 (the "Code"), the UK Financial Conduct Authority ("FCA") Listing Rules and the FCA's Disclosure Guidance and Transparency Rules.

The Board fully supports the principles of good governance as set out in the Code, which is available on the FRC's website (www.frc.org.uk), and its application of the main principles are set out on pages 60 to 119. Save as identified below and explained in this report, the Board considers that throughout 2020 it complied with the provisions of the Code.

During the year the Board recognises that it did not comply with Code provision:

11 – Board balance explanation on page 77

17 – Nomination Committee membership explanation on page 79

24 – Audit Committee membership explanation on page 86

32 – Remuneration Committee membership explanation on page 91

At 31 December 2020, the Board confirms that it complied with all but Code Provision 11.

Board leadership and Company purpose

Our Board of Directors is responsible for setting the Group's strategy and ultimately ensuring the success of the Group. We aim to hold five board meetings a year, including a strategy day. Our purpose is to transform office properties into sustainable, modern spaces, that help businesses to grow. This year we held six board meetings.

Where to find further information

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Board activities	68-69
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Strategy, Purpose, Vision and Values	17-21

Division of responsibilities

This year we reviewed our division of responsibilities to ensure they reflect our Board structure.

Where to find further information

Governance framework	76-77

Composition, succession and evaluation

Our Board consists of an Independent Non-Executive Chairman, two Executive Directors, three independent Non-Executive Directors and three non-independent Non-Executive Directors. Succession planning is reviewed periodically by the Nomination Committee. The evaluation of the Board and Committee's performance is overseen by our Chairman.

Where to find further information

Nomination Committee Report/Chairman's Statement	64 and 78-85
Externally facilitated Board Evaluation	64 and 78-85

Audit, risk and internal control

The Audit Committee reviews the effectiveness of our risk management and internal controls system and the need for an internal audit function annually.

Where to find further information

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Remuneration

The Remuneration Committee is responsible for the design, implementation and oversight of the Group's Remuneration Policy, which was approved by shareholders on 25 April 2020.

Where to find further information

Remuneration Committee Report	90-109

Board of Directors

The right skills and experience to deliver our strategy

The Board at the end of 2020 (taken in 2019)
Left to right: Bill Holland, Elizabeth Edwards, Bengt Mortstedt, Anna Seeley, Andrew Kirkman, Fredrik Widlund, Denise Jagger, Lennart Sten, Christopher Jarvis

Lennart Sten
Independent Non-Executive Chairman

Appointment as a Director	1 August 2014
Nationality	Swedish
Tenure	6 years 4 months

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

Qualifications: Degree in Law, Stockholm University

Experience: International property industry. Founder and CEO of Svenska Handelsfastigheter. Board member, Interogo Holding AG. Chairman, Swedish Property Federation and Klara Bo Sverige AB

Anna Seeley
Non-Executive Director and Vice Chair

Appointment as a Director	11 May 2015
Nationality	Swedish
Tenure	5 years 7 months

Former roles: European Property Surveyor, General Electric Corporate and BT Group. Group Property Director, CLS Holdings plc. Chartered Surveyor, Chestertons

Qualifications: Degree in Property Valuation, City University and Chartered Surveyor

Experience: 20+ years of property industry and business experience

Fredrik Widlund
Chief Executive Officer

Appointment as a Director	3 November 2014
Nationality	Swedish
Tenure	6 years 1 month

Former roles: Global Commercial Leader, GE Capital International. Regional CEO, GE's European Leasing businesses. Managing Director, GE Capital Real Estate. CFO, GE Capital Equipment Finance. Various positions with Royal Dutch Shell

Qualifications: Degree in Business Administration, Stockholm University

Experience: Business leadership, property and finance experience in global organisations. Trustee of Morden College

Andrew Kirkman
Chief Financial Officer

Appointment as a Director	1 July 2019
Nationality	British
Tenure	1 year 5 months

Former roles: Finance Director, Harworth Group plc. Finance Director, Viridor. Chief Finance Officer, Balfour Beatty Capital. Global Head of Corporate Finance, Bovis Lend Lease

Qualifications: Masters in Politics, Philosophy and Economics, Oxford University. Fellow, Institute of Chartered Accountants

Experience: Extensive plc, property, finance and operational experience. Non-Executive Director, A2Dominion Housing Limited, a social housing charity

Elizabeth Edwards
Senior Independent Director

Appointment as a Director	13 May 2014
Nationality	British
Tenure	6 years 7 months

Former roles: Head, Property Lending, Landesbank Berlin. Senior positions with National Australia Bank, Berlin Hyp and Westdeutsche Immobilienban. Management Consultant, PwC

Qualifications: Chartered Surveyor, Degree in Estate Management, South Bank University. Fellow, Royal Institution of Chartered Surveyors

Experience: Banking (primarily property-related). Trustee, Salvation Army International Trust. Trustee, Refuge. Member, Association of Property Lenders. Past Master, the Worshipful Company of Chartered Surveyors. Non-Executive Director, Schroders European REIT plc

Denise Jagger
Non-Executive Director

Appointment as a Director	1 August 2019
Nationality	British
Tenure	1 year 4 months

Former roles: Solicitor, Slaughter and May, Director Asda Stores, Company Secretary and General Counsel Asda Group plc/Asda Wal Mart, Partner Eversheds Sutherland LLP

Qualifications: Law degree, Warwick University, Certificate in EU Studies Universite de Nice, Hon Doctorate of Law, Leeds Beckett University

Experience: Legal advisory (corporate finance, M&A, regulatory, compliance and governance). Retail and property sector specialism. Independent NED and SID Bellway plc; NED and Remuneration and Nominations Committee Chair, Pool Reinsurance; Chair and Pro Chancellor University of York; Chair St Giles Trust

Christopher Jarvis
Non-Executive Director

Appointment as a Director	25 November 2008
Nationality	British
Tenure	12 years 1 month

Former roles: Owner, Jarvis & Partners real estate consultancy. Partner, HRO Group. MD, Richard Ellis Germany

Qualifications: Chartered Surveyor. Masters in Land Economy, Cambridge University

Experience: Advising on all property-related matters, from debt financing to asset acquisitions, primarily in the German market

Bengt Mortstedt
Non-Executive Director

Appointment as a Director	7 March 2017
Nationality	Swedish
Tenure	3 years 9 months

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

Qualifications: Degree in Law, Stockholm University

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

Bill Holland
Non-Executive Director

Appointment as a Director	20 November 2019
Nationality	British
Tenure	1 year 1 month

Former roles: Senior Partner, KPMG real estate audit practice

Qualifications: Fellow, Institute of Chartered Accountants. Degree in Economics

Experience: Real estate, finance and audit experience. Non-Executive Director, Urban&Civic plc and Ground Rents Income Fund plc. Governor, Winchester College

Attendance Table

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Lennart Sten	●●●●●●	–	●●●●	●
Anna Seeley	●●●●●●	–	–	●
Fredrik Widlund	●●●●●●	–	–	–
Andrew Kirkman	●●●●●●	–	–	–
Sten Mortstedt[1]	●●●●●●	–	–	○
Elizabeth Edwards	●●●●●●	●●●●	–	●
Malcolm Cooper[2]	●●	●●	●●	–
Christopher Jarvis[3]	●●●●●●	●●	●●	–
Denise Jagger	●●●●●●	●●●●	●●●●	–
Bengt Mortstedt	●●●●●●	–	–	–
Bill Holland	●●●●●●	●●●●	●●●●	–

● Attended ○ Did not attend

1 Until 15 December 2020
2 Stepped down from the Audit and Remuneration Committees on 5 March 2020 and retired on 23 April 2020
3 Stepped down from Audit Committee on 5 March 2020 and from Remuneration Committee on 23 April 2020

Board leadership and Company purpose

Board activity

Board oversight of Company purpose

The Board exercises it oversight to ensure that the Group's Purpose, supported by its Vision and Values, is a key driver for the Group and supported by the workforce. The Board receives regular executive reports at its meetings on key areas such as the embedding of our Purpose, Vision and Values and by listening to the views of our employees through the Workforce Advisory Panel on how the Group's Purpose is being delivered.

Board activity during 2020

Key strategic and operational items were discussed at each meeting, and the Board received presentations from various external parties and senior managers within the business during the year.

Each Committee of the Board also provided updates as appropriate to the Board throughout the year.

The Board met six times during the year.

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

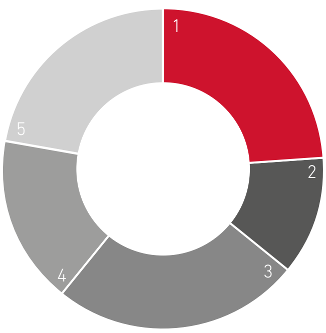
In addition to their discussions at Board meetings, Directors undertake additional activities and professional development as summarised on page 79.

In light of the pandemic, the Board recognised the importance of keeping stakeholders updated and decided to release quarterly trading updates.

Section 172

For more information on section 172 please see pages 70-71

Key discussion topics



1. 24% Strategic
2. 12% People & Culture
3. 25% Financial
4. 17% Governance
5. 22% Property & Operations

March

Approvals
- Approval of the 2019 annual report and accounts
- Approval of the going concern and viability statements
- Approval of 2019 final dividend

Key agenda items
- Report from the Audit Committee
- Report from the Remuneration Committee on the new Remuneration Policy
- Report from the Nomination Committee on upcoming Board changes
- Report from the Workforce Advisory Panel

Presentations
- UK valuation presentation from Cushman & Wakefield

April

Approvals
- Final dividend recommendation

Key agenda items
- Covid-19 impact assessment and business update
- Confirmation of 2019 final dividend
- Trading update announcement

May

Approvals
- Approval of the new Long-Term Incentive Plan

Key agenda items
- Report from the Remuneration Committee
- Report from the Workforce Advisory Panel
- Covid-19 assessment and tenant exposure
- Corporate Social Responsibility update
- Q2 reforecast & 2021-2023 Forecasts

August

Approvals
- Approval of the 2020 Half-Year Financial Report
- Approval of interim dividend
- Approval of the Aviva 'green' loan

Key agenda items
- Reports from the Audit, Remuneration and Nomination Committees
- Report from the Workforce Advisory Panel
- 2020 half-year financial report

Presentations
- French valuation presentation from Cushman and Wakefield
- German valuation presentation from Cushman and Wakefield

October

Approvals
- Updated Group strategy and forecast document
- Updated sustainability strategy

Key agenda items
- Report on geopolitical and macro-economic conditions
- Review of the impact of Covid-19
- Financing strategy review
- Risk survey findings

Presentations
- Sustainability strategy

November

Approvals
- Approval of the 2021 Budget and Forecasts
- Review of internal controls and risk management
- Review of Committees' Terms of Reference, Division of Responsibilities and Schedule of matters reserved for the Board

Key agenda items
- Reports from the Audit, Remuneration and Nomination Committees
- Report from the Workforce Advisory Panel
- 2021 Budget and 2022–2024 forecasts
- External Board evaluation report
- Meeting of the Non-Executive Directors to review performance of the Chairman

Board leadership and Company purpose continued

Understanding the views of stakeholders

Our approach to Section 172 (1)

The Board recognises the importance of the views of key stakeholders in its decision making process. It believes this to be crucial in maintaining a reputation for high standards of business conduct, and a Group that people want to work for and to do business with.

Our key stakeholders are set out on pages 32 to 33 and illustrate how the Group has engaged and consulted with them. This approach is reflected in the Board's decision making process and examples of key decisions are set out in this section.

To support the recording and reporting of our section 172 obligations Board papers are written so that they included a specific section detailing how the impact the decision the Board is being asked to make would affect key stakeholders. In some circumstances it has led to decisions being amended to reduce the impact on certain stakeholder groups.

Meeting tenants and employees (including those below senior management level) through our property tours, together with individual meetings with members of staff and external advisors on specific topics, provides an excellent platform to understand the views of our key stakeholder groups.

The Board also receives regular reports and feedback from meetings with investors and analysts, which provide further insight and discussion on the views of investors.

This year, the impact of the pandemic restricted the Board's ability to meet employees and undertake property tours. However the use of video conferencing facilitated limited interaction with employees below Board level and external advisors.

The Strategy in Action section on pages 24 to 31 gives specific examples of key decisions taken in 2020 across our business model and details how the Board gave due consideration to their obligations under Section 172.

Key – Section 172 criteria

- the likely consequences of any decision in the long term
- the interests of the Company's employees
- the need to foster the Company's business relationships with suppliers, customers and others
- the need to act fairly between shareholders
- the impact of the Company's operations on the community and the environment
- the desirability of the Company maintaining a reputation for high standards of business conduct

		Outcomes
Employees	**Workforce Advisory Panel** The Board established the Workforce Advisory Panel in 2019 in compliance with the UK Corporate Governance Code in relation to workforce engagement. The Board concluded that this method would best represent employees' views in a way that encapsulated our values surrounding collaboration and openness. Chaired by Elizabeth Edwards, the Panel met four times during 2020 and discussed issues relating to employment conditions and practices within the Group. It also discussed the Group's response to the pandemic, which it considered to be very supportive and appropriate ensuring the correct measures were undertaken in each country. Elizabeth provides a report at each Board meeting on the key topics discussed. The Panel consists of eight employees from the UK, France, Germany and Luxembourg. Further details on the work of the Panel can be found on pages 74-75.	The discussions from the Panel, which are fed back to the Board, resulted in the decision to increase operational headcount to ensure we continued to meet the needs of tenants as the portfolio grows. The Panel met once every quarter, and the Board was updated on the discussions at the following Board meeting to ensure the voice of our workforce is present in the Boardroom.
	Staff survey At the end of 2020, the Group commissioned a staff survey to record the views of the workforce. The confidential questionnaire concentrated on key areas of engagement and enablement together with future focused questions on flexible working and mental health provision. Further details on the staff survey can be found on page 40.	The outcomes of the staff survey will be reviewed by the Panel, who will distil the results into key objectives for the Group to achieve over the next 24 months.
Tenants	**Tenant meetings** The Board wanted to maintain close and regular engagement with Tenants to understand the impact of Covid-19 on their operations, assist them where possible, and to ensure buildings were Covid-secure. Virtual Tenant meetings were held regularly across the Group which highlighted areas for support. The Board received feedback from management on the results of tenant discussions during the year.	All buildings made Covid-secure and remained fully open during the year. Our in-house asset, property and facilities management teams ensured the needs of tenants were met. Additional support was provided to individual tenants who required financial assistance.
Long-term strategy	**Property acquisitions, disposals and financing initiatives** As part of its annual strategic review, the Board discussed the composition of the portfolio. It considered the appropriateness of annual acquisition targets, the Group's investment criteria for new acquisitions and certain properties within the portfolio that no longer met the requirements of the Group and which should be sold. The Board also explored various innovative opportunities that would support the Group's vision to be a sustainably focused landlord and business model to "secure the right finance".	To ensure the long-term success of the Group, key acquisitions and disposals were considered in detail by the Board following presentations from the Chief Executive Officer and Head of Group Property. The presentations included stakeholder impact assessments, which did not result in a negative outcome for any stakeholder group. Further details on the key acquisitions and disposals can be found on pages 24 to 31. Further details on the Group's first "green" loan financing can be found on pages 26 and 27.
Investors	**Dividend** The Board recognises meeting shareholder dividend expectations is a key factor in investors supporting our growth strategy. The Group's progressive dividend policy supports the long-term strategic plan, while meeting our obligations to reinvest and grow the portfolio to ensure we realise our vision to be a leading office space specialist and a supportive, progressive and sustainability focused commercial landlord. This year, the Board considered the dividend in light of the impact that the pandemic had had on the Group.	The Board concluded that given the financial and operational performance of the Group during the pandemic, the 2019 final dividend was maintained and the 2020 interim dividend was paid but at the same level as 2019. The Board reviewed the financial and operational performance of the Group during 2020 and deemed it appropriate to pay a 2020 final dividend of 5.20 pence per share.

Board leadership and Company purpose continued

Relationship with shareholders

The Company values its dialogue with both institutional and private investors.

The Board's primary contact with existing and prospective institutional shareholders is through the Chief Executive Officer and the Chief Financial Officer, along with the Head of Group Property, who have regular meetings with institutional shareholders. They also undertake analyst presentations following the Company's half-yearly and annual financial results. They are supported by a financial relations adviser and two corporate brokers, all of whom are in regular contact with institutional and retail shareholders, and with analysts.

A report of feedback from each institutional investor meeting is prepared by the broker who organised it, and a report of unattributed feedback from analysts on analyst presentations is prepared by the financial relations advisor. All such reports and coverage of the Company by analysts are circulated to the Board. Consequently, all Directors develop an understanding of the views of institutional shareholders and commentators.

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

Committee Chairs seek regular engagement with shareholders on significant matters as they arise. Further detail can be found in each Committee report.

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.

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

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

Proxy voting

The proxy forms for the Annual General Meeting which was held in 2020 included a "vote withheld" box.

Details of the proxies lodged for this meeting were announced to the London Stock Exchange and are on the Company's website at www.clsholdings.com. Shareholders may also choose to register their vote by electronic proxy on the Company's website.

At the 2020 Annual General Meeting, the Company will comply with the Listing Rules in respect of the voting requirements for the re-election of independent Directors where a Company has a controlling shareholder.

The usual pattern of investor meetings took place in 2020, as set out below. Although face-to-face meetings were replaced from mid-March onwards by voice and video calls.

Key Shareholder Events

March

29 Institutional investor meetings

Analyst presentation

April

9 Institutional investor meetings

Annual General Meeting

August

14 Institutional investor meetings

Analyst presentation

September

15 Institutional investor meetings

In addition, given the greater levels of uncertainty and hence the need for enhanced communication, CLS took part in a number of virtual investor calls either on a one-on-one or group basis. These calls, which took place throughout the year from May onwards, covered a further 39 investors.

Maintaining a healthy culture
We continue to promote an open, collaborative culture within our workforce, with an efficient decision-making structure which facilitates ownership and enables a hands-on operating process.


The Board during the year (taken in 2019)

Ensuring the right culture

CLS' culture and the role of the Board
The Board recognises the need to establish the correct culture, values and ethics to ensure good standards of behaviour are maintained throughout the Group.

We engage with our employees in a number of ways, but primarily through the Workforce Advisory Panel and staff surveys to ensure the voice of the workforce is prominent in our decision-making process.

The Board also receives information on human resourcing matters such as employee turnover and diversity statistics at each meeting.

These feedback mechanisms allow the Board to understand how the culture of the Group evolves and, through the Chief Executive Officer, facilitates changes to ensure the Group maintains its Purpose, Vision and Values which underpins our culture.

How the Board monitors culture

KPIs
A healthy culture results in good staff retention, on which we receive regular updates. We monitor this through someone's employment, from the annual appraisal process that highlights individual performance to exit interviews, where we seek feedback on our culture.

We undertook an employee engagement survey in 2020.

For more information please see pages 22-23

Strategy
We have a clear link between our culture, strategy and KPIs. Our vision is clear and supports our long term objective, which in turn links to our Total Shareholder Return KPI.

We are focused on providing our tenants with space that meets their needs which is supported by our KPI on Vacancy Rates.

For more information please see pages 18-21

Risk management
Our approach to risk governance can be found on pages 54-55. This allows us to be methodical in our approach but agile enough to take advantages of opportunities as they arise. This reflects our four key Values that form part of our overall approach to the product and service that we provide our tenants.

For more information please see pages 54-63

Remuneration
We ensure our reward structure reflects achievements and contribution to the business.

Our benefits package underlines the importance we place on wellbeing and setting the right culture for people to thrive and deliver their best.

For more information please see page 41

Stakeholder engagement
We have undertaken a number of stakeholder engagements during the year.

As part of our culture of openness and collaboration, we work with all of our stakeholders to make a positive impact on our business and our environment.

For more information please see pages 32-33

Ethics, whistleblowing, fraud and anti-bribery
We have an open, close culture, where everyone is encouraged to speak up.

We have a thorough induction process that reinforces our core beliefs and is backed up by regular training.

For more information please see page 42

Our measures
To monitor our measures, we use: tenant surveys undertaken in all countries; employee engagement surveys to seek the views of the workforce; employee turnover statistics reported to the Board; and training and development policies to assist in upskilling our employees.

For more information please see pages 39-41 and 71

Workforce engagement

Elizabeth Edwards
Senior Independent Director

Chair, Workforce Advisory Panel

Helping to enhance our working environment

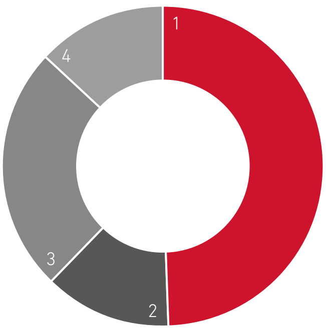
"The Panel has been very successful in its objective to discuss and feedback on workforce policies and practices, which has led to a number of positive outcomes."

Workforce inclusivity
The Panel met four times during 2020.

The Panel consists of eight employees from across the Group. The selection process is undertaken through an interview process from a shortlist of employees who either volunteered or were nominated by their peers. This ensures we have diverse cross section of our workforce represented on the Panel.

Membership of the Panel will be refreshed periodically as we believe it is important to allow all employees an opportunity to participate.

Panel
Geography



1. 50% UK
2. 13% France
3. 25% Germany
4. 13% Luxembourg

Dear Shareholder,

As Chair of the Workforce Advisory Panel, I am pleased to provide my first report from the Panel. The aim is for this report to provide an insight into the work of the Panel during the year.

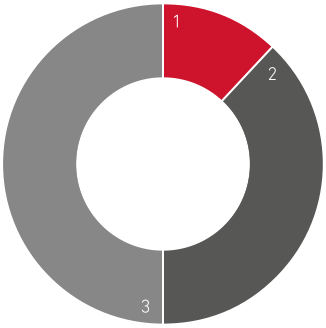
Role of the Panel
Provision 5 of the Code requires the Board to understand the views of the Company's key stakeholders, including the establishment of mechanisms to engage with the workforce. In recognition of the Code requirements, and considering the size and complexity of the Group, the Board established a Workforce Advisory Panel in 2019.

The main role of the Panel is to allow employees to voice their views on the Group's workforce practices and policies, and to encourage effective engagement between the Board and its employees.

Through the Panel the Board ensures it has visibility of the views of employees, particularly when making decisions that could directly affect the workforce. The Panel also facilitates a gateway for the Board to feed back to the workforce on how their concerns are being addressed.

As Chair of the Panel, it is my responsibility to understand the views of the workforce that are raised during Panel meetings and articulate these to the Board. Additionally, it is also my responsibility to work together with the Chief Executive Officer and Head of Group Human Resources to facilitate further discussion and action feedback from the Panel. I also ensure that the views of the Board are relayed to the Panel.

Panel
Job function



1. 12% Legal, IT and Administration
2. 38% Finance
3. 50% Property

Main activities during the year

At each meeting, the Chair provides the Panel with an overview of the high level strategic discussions that have taken place at Board meetings and other relevant topics.

Panel members also gather the views and concerns of all employees on workplace practices across the Group ahead of each meeting, which forms the basis for discussion.

This year, in light of the ongoing pandemic, regular updates were received by the Panel on Covid-19 restrictions in each of the countries we operate and the impact for employees in terms of national lockdowns and working from home. The Panel discussed the Group's response during the pandemic including the actions it took in the workplace in each country. The Panel concluded that the Group's actions had resulted in overwhelming support and positive responses from employees who felt well-supported during the pandemic.

At the Panel's request, the Group undertook a review of its employee benefits package which included an independent external benchmarking exercise. Following this review, a report was presented to the Panel which highlighted that the Group's employee benefits package was broadly in line with industry standards in each country and, in some cases, exceeded the benchmark. In areas where it was below the benchmark, recommendations were made for their enhancement, which were then implemented.

Through its feedback processes, the Panel discussed resourcing levels in light of the expansion of the portfolio brought about by recent acquisitions. The conclusions were fed back to the Chief Executive Officer and the Board, which in turn resulted in a review of resourcing requirements and subsequently the recruitment of additional staff.

To gain a better understanding of executive pay and the link to the Group's overall remuneration strategy, the Panel invited the Company Secretary to present the Group's Executive Remuneration Policy, incorporating the Long-Term Incentive Plan, which was approved by the shareholders and adopted at the 2020 AGM.

Staff survey

During 2020, the Company commissioned an externally facilitated staff survey to further understand the views of the workforce.

As part of the process, the Panel were consulted on the content and scope of the survey, together with the questions that were bespoke to the Group covering areas such as its response to Covid-19, the future of flexible working and wellbeing and training initiatives.

The Panel will also be actively involved in reviewing the outcomes of the survey in order to distil them into key objectives for the Group to implement over the next 24 months. More details of the staff survey can be found on page 40.

Elizabeth Edwards
Chair, Workforce Advisory Panel

Our focus for the year ahead

- Review the outcomes of the 2020 CLS staff survey
- Facilitate the implementation of the key objectives from the results of the 2020 CLS staff survey
- Continue to facilitate communication between the Board and employees
- Continue to discuss the views of the employees and review CLS workplace practices

Division of responsibilities

The Board's role
The Board has ultimate responsibility for setting the Group's strategic direction, leading and overseeing culture, delivering value sustainably, understanding the risks the Group faces and ensuring that we uphold the highest standards of corporate governance.

Board and Committee structure
The Board is supported by the Audit, Remuneration, Nomination and Disclosure Committees who update Board members at each meeting. The Board discusses issues arising from Committee meetings which allows them to gain a wider understanding of the operation of the Group.

Chair leadership and effectiveness
As the Group's Independent Non-Executive Chairman, Lennart leads the Board in promoting a culture of openness and debate to ensure the Board operates effectively. The right "tone from the top" is key to support our Purpose, Vision and Values. Lennart and the Board lead by example and the culture of openness and collaboration resonates throughout the Group.

Roles and responsibilities of the Directors
The Board's composition and responsibilities are set out in a formal schedule of matters specifically reserved to it for decisions. Matters reserved for Board decisions include identifying strategic long-term objectives, approving the annual Group budget, and approving substantial property transactions and investment decisions over £5 million.

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

Division of responsibilities
The responsibilities of the Independent Non-Executive Chairman, who is responsible for the overall strategy of the Group, the Non-Executive Vice Chair who supports the Chairman, and the Chief Executive Officer, who is responsible for implementing the strategy and for the day-to-day running of the Group, are clearly divided. A written statement of the division of these responsibilities is reviewed and approved by the Board each year.

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

Board and committee structure

The Board

Lennart Sten (independent Non-Executive Chairman)
Two Executive Directors
Three independent Non-Executive Directors
Three non-independent Non-Executive Directors

Ensuring the Company's growth and shareholder value

Audit Committee
Three independent Non-Executive Directors

Monitors the arrangements for risk management, corporate reporting and internal controls. Maintains the relationship with the Auditor

For more information see pages 86-89

Remuneration Committee
Three independent Non-Executive Directors

Develops the Company's policies on executive and senior management remuneration and sets the remuneration packages of individual Executive Directors and other senior management

For more information see pages 90-109

Nomination Committee
Two independent Non-Executive Directors
One non-independent Non-Executive Director

Monitors and evaluates the Board's skills and experience to ensure full Board discussion

For more information see pages 78-85

Executive Committee
Reviews the daily running of the Group's business

Disclosure Committee
Monitors inside information and close periods

Financial Investment Committee
Analyses financial investment opportunities and reviews investment portfolios

Asset Management Committee
Reviews the Group's property investments in each country

Health & Safety Committee
Reviews and moderates the Group's policy and best practices for Health and Safety

Role	Board member	Responsibility
Independent Non-Executive Chairman	Lennart Sten[1]	Proposing the overall strategy of the Group and ensuring the effective running of the Board
Non-Executive Vice Chair	Anna Seeley	Supporting the Chairman with developing Group strategy and managing the effective running of the Board
Chief Executive Officer	Fredrik Widlund	Implementing Group strategy and the day-to-day running of the Group
Chief Financial Officer	Andrew Kirkman	Implementing Group strategy in relation to and ensuring compliance with all financial matters
Executive Director[2]	Sten Mortstedt	Supporting the Chairman with proposing the overall Group strategy
Senior Independent Director	Elizabeth Edwards[1]	Providing a channel of communication for shareholders who do not wish to approach the Chairman, Non-Executive Vice Chair or Chief Executive Officer Leading the Non-Executive Directors, and providing feedback to the Chairman on his performance
Non-Executive Directors	Christopher Jarvis Bengt Mortstedt Denise Jagger[1] Bill Holland[1]	Providing independent oversight, objectively challenging the Executive Directors in Board discussions and decision making

1 Determined by the Board to be independent in accordance with Code Provision 10.
2 Until 15 December 2020

Non-Executive Directors

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

It was considered that the way in which the Board operated had improved, led by changes to the agendas and structure of meetings made by the Chairman.

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

Independence

Provision 11 of the Code recommends that at least half the Board, excluding the chairman, should be non-executive directors who the board considers to be independent.

At the year end, the Board comprised two Executive Directors, three Non-Executive Directors (excluding the independent Non-Executive Chairman) who the Board consider to be independent and three other Non-Executive Directors.

The Company was therefore not compliant with Provision 11 but acknowledges the steps it has taken to achieve a better balance of Board independence. The Board is of the view that having the current balance of Non-Executive Directors, excluding the Chairman, who are either "independent" as defined by the Code, or have an in-depth knowledge of the Company, provides good oversight and supports an appropriate governance framework.

Following the 2019 review of Board composition, and in light of Provision 10 of the Code, Mr Cooper and Mr Jarvis had both served on the Board for more than nine years and could no longer be deemed independent. As a result, and following the appointment of Denise Jagger and Bill Holland as two new independent Non-Executive Directors, Mr Cooper retired from the Board at the conclusion of the 2020 AGM on 23 April 2020. The Board also concluded that Mr Jarvis would step down from the Audit and Remuneration Committees, on 5 March 2020 and 23 April 2020, respectively, but continue as a "non-independent" Board member in light of his valuable experience within the German commercial property market.

External directorships

Current external directorships for all Directors can be found on page 67. All additional directorships must be approved by the Chairman, taking into account potential conflicts of interest and time commitment. It is our policy that full time Executive Directors should not take on more than one non-executive directorship in a FTSE company or other significant appointment.

Information, support and development

All Directors are sent Board packs in advance of each Board and Committee meeting.

Directors can obtain independent professional advice at the Company's expense and access to the advice and support of the company secretary on all governance matters. A schedule of appropriate training and development courses, seminars and briefings is circulated to Board members at each meeting, which they are encouraged to attend. To further their development and knowledge we organise for Directors to meet key employees and undertake site visits.

Composition, succession and evaluation

Nomination Committee Report

Anna Seeley
Chair, Nomination Committee

Driving performance through culture

❛ We have made important appointments to the Board to ensure it has the depth and breadth of experience to oversee our strategic plan. ❜

Committee members' attendance during the year ended 31 December 2020

Lennart Sten	●
Anna Seeley	●
Sten Mortstedt[1]	○
Elizabeth Edwards	●

● Attended ○ Did not attend

[1] Until 15 December 2020

Dear Shareholder,

On behalf of the Nomination Committee, I am pleased to present my report as Chair of the Committee for the year ended 31 December 2020. This report is intended to provide an insight into the work of the Committee during the year.

Role of the Committee

The Nomination Committee is responsible for ensuring that the Board consists of members who have the relevant skills, experience and knowledge in order to set and enable the executive to deliver the Company's strategy.

The Committee makes recommendations to the Board with regard to the nomination, selection and succession of directors and senior executives.

The Committee's main role and responsibility is to ensure that there is appropriate succession planning in place, having regard to the provisions of the UK Corporate Governance Code.

The Committee regularly evaluates the Board's performance and effectiveness both as a group and as individual Directors. There is also a regular review of induction processes, training and the continued development of the Company employees as well as Non-Executive Directors which is carried out by the Committee.

Main activities during the year

Following the appointment in 2019 of a new Chief Financial Officer, two independent Non-Executive Directors and the implementation of a new Board structure with an independent Non-Executive Chairman, the Committee has monitored the performance of its new Board composition during 2020.

The Committee is pleased that our two new independent Non-Executive Directors, Denise Jagger and Bill Holland, have contributed significantly to the breadth of experience of the Board and continue to give important input into strategic matters.

The change in structure of the Board has brought a new dynamic that has improved efficiency, oversight of discussion and increased challenge of the executive team. The Committee considers this to be a positive change to our governance framework.

We continued to focus on diversity and succession planning, which included reviewing our pipeline of internal talent. Our process for this review is set out later in this report. We received a comprehensive presentation from Fredrik Widlund on succession planning below Board level, which the Committee opened up for discussion at the full Board. This provided the Committee and the Board with an insight into the depth of our talent pool where we have some fantastic employees but it also highlighted some of the challenges we face in retaining the next generation of senior leaders.

There has been significant focus on gender diversity at Board level. Having reviewed the composition of the Board and made appointments during 2019, our Board now comprises one third women and has a broad range of skills to support the implementation of our strategy.

Our next challenge is how we bring forward diversity in our senior leadership team. We nurture talent but, as a small organisation, there is always a "bottle neck" to senior leadership positions. Our size means we cannot justify the creation of new positions to retain our best employees, so our challenge is ensuring that person continues to develop until a senior leader position arises. Unfortunately, not all of our talented employees decide to wait and some leave to further their career. Whilst this is positive for an individual, and it shows we have a good development path, it means we have to start again.

I believe we will always face these challenges and I am confident that we have the right processes in place to foster diverse talent and promote from within.

Membership and attendance

The Committee met once during 2020 and held frequent discussions outside formal meetings.

Until 15 December 2020, the Committee's composition comprised one Executive Director and three Non-Executive Directors, two of whom are independent. Following the death of Mr Sten Mortstedt, the Committee comprised three Non-Executive Directors, with a majority being independent. Until then, the Committee was not compliant with Provision 17 of the Code but the Board considered that, because the Group has a Controlling Shareholder, its composition reflected the need for independent oversight whilst recognising the shareholder base. There are no plans to change the current composition of the Committee and, at the date of this report, it is compliant with Provision 17.

The Company Secretary acts as Secretary to the Committee and its Terms of Reference are available on the Company's website.

Induction and ongoing development

It is important for all Directors, both Executive and Non-Executive, when joining the Company, to be provided with, and given an insight into, the Company's operations, culture and values.

Our induction programme has been set up to involve a full overview of the Group and how it operates. The process starts with individual meetings with the Non-Executive Chairman, Chief Executive Officer and the Chief Financial Officer.

Following this a programme of meetings with senior managers across the Group and tours of the Group's portfolio and offices in the UK, France and Germany are organised.

Additionally, the Board aims to hold one Board meeting a year either in France or Germany so that it can gain first hand knowledge into the activities, challenges and opportunities across the portfolio.

Our individual portfolio tours and Board meetings allow Directors to engage directly with a range of employees below Board level, which we believe is important in relationship building, understanding our talent pipeline, people and culture.

Meetings are also arranged with key advisors such as external Auditors, valuers and brokers on an on going basis both at Board level and individually.

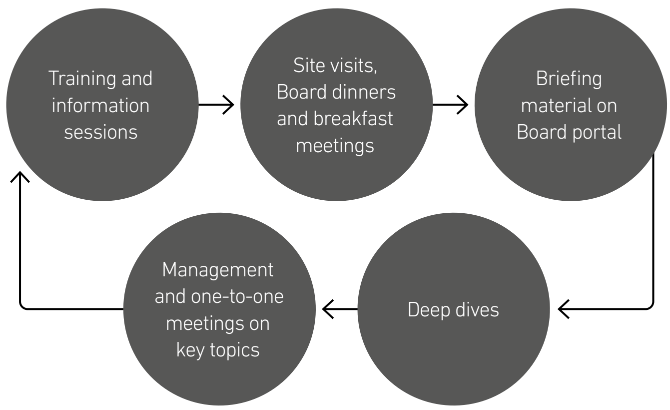
Ongoing training and development beyond the induction process is encouraged, with updated schedules of events produced at each Board meeting. Directors have the ability to obtain independent advice at the Company's expense as well as having full access to the Company Secretary as required.

This year, with travel restrictions in place it has been impossible for the Board to visit any of our portfolio, or undertake in person Board meetings in the UK, France or Germany.

We are fortunate to have a Board that has an established relationship so, whilst frustrating that we could not do as much as we had wanted, in terms of ongoing development, Board interaction and meeting the senior leadership team, it was pleasing to interact with my colleagues via video conference during the year.

We hope to recommence our overseas meetings and regular property tours in 2021 when local Government guidance and travel restrictions allow.

Professional development at a glance



Composition, succession and evaluation

Nomination Committee Report continued

Appointments to the Board

As recommended by the UK Corporate Governance Code, the Committee leads the process for Board appointments and makes its recommendations to the Board for final approval. There were no appointments to the Board during the year.

As described last year, the composition of the Audit and Remuneration Committees changed to reflect the new Board structure and the departure of Malcolm Cooper on 23 April 2020. Bill Holland became Chair of the Audit Committee on 6 March 2020 and Denise Jagger became Chair of the Remuneration Committee on 23 April 2020. Chris Jarvis stepped down from both Committees and remains a Non-Executive Director but is no longer considered to be independent.

Succession planning

While identifying and developing talent across the Group remains primarily the responsibility of management, we have a duty to secure the long-term success of the Group.

The Committee received updates from the Chief Executive Officer in relation to succession planning, both at Board and senior executive level, to ensure there is a good quality pipeline in place and to challenge the executive management team's actions to enhance the pipeline.

Following the appointment of our Chief Finance Officer and our two new independent Non-Executive Directors in 2019, the Nomination Committee's role this year has been to monitor the Group succession plans noting where we have potential internal successors or where we have to undertake an independent external appointments process.

Succession planning review process

1. Individual CEO meetings with Heads of Functions
2. Assessment of teams And high performers
3. Identification of individuals, development needs and timeline
4. Group wide report compiled
5. CEO presents to the Nomination Committee
6. Nomination Committee presents key findings to the Board

Board composition and skills

In 2019, we focused on Board structure and composition, its balance of skills and experience. For 2020, we have overseen the bedding in of those changes.

We are pleased with the development of our Board, which is now of a more conventional FTSE structure, with Lennart as our independent Non-Executive Chairman. Following feedback from shareholders on the tenure of two of our Directors; Malcolm Cooper and Chris Jarvis, both of whom have served for more than nine years, Malcolm stepped down from the Board on 23 April 2020 and the Committee deemed Chris not to be independent.

The integration of our two newest Board members, Denise Jagger and Bill Holland, continues although we were hampered in our attempts to visit our German colleagues due to the pandemic. However, their experience is providing the Board with additional insight into other areas and industries, which has added significantly to Board discussions.

With Denise now Chair of the Remuneration Committee and Bill as Chair of the Audit Committee, both Committees are now compliant with the Code's requirements on composition.

At the year end, the Board consisted of two Executive Directors, four independent Non-Executive Directors and three non-independent Non-Executive Directors.

Of the three non-independent Non-Executive Directors, Bengt Mortstedt remains one of our largest shareholders, I am a director of the Group's controlling shareholder and an advisor to the Trustee of The Sten and Karin Mortstedt Family & Charity Trust and Chris Jarvis provides significant insight into the German real estate market, where he remains active.

Whilst the Committee notes that Board composition has not complied with Provision 11 of the Code during the year, it believes that the composition best reflects the needs of the Group that will support the delivery of its strategy.

We ensure that all Non-Executive Directors (both those deemed to be independent and non-independent by the Board) maintain their independent oversight of the Executive Directors so that there can be no perception of undue closeness. This is undertaken through our review of Board composition in light of the criteria set out in Provision 10 of the Code, the Board Evaluation process and the Chairman's annual review, which also considers the interaction between Board members during meetings. This continues to demonstrate that there is objective and independent judgement, and that constructive challenge exists amongst Board members.

Diversity

The Board's policy is that the selection of new Board members should be based on the best individual for the role and that the Board's composition should have an appropriate balance of skills and diversity to meet the requirements of the business.

The Nomination Committee continues not to set specific representation targets for women at Board level (currently 33%). However, on recruitment, our policy is that we expect our search consultants to ensure, where possible, there is a diverse selection of candidates. We consider this to mean more than just gender, but also ethnically diverse candidates; a policy that we encourage throughout the Group when recruiting. To this end, we ask our search firms for all recruitment levels across the Group to aim for a long list of at least 50% women and appropriate diversity representation.

We recognise that there are significant benefits of diversity, including age, gender, core skills, experience and educational and professional background, which we continue to consider whenever changes to the Board's composition are considered.

The Board recognises that there is work to be done in relation to diversity, especially at senior management level.

As set out in the Nomination Committee's report, we believe this will be a gradual process as the workplace evolves and policies, especially in the area of parental leave, are aligned to offer equal benefits.

Our Diversity and Inclusion Policy underlines our commitment to attracting, promoting and developing talent no matter who they are.

Anna Seeley
Chair, Nomination Committee

Our focus for the year ahead

- Annual review of our succession plans and talent pipeline
- Ongoing Board development
- Implement findings from External Board Evaluation process
- Develop and implement a broader Diversity and Inclusion Policy

Induction in action: Bill Holland

I joined in November 2019 and received a tailored induction programme that had been put together by our Chairman and Company Secretary. As part of my induction, I have had meetings with the Chairman, Vice Chair and other Committee Chairs, CEO and CFO, so as to understand and discuss Board strategy. Given that I would be taking on the role as Chairman of the Audit Committee, a key part of my induction was also to meet with our external Auditor and internally with heads of function in the UK, all of which has provided an insight into our operations and corporate culture.

Upon joining, I undertook a tour of several of our properties in Paris with a fellow Board member where I met with team members and discussed the properties in detail. A similar trip to meet colleagues and visit sites in Germany is planned in the near future, when local guidance and travel restrictions allow.

I believe portfolio visits with the team are vital in order to understand some of the challenges and opportunities faced by our teams on the ground but also to give better visibility and promote the work of the Board within the Group.

Bill Holland
Non-Executive Director

Composition, succession and evaluation

Nomination Committee Report continued

Board Diversity Policy

Objectives and progress against targets

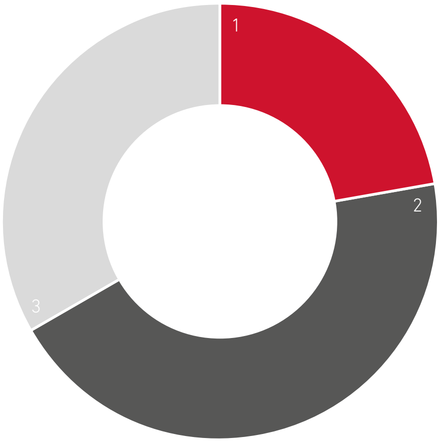
The Committee ensured that the recruitment processes were in line with our Board Diversity Policy to include candidates from diverse backgrounds, and those with no listed company experience, for the Committee to consider.

Policy objectives	Implementation
Ensure the Board comprises an appropriate balance of skills, experience and knowledge required to effectively oversee and support the management of the Company.	Following the 2019 Board review of composition and structure, the Committee made significant changes in this regard. During 2020 these changes were monitored by the Committee.
Ensure consideration is given to candidates for Non-Executive Director Board appointments from a wide pool, including those with no listed company Board experience.	The brief that is given to our independent executive search firm is to ensure that this Policy objective is met. During the 2019 search, the Committee considered many candidates with a broad range of experiences. There were no further appointments made in 2020.
Ensure Board appointment 'long lists' contain diverse candidates, including diversity of social and ethnic backgrounds and cognitive and personal strengths.	The brief that is given to our independent executive search firm is to ensure that this Policy objective is met. During the 2019 search the Committee considered many candidates from a broad range of backgrounds. There were no further appointments made in 2020.
Ensure the Board and Nominations Committee only engage executive search firms that have signed up to the voluntary code of conduct on gender diversity and best practice.	Whilst no executive search firm was used during 2020, it will ensure it engages only those that have signed up to the voluntary code of conduct on gender diversity and best practice.

Policy targets	Progress against target
33% female share of Board Directors by 2020.	One third female representation on our Board as at the year end.
Minimum of one Board Director from an ethnic minority background by 2021.	The Board is currently not seeking to recruit further members. Nevertheless, in line with the Principles of the Parker Review, when the Board seeks to appoint a Non-Executive Director, it will expect its independent consultants to ensure candidates come from a diverse range of backgrounds.

Snapshot of Board skills & diversity
at 31 December 2020

Composition of the Board



1. 2 Executive
2. 4 Independent
3. 3 Non-Independent

Board skills and experience

Property Wide ranging experience of the property sector including our European markets

International markets Experience and in-depth knowledge of dealing in, and the operation of, international markets

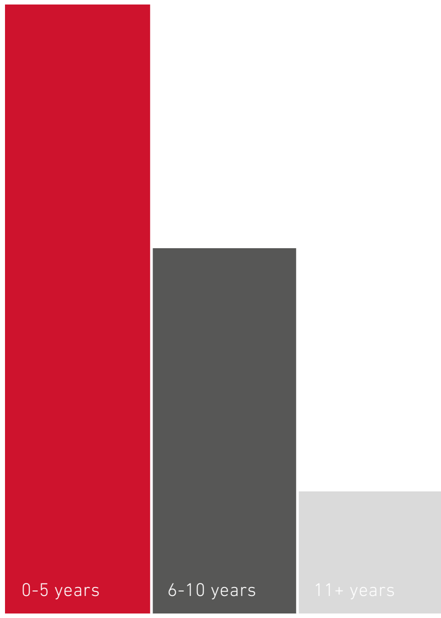
Financial management Substantial background of financial experience from wide ranging industries and markets

Governance Significant listed company governance experience and understanding of investor requirements

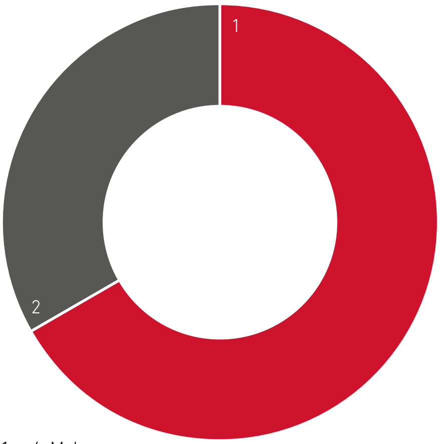
Risk management In-depth insight and experience of risk management within the property sector

Human resource Knowledge of HR operations, setting and monitoring culture, and diversity and inclusion

Length of tenure



Gender diversity — Board

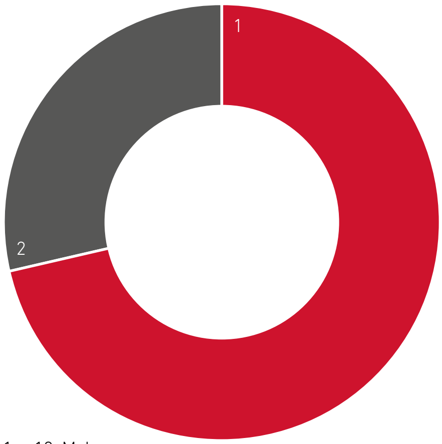


1. 6 Male
2. 3 Female

Gender diversity — Executive Committee

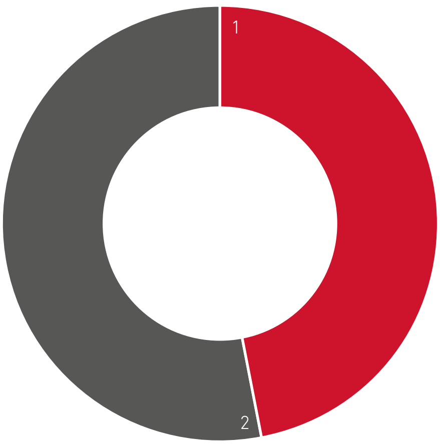
1. 3 Male
2. 0 Female

Gender diversity — Senior Operations Board



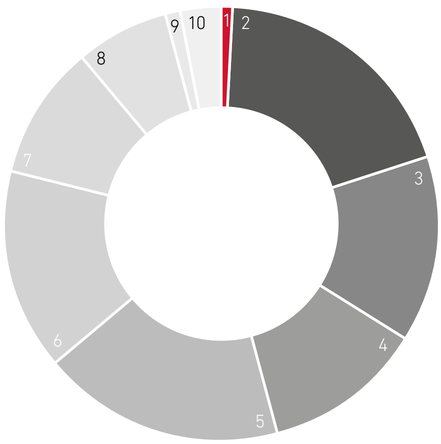
1. 10 Male
2. 4 Female

Gender diversity — Group wide



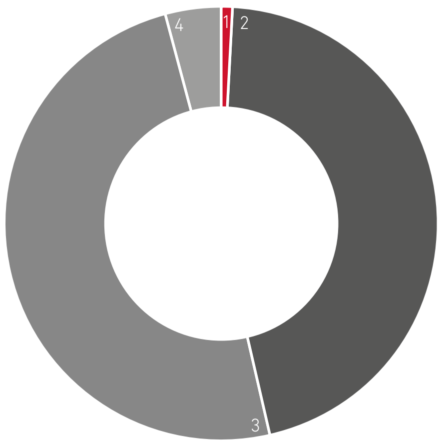
1. 47% Male
2. 53% Female

Age ranges — Group wide



1. 1% 21-25
2. 19% 26-30
3. 14% 31-35
4. 12% 36-40
5. 18% 41-45
6. 15% 46-50
7. 10% 51-55
8. 7% 56-60
9. 1% 61-65
10. 3% 66-80

Ethnicity — Group wide



1. 1% African
2. 46% Europe (non-British)
3. 49% British
4. 4% Australasian

Composition, succession and evaluation

Nomination Committee Report continued

Review of Board effectiveness

Appointment of consultants

The Board appointed Independent Audit Limited to undertake the review of the effectiveness of the Board for 2020 using their online governance assessment service Thinking Board.

Key to Independent Audit Limited's appointment was their ability to compare the results of the 2020 review with those of the 2017 review, which would enable the Board to understand better whether any of the changes to the operation of the Board resulted in more positive responses and feedback.

Based on the results of the 2020 review, this approach met the Board's objective.

Evaluation process

Year 1
Externally facilitated questionnaire using Independent Audit's Thinking Board software

Years 2
Internal questionnaire and follow up on results of previous performance evaluations

Year 3
Internal questionnaire and follow up on results of previous performance evaluations

The process was divided into four stages:

Stage 1
Design and scope of questionnaire to address core areas and key themes, and facilitate the ability to provide confidential written responses to where improvements could be made

Stage 2
External questionnaire including follow up on results of previous performance evaluations

Stage 3
Review of the results of the questionnaire and benchmark findings against 2017 externally facilitated review outcomes as well as 2019 internal evaluation outcomes.

Stage 4
Presentation of report to the Board for discussion and to prepare a plan for achieving desired outcomes

Board Evaluation Framework

The online assessment process covered the key areas of Board Leadership and Company Purpose, Division of Responsibilities and Composition, succession and evaluation.

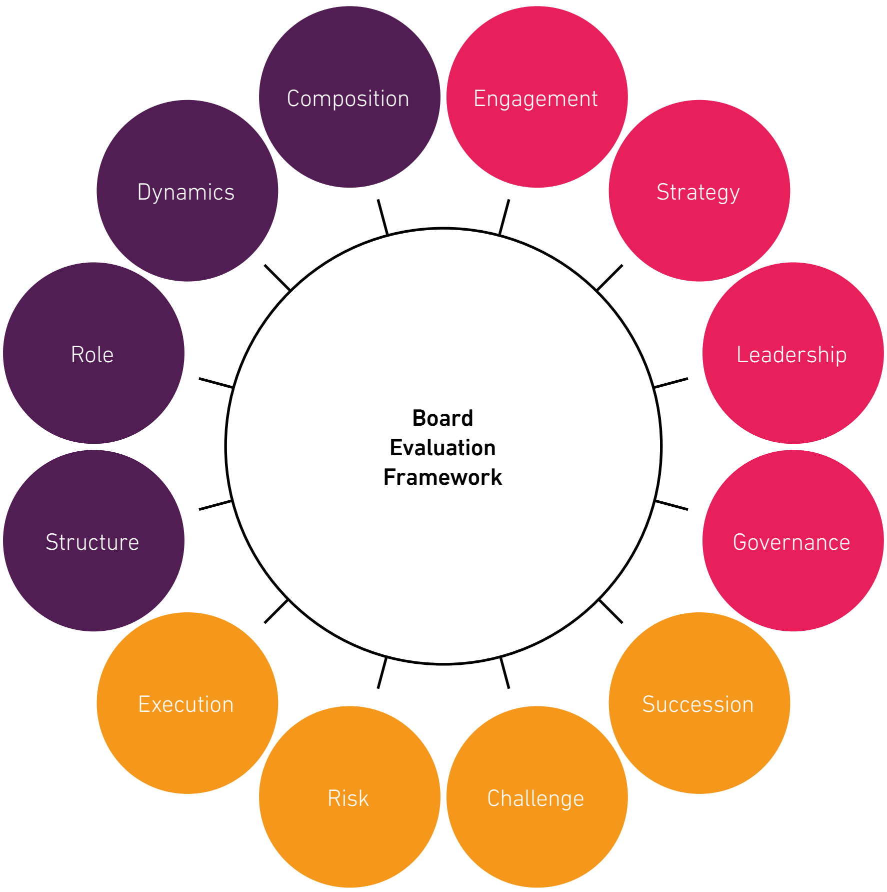
The primary purpose of the review was to direct the Board's attention to areas where there might be opportunities to improve its performance.

The report was broken down into themes, which corresponded to the groupings of questions covering the key topics highlighted in the chart to the right.

After an introductory overview, each thematic section provided a chart of the responses, with commentary that synthesised the findings, drew out key points, and contextualised the results based on the experiences of other review processes.

The review was presented to the Board for an open discussion at its November meeting.

- Board Leadership and Company Purpose
- Division of Responsibilities
- Composition, succession and evaluation



External Board evaluation results 2020

Four key areas within the Board Evaluation Framework.

1. The Basic ingredients

Unanimous in thinking that members work together on a basis of trust and openness, that the right people are around the table and that Directors have a good understanding of their duties. The Board is making a difference.

Areas for improvement were: more contact with senior leaders below Board level; and better interaction with employees.

2. Strategy

Respondents agreed the Board is good at setting out what it wants to achieve with regard to strategy and is effective at monitoring progress. Discussions maintain a good balance of short versus long term focus, and consider the underlying financial health of the business. Stakeholder views are also being considered in detail.

Areas for improvement were more focus on: understanding the strategic opportunities, as well as the risks, from emerging technology; and scenario planning including questioning assumptions and considering alternative plans.

3. Managing the risks

Good focus on compliance and members are satisfied that the organisation is under control.

Areas for improvement were: continued focus on emerging risks and cyber risks.

4. Dynamics and information

Board dynamics are positive and information was considered to be of a high standard, clear and comprehensive. Meetings were well chaired and supported by the Secretariat.

Areas for improvement were: more informal time together; and more contact with the business.

Internal Board evaluation results 2019

Final cycle of our internal Board Evaluation process

Objectives	Outcomes
Continue to formally discuss succession planning, at least once a year. Assist in the induction of new Directors.	The Board received a presentation on succession planning during the year from the CEO and further commentary from the Nomination Committee. Induction of new Directors continued but hampered by the pandemic.
Continue to provide regular updates around cybersecurity and organisational risks.	The Board received a number of updates from the Head of IT, which included a detailed presentation of the Group's IT security infrastructure and improvements that had been made during the year. Organisational risks were discussed at each Board.
Continue to develop relationship with employees, including those below senior management level.	Due to the pandemic, limited contact with employees was made other than presentations at Board meetings. However, the Workforce Advisory Panel continued to meet, during which Elizabeth Edwards, Chair, explained the work of the Board.
Increase interaction between Board members, especially between Committees, and between the Committees and the Board.	Limited interaction outside of scheduled meetings due to the pandemic although informal conversations between members was promoted.

Risk, internal control and audit

Audit Committee Report

Bill Holland
Chairman, Audit Committee

"In my first year as Chair of the Committee, my main objective has been to focus on the key risks associated with the Group, the risk management and internal control systems and integrity of our financial reporting."

Ensuring oversight, risk management and integrity of financial reporting

Dear Shareholder,

On behalf of the Audit Committee, I am pleased to present my first report as Chairman of the Committee for the year ended 31 December 2020. I would like to thank my predecessor, Malcolm Cooper, for his stewardship as Chair of the Committee. This report is intended to provide an insight into the work of the Committee during the year.

The role of the Committee

The Committee's main roles and responsibilities are set out below and reflect the Code provisions. The Committee has Terms of Reference, which are reviewed annually and are available on the Company's website.

Membership and attendance

On 5 March 2020, Malcolm Cooper stepped down from the Committee following his retirement from the Board and I became its new Chair. At the same time, Chris Jarvis stepped down from the Committee to ensure it comprised independent Directors only, as required by the Code.

My experience means I have recent and relevant financial experience, and my fellow Committee members all have significant experience of the real estate sector. Further details of our experience can be found on page 67.

The Committee met four times during 2020.

Committee members' attendance during the year ended 31 December 2020

Malcolm Cooper[1]	●●
Elizabeth Edwards	●●●●
Bill Holland	●●●●
Denise Jagger	●●●●
Christopher Jarvis[1]	●●

● Attended ○ Did not attend

1 Until 5 March 2020

Main activities during the year

Principal responsibilities of the Committee

Areas of Responsibility	Key areas discussed and reviewed by the Committee during the year in discharging its responsibilities
Monitoring the **integrity of the financial statements** and any formal announcements relating to financial performance, and reviewing significant financial reporting judgements contained in them	At our meetings in March and August we reviewed the full-year and half-year results. This was in conjunction with the presentation of supporting external audit reports and reviews from Deloitte, our external Auditor, on those financial statements. Our discussions focused on the significant financial judgements which are explained in the next table. In November we supported the Board in its review of the Trading Update to ensure it was a reflective of the Group's financial performance during the period. During the year the Committee were notified by the Financial Reporting Council (FRC) that their Corporate Reporting Review Team had reviewed the 2019 annual report and accounts. The review conducted by the FRC was based solely on the Group's published report and accounts and does not provide any assurance that the report and accounts are correct in all material aspects. The Committee discussed the results of this review and, following correspondence with the FRC and in consultation with the external Auditor, it has made the necessary disclosure enhancements in the 2020 annual report and accounts.
Providing advice on whether the annual report and accounts, taken as a whole, is **fair, balanced and understandable**, and providing the information necessary for shareholders to assess CLS' position and performance, business model and strategy	We reviewed the annual report and accounts at our Committee meeting in March and reported our conclusions to the Board that they contained sufficient information for shareholders to assess the Group's performance and strategic operations. Additionally, having considered how the report was formulated, reviewed internally and by the external Auditor, we considered that the annual report and accounts meets the criteria set out in Provision 25 of the Code and recommended them to the Board. The Board's statement is set out on page 110.
Reviewing our **risks, risk management systems and internal financial controls**	The Committee assists the Board in undertaking a robust assessment of the Group's emerging and principal risks. It receives reports at its meetings which identify movements in principal risks, which it then reviews and reports to the Board on its findings, for wider discussion and approval. The Committee, and the Board, also undertook a survey to ascertain its views about CLS' risks, including appetite and mitigation. The way in which the Group's principal and emerging risks are identified and addressed are set out on pages 54 to 62. During the year, in addition to the established framework for internal controls and risk management systems, the Committee received and discussed reports from management on the programme of internal controls testing, which incorporated both financial and non-financial controls covering areas such as authorisation processes, payroll and covenant reporting. No deficiencies were found, and we remain of the view that these controls are sufficiently robust to minimise risk to the organisation, which we reported to the Board. In order to provide additional assurance, a programme for reviewing processes and controls by an external third party is planned for 2021. Additionally, internal control software will be considered in 2021 to allow the Group to monitor its internal controls and the risks associated with them more efficiently and extensively.
Monitoring and reviewing annually whether there is a need for an **internal audit function** and making a recommendation to the board	In light of the size and complexity of the organisation, and the regular updates the Committee receives on internal controls testing, the Committee is confident that there remains no requirement for an in-house internal audit function. This view was supported by the external Auditor on the basis that there is a programme of internal controls testing. How assurance on internal auditing is achieved is set out on page 89.
Conducting the tender process and making recommendations to the board, about the appointment, **reappointment** and removal of the **external Auditor**, and approving the remuneration and terms of engagement of the external Auditor	The Committee recommended the reappointment, remuneration and terms of engagement of the external Auditor to the Board, which was approved. Deloitte have been the Group's external Auditor since 2007. The lead audit partner responsible for the external audit rotates every five years. The last time the external audit was tendered was in 2016, at which point Deloitte had served 10 years as the external Auditor. Following the tender process, Deloitte was appointed and can serve for a further 10 years. However, the Committee undertook to review whether to undertake another audit tender after five years, being 2021, and decided in its February 2021 meeting that a tender process will take place in 2021 to choose an external Auditor for the Group for the 31 December 2022 audit.

Audit, risk and internal control

Audit Committee Report continued

Areas of Responsibility	Key areas discussed and reviewed by the Committee during the year in discharging its responsibilities
Reviewing and monitoring the external auditor's **independence and objectivity**	The Committee receives a report twice yearly from the external Auditor on their continued independence. Following consideration, the Committee considers Deloitte remains independent and objective in its external audit of the Group.
Reviewing the effectiveness of the **external audit process**, taking into consideration relevant UK professional and regulatory requirements	We reviewed Deloitte's reports on the external audit strategy and findings from the review of the half yearly financial report and from the audit of the annual report and accounts. We found the reports to be comprehensive and sufficiently detailed and focused. We also met with the auditor prior to the Board's final approval of those financial statements in order to receive reports on the external audit process. The Committee is pleased to report that there were no issues of a material nature that needed to be brought to the Board's attention. After the external audit process has taken place the Committee meets with internal stakeholders to review the effectiveness of the external audit process. This is fed back to our external audit partner. We continue to consider that Deloitte provides an effective audit and that key accounting and auditing judgements had been identified and reported in line with regulatory and professional requirements. This allowed us to recommend their reappointment to the Board.
Developing and implementing a policy on the engagement of the external Auditor to **supply non-audit services**, ensuring there is prior approval of non-audit services, considering the impact this may have on **independence**, taking into account the relevant regulations and ethical guidance, and reporting to the board on any improvement or action required	The Committee has developed a policy on the supply of non-audit services to safeguard auditor independence and objectivity. The policy reflects the requirements of the FRC's ethical standard. The Committee expects further changes to the FRC's ethical standards, which it will address when they are published. During the year non-audit services undertaken by Deloitte amounted to £40,000 (2019: £37,000) and related solely to the external Auditor's work on the Interim Review. The Committee concluded that the external Auditor's independence was not impaired. The Committee considers that it has complied with the provisions of the Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

Financial reporting and significant financial judgements

Significant issues considered by the Committee relating to the financial statements	How these issues were addressed by the Committee
Property valuations	The Committee met with the Group's valuers and extended an invitation to the whole Board to attend. During the meeting we discussed the methodology used for the six monthly valuations of the Group's properties and received in depth reports on the local markets in which the properties were located. Independently, the external Auditor also met with the Group's valuers using real estate specialists and provided the Committee with a summary of their review contained within their report at the half-year and year end. The Committee was satisfied with the explanations in relation to the portfolio and its associated key risks, such as specific local market updates, vacancy levels and rental demand, which management was addressing.
Going concern and viability statement	The Committee considered management's assessment of the Group's going concern and viability statements giving the assessment greater scrutiny in the light of the actual and potential impacts of Covid-19. It concluded that the assessment and statements were appropriate, with mitigating actions that would ensure the Group's ongoing viability and going concern. In accordance with Provisions 30 and 31 of the UK Corporate Governance Code, our going concern and viability statements can be found on page 63.
Significant transactions	The Committee considered there to be no significant transactions during the year that were outside the ordinary course of business. However it received management and external Auditor commentary on transactions such as the Aviva loan financing and portfolio purchases.
Brexit	The Committee continued to review the impact of Brexit on the principal risks and uncertainties and provided the full Board with the Committee's views in their wider discussion as set out in the strategic report.

Significant issues considered by the Committee relating to the financial statements	How these issues were addressed by the Committee
Covid-19 Assessment	The Committee considered the impact of Covid-19 on the Group and received reports from management on tenant risk, the associated financial impact and the steps that were being taken to mitigate bad debts. Valuation and loan covenant impacts were also reviewed as part of the going concern analysis. The Committee was confident the steps taken by management were appropriate, proportionate and would ensure the mitigation of this risk. Further information on the Group's approach to Covid-19 can be found in the strategic report.
Management override of controls	The Committee assessed the framework for financial controls to be regularly reviewed by management and brought to the Committee for review. The external Auditor confirmed to the Committee that there were defined lines of reporting and control processes in place within the Group such that the external Auditor and Committee were satisfied that the risk was adequately mitigated.

Establishment and review of effectiveness of internal controls

The Board recognises that it is responsible for maintaining and monitoring the Group's system of internal controls and reviewing its effectiveness. In order to do so, it is supported by the work of the Committee.

During the year, the Committee undertook a review of the Group's internal control systems, which sets out all control and authorisation parameters and highlighted changes that had happened in between meetings.

Following its discussion, the Committee then reported its findings to the Board for further discussion and subsequent approval.

Key features of our system of internal control include:

- a comprehensive system of financial reporting and business planning;
- a defined schedule of matters for decision by the Board, revisited by the Board at least annually;
- an organisational structure with clearly defined levels of authority and division of responsibilities;
- formal documentation and approval procedures;
- the close involvement of the Senior Leadership Team in all aspects of day-to-day operations, including regular meetings with line managers to review all operational aspects of the business and risk management systems;
- annual Board review of Group strategy including forecasts of the Group's future performance and progress against strategy; and
- formal sign-off on the Group's Anti-Facilitation of Tax Evasion, Whistleblowing, Securities Dealing and Anti Bribery policies by all employees annually.

Effectiveness of internal audit

In the absence of an internal audit function, the Committee seeks assurance through a programme of internal control testing, overseen by the Group Financial Controller and the regional Financial Controllers.

An extensive programme of controls testing had been planned for 2020, undertaken by country financial controllers visiting another region. Due to the impact of the pandemic on global travel restrictions, the programme had to be redesigned to consist of sample testing of internal controls on the following areas of process:

- purchase ledger: authorisation of purchases; authorisation of payments; and recovery through service charges; and
- sales ledger: recording on tenant database; fullness of sales invoicing; and debt collection.

An overview of the results were presented to the Committee with the external auditor present, and which confirmed no control issues had arisen, but it had assisted in ensuring the processes were sufficiently robust.

In order to provide further assurance to the Committee, formal attestations from group heads of departments were sought.

In 2021, a programme of review and testing of internal controls will be carried out by an external third party. In addition, consideration will be given to the implementation of specific software to allow the Group to monitor internal controls more efficiently and extensively.

Joint venture and associates

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

Bill Holland
Chairman, Audit Committee

Our focus for the year ahead

- Conduct external auditor tender process.
- Ensure valuations and assumptions surrounding the valuations are appropriate.
- Monitor principal and emerging risks to ensure they remain appropriate.
- Review and monitor internal controls, including the 2021 external assurance programme, and receive regular updates on internal controls testing.
- Receive regular reviews on the implementation of a new property and finance software system.
- Continue the relationship with the external Auditor with a focus on the key issues outlined in each audit report during the year.
- Monitor the impact of changes to accounting and governance laws and regulations.

Remuneration

Remuneration Committee Report

Denise Jagger
Chair, Remuneration Committee

"In such a challenging year, the Group's operational and financial performance has been robust. Despite this, overall performance related pay has resulted in lower remuneration outcomes."

Committee members' attendance during the year ended 31 December 2020:

Christopher Jarvis[1]	●●
Malcolm Cooper[2]	●●
Bill Holland	●●●●
Denise Jagger	●●●●
Lennart Sten	●●●●

● Attended ○ Did not attend

[1] Until 23 April 2020
[2] Until 5 March 2020

Linking compensation to performance and shareholder returns

Dear Shareholder,

I am pleased to present the Report of the Remuneration Committee (the "Committee") for the year ended 31 December 2020, my first as Chair of the Committee.

This report sets out the implementation of the Company's current Directors' Remuneration Policy ("Policy"), for the year ended 31 December 2020, and consists of:

1. The Annual Statement from the Chair of the Remuneration Committee; and
2. The Annual Report on Remuneration which explains how we have paid our Directors under the current Policy this year and how our framework aligns with our wider strategy and corporate governance best practice, as well as how we consider remuneration of the wider workforce in relation to Executive Pay.

As in previous years, the Annual Report on Remuneration and this Annual Statement are subject to a single advisory shareholder vote at the 2021 AGM.

Role of the Remuneration Committee

The Committee's main purpose is to assist the Board in discharging its responsibilities for:

- reviewing the overall remuneration policy for senior management;
- recommending and monitoring the level and structure of remuneration for senior management;
- governing all share schemes; and
- reviewing any major changes in employee compensation and benefit structures throughout the Group.

The Committee's Terms of reference, which are reviewed annually, are available on the Company's website.

Membership and attendance

The Committee's membership changed during the year to reflect our new Board structure. Mr Cooper stepped down from the Committee on 5 March 2020 and Mr Jarvis stepped down as Chair and member of the Committee at the conclusion of the AGM on 23 April 2020.

At the year end, the Committee comprised three independent Directors as required by the Code.

During 2020, the Committee met four times and held a number of informal discussions with the Executive Directors and the full Board. We believe it is important that the Committee keeps up-to-date during the year to enable timely discussions where business decisions may affect remuneration.

2020 Company Performance and Outcomes

Covid-19

This year has been a year like no other in terms of challenges facing the business and businesses worldwide. The impact of the Covid-19 pandemic on our Group performance together with the mitigating actions the Company has taken to secure its long-term future has been closely monitored by the Board.

As set out in the strategic report on pages 4 to 63, the Group acted quickly to safeguard our staff, tenants and other key stakeholders. Our teams focused on ensuring our buildings were safe and maintained regular contact with tenants, assisting those that were most in need through the agreement to phased rental plans. Due to our diversified portfolio and tenant base (with modest exposure to retail, leisure and tourism), our operational performance remained strong and rent collections were some of the highest in the real estate sector. Like other organisations, our executive team also focused on cost control.

In light of the Group's overall performance, the Board took the decision early during the pandemic not to utilise any form of government assistance or subsidies in any of the countries in which we operate. Nor did the Group furlough any employees, reduce working hours or pay or make any redundancies as a result of Covid-19.

Our 2019 final dividend was payable in April 2020 and our 2020 interim dividend in September 2020. On both occasions, the Board considered the overall performance of the Group and concluded that it was appropriate to pay the dividend, albeit the interim dividend was maintained at the same level as the prior year.

At the year end, when the Group annual salary and bonus review took place, the Group wished to reward employees with pay increases relative to inflation and bonuses that, like the interim dividend, remained flat compared to the prior year. As a result, a 1% salary increase was applied on average throughout the Group, including the Executive Directors. The Committee considered that this was an appropriate response to company performance, the current economic environment and the efforts of the workforce in difficult circumstances.

EPRA Metrics

In 2020, EPRA adopted new Net Asset Value measures. The performance measure used for the 2020 Long-Term Incentive Plan awards for the Net Asset Value element was EPRA Net Realisable Value (NRV) as set out in our Statement of Implementation of Policy in last year's Remuneration Report. However, emerging practice within the real estate industry is now to use EPRA Net Tangible Assets (NTA) as the reporting standard, which is also the standard used by the Group in these financial statements.

The Committee have therefore determined that it would be appropriate to substitute NRV with NTA as the second performance measure in the Long-Term Incentive Plan so that we are adopting a new accepted industry measure. There would be no adjustments to the targets or a material change to the spirit of the performance measurement and in doing so it would ensure that Executive Directors were aligned to, and measured against, the Group's published Key Performance Indicators ('KPIs'). The Committee felt that the new performance condition would be no easier to satisfy than the current performance condition.

The Committee acknowledges that EPRA measures are the reporting standard for Real Estate companies.

Following its annual review of the Performance Incentive Plan Element A KPSs for 2021, and for the start of the new cycle, the Committee therefore intends to:

- adopt the standard EPRA Vacancy definition for the Vacancy KPI;
- amend the EPRA Total Accounting Return targets to reflect prevailing market conditions; and
- substitute EPRA EPS for Relative TSR to provide a more appropriate operational measure for an annual bonus plan given both the significant weighting towards Relative TSR in the LTIP performance metrics that focus on long-term shareholder growth and the continuous link to TSR through the notional share balance.

Key Performance Indicators

Relative TSR performance for 2020 placed the Company 18th out of 26 constituents in the peer group FTSE 350 Real Estate Super Sector Index.

Vacancy Rate was 5.3%, marginally above target due to property refurbishments becoming available to let.

Total Accounting Return, based on EPRA NTA, was 8.1%, an increase from 326.3 pence per share to 345.2 pence per share mainly through revaluation uplifts and EPRA earnings.

As set out in more detail on page 99, the Committee and Auditors determined that the KPIs consisting of vacancy rate and total accounting return were broadly at or above the benchmark targets. However, the relative TSR KPI fell below the benchmark target, reflecting the impact of Covid-19 on the commercial office sector

Remuneration

Remuneration Committee Report continued

compared to those in the peer group that specialise in logistics or storage.

As a result, Element A of the PIP paid out at 43.3% for the CEO and 43.3% for the CFO of the maximum opportunity. The Bonus Pool which is linked to share price performance fell by 26.4%, resulting in a reduction in its value for the CEO of £96,972 and CFO of £15,795.

The Committee considered each of these factors and, taken together, concluded that based on their holistic view of the financial and operational performance of the Group, it was determined that there should be no reduction in the notional balance of shares under PIP Element A.

First grants under the new LTIP that replaced Element B were made in April 2020, which coincided with the beginning of the pandemic. The Committee considered whether it should exercise discretion upon grant, in relation to the size of the 2020 LTIP award, given the fall in the Group's share price at the time of grant. The Committee sought advice from its advisers, PwC, and reviewed emerging market practice, and concluded that given the price volatility in a very uncertain economic climate, it would be more appropriate to review the award upon vesting in 2023 to ensure there were no windfall gains and it was in line with shareholders' expectations.

It is also noted that the 126,860 shares granted to the CEO in 2017 under Element B of the PIP vested on 26 April 2020 and that the first tranche of the CFO's buy-out awards in respect of incentives foregone at his previous employer vested on 5 April 2020 in respect of 68,523 shares.

No other long-term incentive awards completed their performance period during 2020. The vesting outcome of the 2020 LTIP will be reported on in our 2022 remuneration report.

In line with our commitment to link executive remuneration to annual corporate performance and long-term shareholder returns, the Committee considers the outcome of executive remuneration to be commensurate with Group performance, noting the significant reduction in both Element A bonuses (caused by KPI performance and the impact of a lower share price on Executive Director bonus pools) compared to 2019. The Committee is comfortable that the Policy operated as intended during 2020.

Discretion

Under the terms of the PIP, as performance on the relative TSR KPI fell below threshold, there was an opportunity, should the Committee wish to exercise it, of reducing the amount available to carry forward in the Bonus Pool. After careful consideration, and taking into account the strong performance of the Executive Directors in such a turbulent time, as noted above, the Committee decided not to exercise their discretion and reduce the award due below the formulaic outcome under the PIP Plan rules.

Implementation of Policy for 2021

The Committee considers that the Policy, which was approved by 97.8% of our shareholders at the AGM on 23 April 2020, remains fit for purpose and therefore does not propose any changes to its implementation in 2021.

However, during the year it undertook its annual review of the underlying elements of the Policy and decided to adopt industry standard EPRA metrics for the PIP Element A. It also considered that it would be more appropriate and better reflect market practice to replace the Relative TSR performance measure with an EPRA EPS measure as explained above and finally it recalibrated the EPRA TAR measure to reflect prevailing market conditions.

Furthermore, the Committee is satisfied that the Policy remains relevant taking account of the challenges faced by the business and the wider economy and that it continues to meet the six factors set out in Provision 40 of the Code (see page 97 for details).

Corporate Governance

Through the implementation of the Policy, we have taken the following steps to ensure alignment with the Code as well as prevailing shareholder guidance.

- Overseen the implementation of our Policy to ensure alignment of our structures with corporate governance best practice and long-term value creation for shareholders.
- Reviewed our terms of reference to ensure it has appropriate oversight of the Directors' and senior management pay as well as the operation of reward arrangements throughout the organisation.
- Reviewed pension levels for Executive Directors to ensure that these were aligned with the wider workforce.
- Introduced a post-employment shareholding requirement such that the minimum shareholding requirement must be retained for two years post cessation, with a robust mechanism in place to enforce this.
- Assessed workforce pay policies and practices to ensure that they are aligned to our wider culture and remain an effective driver of Group success.

The Committee continues to review and monitor governance developments and market context regularly in order to ensure the appropriateness of the Policy.

Performance of the Committee

The Committee undertakes a review of its performance each year. During 2020, this review was externally facilitated by Independent Audit Limited and concluded that the Committee continued to perform effectively.

Advisers to the Remuneration Committee

To ensure that the Group's remuneration practices are in line with best practice, the Committee has appointed independent external remuneration advisers, PricewaterhouseCoopers LLP ('PwC'), through a competitive tender process. PwC attends meetings of the Committee by invitation.

During the year, the Committee sought advice from PwC in relation to emerging market practices, especially in relation to the impact of Covid-19 on executive remuneration, general matters related to remuneration, and from the Company Secretary in relation to peer group remuneration analysis. On occasion, the CEO and Head of Group HR were invited to parts of Remuneration Committee meetings to respond to questions from the Committee. Such attendances specifically excluded any matter concerning their own remuneration. The Company Secretary acts as secretary to the Committee.

PwC is one of the founding members of the Remuneration Consultants Group Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee reviews the objectivity and independence of the advice it receives from PwC at a private meeting each year. It is satisfied that PwC is providing independent, robust and professional advice.

The fees for the advice provided by PwC in 2020 were £156,945 (2019: £79,140). The fees were fixed on the basis of agreed projects. Other services provided by PwC in the year included advice on UK/ Sweden foreign exchange queries, Swedish social security and PAYE and in relation to a French property acquisition.

Concluding remarks

The Group has faced significant headwinds during 2020 but has weathered the storm admirably as shown by the results contained in this annual report. The Group's success has been as a result of its long-term strategy, prudent and effective management decisions and a dedicated workforce, reflective of its Values.

We trust that this report will answer any questions you may have in respect of remuneration, and we would be glad to receive your support at the 2021 AGM in respect of the advisory vote on the Annual Report on Remuneration.

Denise Jagger
Chair, Remuneration Committee

Our focus for the year ahead

- Monitor the impact of the Covid-19 pandemic on the Group and its impact on the outcomes of executive remuneration.
- Continue to ensure consistency of approach and fair pay conditions across the Group and seek expert advice and market data to inform decisions.
- Ensure Company performance is appropriately reflected in any performance-related pay element of remuneration.
- Review the PIP and LTIP KPIs and corresponding targets, on an annual basis.
- Receive updates from the Head of HR in relation to developments in employee benefit structures.
- Continue to ensure compliance with the Code.

Remuneration

Remuneration Committee Report continued

Remuneration at a glance

Remuneration Policy at a glance

The Company's Remuneration Policy remains to attract, retain and motivate its leaders and to ensure that they are focused on delivering business priorities within a framework designed to promote long-term success, aligned with shareholder interests.

The diagram below illustrates the balance of pay and time period of each element of the Policy for Executive Directors. The link between our Policy and strategy and how it aligns with the provisions of the UK Corporate Governance Code can be found on pages 96-97.

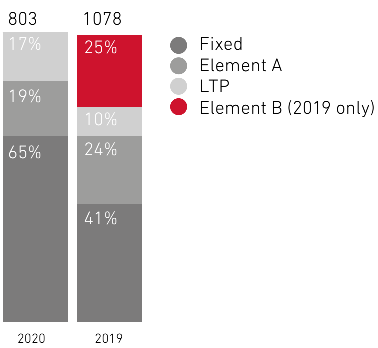
Key points to note

- The 2020 Remuneration Policy was approved by shareholders on 23 April 2020.
- The Committee has reviewed the application of the Remuneration Policy in light of Covid-19 and its impact on the Group.
- KPI performance has resulted in lower Element A bonus outcomes.
- The Committee considered the impact of Covid-19 on LTIP awards made in May 2020 at the start of the pandemic and will review outcomes upon vesting to ensure that these are a true reflection of performance.

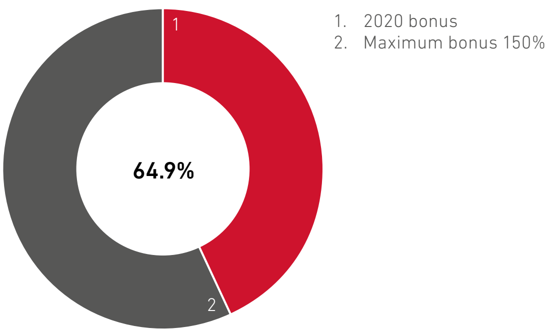
	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed Pay	Salary, Pension and Benefits.				
PIP	50% of PIP Account.	Deferral of remaining Account balance into notional shares which pay out over remainder of 4-year cycle. New PIP cycle granted in year 4.			
LTIP	3-year performance period.			2-year post-vesting holding period.	

2020 Single figure outcomes

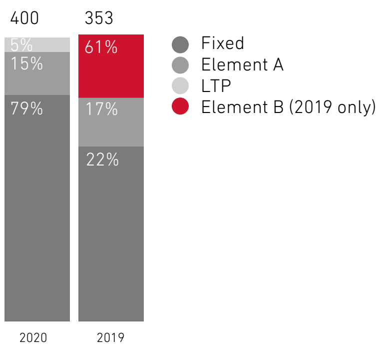
CEO – Fredrik Widlund



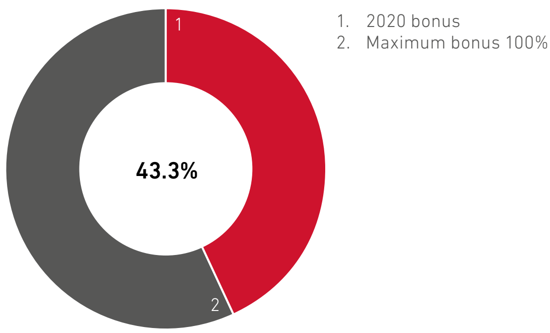
2020 Element A outcomes



CFO – Andrew Kirkman



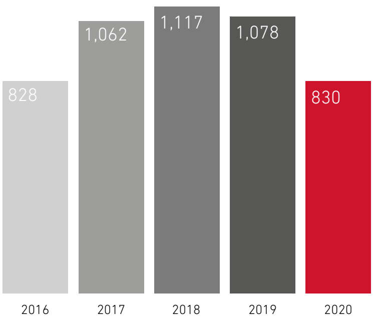
2020 Element A outcomes



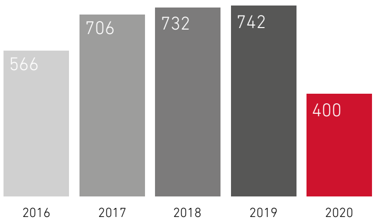
Total Executive remuneration

		2020 £'000	2019 £'000
Fredrik Widlund	CEO	**830**	1,078
Andrew Kirkman	CFO	**400**	742

CEO – Fredrik Widlund

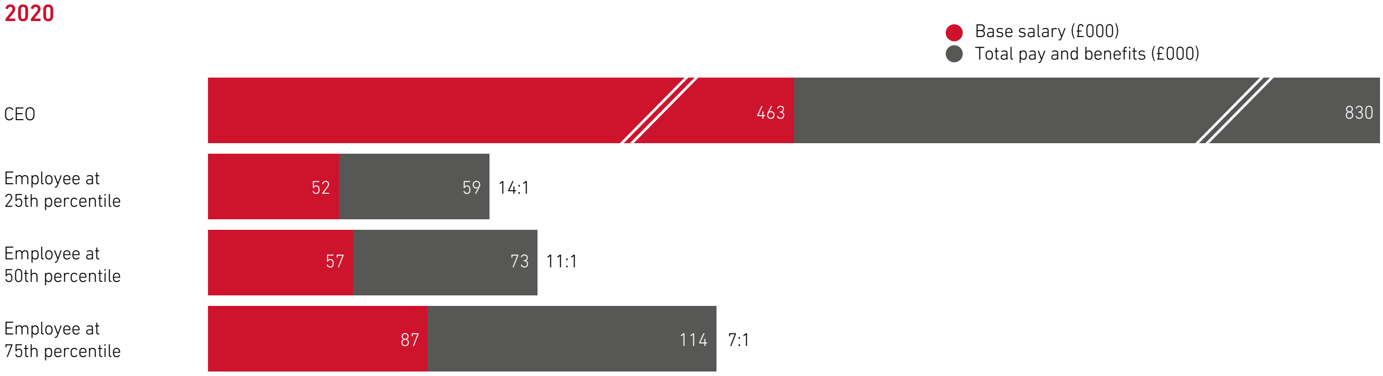


CFO – Andrew Kirkman

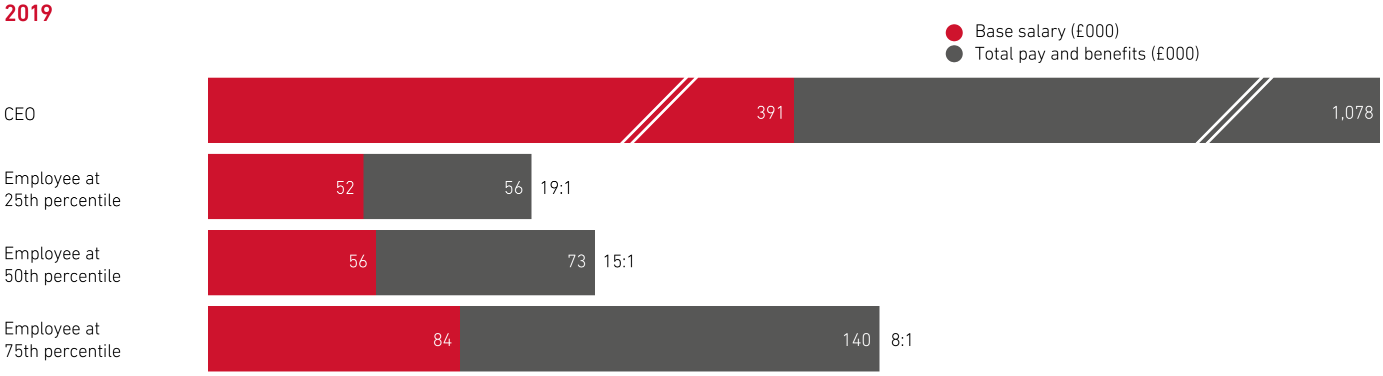


CEO pay ratio

2020



2019



Remuneration

Remuneration Committee Report continued

Linking our Remuneration Policy to our strategy

Company strategy

We acquire the right properties
- Invest in high-yielding properties, predominantly offices, with a focus on cash returns
- Diversify market risk by investing in geographical areas with differing characteristics

We secure the right finance
- Target a low cost of debt
- Utilise diversified sources of finance to reduce risk
- Maintain high level of liquid resources

We deliver value through active management and cost control
- Maintain high occupancy rates
- Maintain a diversified customer base underpinned by a strong core income stream
- Maintain strict cost control

We continually assess whether to hold or sell properties
- Focus on holding those properties with the potential to add value through active asset management
- Sell those properties which are low yielding or where the risk/reward ratio is unfavourably balanced

Our Group strategy informs our Remuneration principles and our structure supports these objectives

Competitive
- Total remuneration should be competitive when compared with companies of similar size and scale, i.e. peers in the FTSE 350 real estate sector.
- LTIP ensures more competitive market positioning, provided that the executive team delivers long-term sustainable performance.

Link to Code Provision 40 factors:
- Alignment to culture.
- Proportionality.

Performance linked
- A significant part of the Executive Directors' reward is determined by the Company's success in delivering its strategy.
- Failure to achieve threshold levels of annual and long-term performance may result in both no bonus under the PIP and partial forfeiture of earned deferred elements from previous years, and/or no vesting of the LTIP.
- The fixed element of the Policy remains conservative against industry and sector peers.
- The Committee retains discretion to adjust pay outcomes if they do not reflect wider business performance.

Link to Code Provision 40 factors:
- Predictability.
- Alignment to culture.

Shareholder aligned
- LTIP supports build up and retention of meaningful shareholdings by the Executive Directors.
- PIP deferral into notional shares provides alignment.
- LTIP provides lock in for five years from grant.
- A considerable part of the reward is paid in shares that must be retained until minimum shareholding requirements have been met.
- Introduction of post-employment shareholding requirement increases lock-in over longer term.

Link to Code Provision 40 factors:
- Risk.
- Alignment to culture.
- Clarity.

Simple and transparent
- All aspects of the remuneration structure are clear to participants and openly communicated.
- PIP Element A is well understood by management and LTIP is a market standard structure.
- The framework is therefore aligned with good governance.

Link to Code Provision 40 factors:
- Simplicity.
- Clarity.

Our chosen incentive plan measures clearly support the Company strategy

PIP Element A matrix

EPRA Earnings Per Share (40%)	Total Accounting Return (40%)	EPRA Vacancy rate (20%)

LTIP

Relative Total Shareholder Return (50%)	Relative EPRA NTA growth per share (50%)

Aligning Policy with Provision 40 of the 2018 Corporate Governance Code

The Code requires the Committee to determine the Policy and practices for Executive Directors in line with a number of factors set out in Provision 40. The following table sets out how the Remuneration Committee's Policy and its intended implementation in 2021 align with Provision 40 of the Code, the objective of which is to ensure that the remuneration operated by the Company is aligned to all stakeholder interests including those of shareholders.

Provision 40 factor	How the Policy aligns with the factor
Clarity – remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.	• The Company's performance-based remuneration is based on supporting the implementation of the Company's strategy as measured through its core KPIs. There is transparency over the performance metrics in place for both PIP Element A and the LTIP and there is a clear link between long-term value creation and the provision of reward to Executive Directors and senior management. • The operation of the structures and in particular the value outstanding in respect of awards at any given time is made clear in the Directors' Remuneration Report.
Simplicity – remuneration structures should avoid complexity and their rationale and operation should be easy to understand.	• Element A of the PIP has been in place for a number of years so participants and shareholders will have a good understanding of how it operates. • Three performance metrics in Element A reduces complexity. • Replacing Relative TSR with an EPRA EPS performance measure in the PIP Element A more accurately reflects annual absolute company performance and is therefore clearer and more motivational for the wider workforce participating in this plan. • The LTIP is a market standard structure which is familiar to participants and shareholders alike.
Risk – remuneration arrangements should ensure reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentive plans, are identified and mitigated.	• The Policy includes: – setting defined limits on the maximum awards which can be earned; – requiring the deferral of a substantial proportion of the incentives in shares for a material period of time; – aligning the performance conditions with the strategy of the Company; – ensuring a focus on long-term sustainable performance through the LTIP; – forfeiture thresholds; and – ensuring there is sufficient flexibility to adjust payments through malus and clawback and an overriding discretion to depart from formulaic outcomes. • These elements mitigate against the risk of target-based incentives by: – limiting the maximum value that can be earned; – deferring the value in shares for the long-term which helps ensure that the performance earning the award was sustainable and thereby discouraging short term behaviours; – aligning any reward to the agreed strategy of the Company; – ensuring that the use of an LTIP supports a focus on the sustainability of the performance over the longer term; – reducing the awards or cancelling them if the behaviours giving rise to the awards are inappropriate; and – reducing the awards or cancelling them, if it appears that the criteria on which the award was based do not reflect the underlying performance of the Company.
Predictability – the range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the policy.	• The Remuneration Committee has good line of sight and control over the potential performance outcomes, and the actual and perceived value of the incentives. • The Policy sets out the potential remuneration available in a number of performance scenarios.
Proportionality – the link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.	• One of the key strengths of the proposed approach of the Company to remuneration is the direct link between the Company strategy and the value received by Executives. • The Company has clearly articulated the potential reward to the Executives compared to the value that has to be delivered to shareholders for that reward to be earned.
Alignment to culture – incentive schemes should drive behaviours consistent with Company purpose, values and strategy.	• The LTIP rewards long-term sustainable performance in an inherently cyclical market. • This focus on long-term sustainable value is a key tenet of the Company's strategy and its culture and values.

Remuneration

Remuneration Committee Report continued

Annual Report on Remuneration

Single Total Figure for Executive Directors' Remuneration (Audited)

The following table shows an analysis of remuneration in respect of qualifying services for the 2020 financial year for each Executive Director:

2020

Executive Director	Salary £000	Taxable benefits[6] £000	Bonus (PIP)[4] £000 Cash	Bonus (PIP)[4] £000 Deferred shares	LTIP[5] £000	Pension £000	Other fees £000	Total Rem £000	Total[8] Fixed £000	Total[9] Variable £000
Fredrik Widlund[1]	510	8	150	–	135	–	27	830	518	312
Andrew Kirkman[2]	306	6	61	–	22	5	–	400	317	83
Sten Mortstedt[3]	515	–	–	–	–	–	–	515	515	–

2019

Executive Director	Salary £000	Taxable benefits £000	Bonus (PIP)[4] £000 Cash	Bonus (PIP)[4] £000 Deferred shares	LTIP £000	Pension £000	Other fees[7] £000	Total Rem £000	Total Fixed £000	Total Variable £000
Henry Klotz	406	34	–	–	–	8	–	448	448	–
Fredrik Widlund	430	8	256	272	112	–	–	1,078	438	640
Andrew Kirkman	147	63	60	78	–	5	389	742	215	527
John Whiteley	158	7	126	82	–	–	–	373	165	208
Sten Mortstedt	500	–	–	–	–	–	–	500	500	–

1 Mr Widlund would have received total pension contributions of £46,350 (2019: £39,062). In accordance with the Policy, the entire amount was paid as a salary supplement (this element of salary is not bonusable or pensionable). Mr Widlund's 2020 LTIP was attributed to the deferred balance paid under PIP Element A (see "LTI in single figure calculation" on page 100). Other Fees relate to: £26,197 in respect of the dividend equivalents following the vesting of his 2017 Element B Award and £704 in respect of the Matching Shares that vested during the year under the All Employee Share Incentive Plan.

2 Andrew Kirkman would have received total pension contribution of £28,325 (2019: £13,750). In accordance with the Policy, £22,825 was paid as salary supplement and £5,500 was paid to his SIPP (this element of salary is not bonusable or pensionable). His taxable benefit figure for 2019 includes a £60,000 relocation package, including £8,000 HMRC relocation allowance, which is subject to a scaled repayment clawback over a three-year period. Mr Kirkman's 2020 LTIP was attributed to the deferred balance paid under PIP Element A (see LTI calculation on page 100).

3 Sten Mortstedt passed away on 15 December 2020. Prior to that date the Company had determined that it had a liability to pay the full December base salary on the basis that the payroll was signed off and that was his entitlement.

4 The Bonus total for 2020 comprises 50% of the PIP Element A 2020 contribution into the Director's Plan Account. The reason that only 50% of Element A is disclosed as Bonus is because the balance is deferred and at risk of forfeiture in respect of future years' performance and therefore under the Regulations is required to be disclosed on vesting. The bonus total for 2019 comprises of 50% of Element A 2019 and the award made of deferred shares in respect of Element B of the PIP awarded in 2019. The award of deferred shares under Element B 2019 does not vest until three years after the date of grant and cannot be sold for a further 2 years. However, in accordance with the Regulations the value of these shares is shown in the Bonus column on the date of grant as there are no further performance conditions which have to be satisfied for the shares to vest. The value of the Element B 2019 award disclosed in the table has been calculated using the average market value of a share for the 30-day period to 31 December 2019 of £2.95 in accordance with the rules of the PIP. The figures shown for Andrew Kirkman and John Whiteley take account of pro-rating of their PIP Element A and B awards as a result of service provided during 2019.

5 The LTIP column consists of 50% of the value of the opening balance of deferred notional shares under PIP A Account. This approach reflects the fact that this value is subject to forfeiture over the remaining life of the PIP cycle. The value of the notional shares under Element A has been based on the average market value of a share for the 30-day period to 31 December 2020 of £2.173 in accordance with the rules of the PIP.

6 Taxable Benefits relate to the provision of private medical insurance.

7 In 2019, this includes the value of restricted shares awarded to Mr Kirkman in lieu of incentives foregone at his previous employer on joining the Company. This figure also includes the value of the cash bonus foregone at his previous employer on joining the Company that relates to their performance.

8 Total Fixed column is the total of Salary, Pension and Benefits.

9 Total Variable column is the total of Bonus (PIP) Cash, Deferred Shares, LTIP and Other Fees.

Additional requirements in relation to the single total figure table

Performance Incentive Plan (PIP) – 2020 Element A structure

The schematic below illustrates the ongoing operation of PIP Element A, noting that the current CFO has joined the plan in the same year and cycle as the CEO:

Year	2016	2017	2018	2019	2020	2021
Cycle 2	2nd year	3rd year	4th year			
Cycle 3			1st year	2nd year	3rd year	4th year

With reference to the schematic above, Element A of the PIP represented the 3rd year of the Cycle 3 award for 2020.

Summary of PIP Element A matrix outcomes in the year

The Remuneration Committee determined the 2020 PIP contribution and forfeiture outcomes during 2020. A summary of the 2020 KPIs and their achievement is as follows:

KPI	Weighting	Maximum Forfeiture	Forfeiture Threshold	On-Target Performance	Good Performance	Maximum Performance	2020 Actual Achievement
Relative Total Shareholder Return	40%	Lower Quartile	(Linear)	Median	(Linear)	Upper Quartile	18/26
Total Accounting Return (absolute)	40%	0.0%	3.0%	6.0%	7.5%	9%	8.1%
Vacancy Rate	20%	10%	8%	5%	4%	3%	5.3%
Overall achievement	100%						43.3%

The table below sets out the annual opportunity and resulting contribution to the PIP Element A account for the Executive Directors.

	CEO	CFO
Maximum Element A award (% salary) in 2020	150%	100%
Maximum Element A award (£) in 2020	£695,250	£283,250
KPIs achievement as % of maximum	43.3%	43.3%
Contribution to Account based on achievement above	£300,705	£122,509
Bonus as a % of 2020 Salary	64.9%	43.3%

The following table sets out the breakdown of the performance calculation of the 3rd award under Cycle 3:

KPI	CEO	CFO
Relative Total Shareholder Return	nil	nil
Total Accounting Return	£234,656	£95,600
Vacancy Rate	£66,049	£26,909
2020 Total Bonus	£300,705	£122,509

The following table sets out for Cycle 3 the PIP Element A Accounts for the participants and shows the value of the closing balance and the number of deferred notional shares which will form the opening balance in respect of 2021 which is at risk of forfeiture in respect of Year 4's performance. It should be noted that the Committee did not exercise its judgement under the PIP to reduce the payments from the formulaic outcome or to reduce the deferred share notional balance given the general environment and strong performance of the Executive Directors at this turbulent time.

	CEO	CFO
PIP Plan Element A Accounts (Cycle 3)		
Number of Deferred Notional Shares in Account at the end of Year 3	124,483	20,275
Value of Deferred Notional Shares at the end of Year 3[1]	£270,502	£44,058
2020 Bonus (contribution into the Account)	£300,705	£122,509
Cumulative Account following contribution	£571,207	£166,567
Less: 2020 Payment out of the Account	(£285,603)	(£83,283)
Value of Deferred Notional Shares carried forward into Year 4	£285,604	£83,284
Number of Deferred Notional Shares carried forward into Year 4[1]	131,432	38,326

1 The price used to calculate the value of shares was the mid-market value of a share for the 30-day period to 31 December 2020, which was £2.173 per share.

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

Remuneration

Remuneration Committee Report continued

Reconciliation of PIP Element A with single figure table for 2020

Annual bonus – Cash in single figure table	CEO	CFO
50% of 2020 contribution into the PIP Element A Account[1]	£150,353	£61,255
LTI in single figure table		
50% of opening balance of PIP Element A account[2]	£183,737	£29,926
Value of LTI due to share price increase/(decrease)	£(48,486)	£(7,897)
Total LTI	£135,251	£22,029

1 The reason that only 50% of Element A 2020 Company Contribution is disclosed as Bonus is because the balance is deferred and is at risk of forfeiture in respect of future years' performance and therefore under the Regulations is required to be disclosed on vesting.
2 Comprising 50% of value of opening balance of Deferred Notional Shares.

Long-Term Incentive Plan (LTIP)

No LTIP awards completed their performance period during the 2020 financial year.

LTIP Awards made in 2020

The 2020 LTIP awards were granted on 13 May 2020 in the form of nil-cost options. In line with the Policy the awards had a face value of 150% of base salary for the CEO and 120% for the CFO. The normal vesting date of the LTIP Awards will be 13 May 2023, being the third anniversary of the award date.

As set out in the table below, the number of shares granted under the award was calculated using a share price of £1.83, being the closing share price on the dealing day immediately before the date of grant.

Name	Role	Base salary at date of grant	Face value of 2020 LTIP award (% of base salary)	Face Value of 2020 LTIP award	Value at vesting (threshold vesting of 25%)	Number of shares granted
Fredrik Widlund	CEO	£463,500	150%	£695,250	£173,813	379,918
Andrew Kirkman	CFO	£283,250	120%	£339,900	£84,975	185,737

The LTIP awards will vest based on the satisfaction of the following performance conditions which are each measured over a three year period ending on 31 December 2022 in respect of the relative NTA growth per shares element and ending on 12 May 2023 for the relative TSR element:

	Threshold	Maximum
Award vesting for performance (% maximum)	25%	100%
Total Shareholder Return relative to FTSE 350 Real Estate Super Sector constituents (50%)	Median	Upper Quartile
EPRA NTA growth per share relative to FTSE 350 Real Estate Super Sector constituents (50%)	Median	Upper Quartile

Straight line interpolation between points.

Total pension entitlements

The Executive Directors are entitled to participate in a defined contribution pension scheme, which would provide a Company contribution of 10% of salary. No Directors were participants in the scheme as at 31 December 2020 (2019: none). As a result of the Lifetime Allowance Limit, Fredrik Widlund instead received the full 10% as a salary supplement and Andrew Kirkman received part of his 10% contribution as a salary supplement and the balance as a contribution to his Self Invested Personal Pension Plan (see Note 2, Single Total Figure for Executive Directors' Remuneration (Audited)).

The maximum Company contribution for all UK employees is 10% (2019: 10%). In accordance with the Policy, the CEO received 10% as a salary supplement and the CFO received a proportion of the 10% as a salary supplement (with the balance being paid into his pension plan), in light of applicable HMRC limits.

Overall 2020 remuneration

The Committee is satisfied that the current Policy operated as intended and that the overall 2020 remuneration paid to Executive Directors set out above was appropriate.

External appointments

Mr Widlund was appointed as a non-executive director of Morden College on 31 August 2018, for which no remuneration is paid. There were no other Executive Directors who served as non-executive directors of other companies during the year ended 31 December 2020. On 1 January 2021, Mr Kirkman was appointed as a non-executive director of A2Dominion Housing Group Limited, a registered social housing charity, for which he will be paid £13,500 per annum.

Single total figure for Non-Executive Directors' remuneration (audited)

Non-Executive Directors do not participate in any of the Company's incentive arrangements nor do they receive any benefits other than reimbursement for reasonable travel expenses for attending Board meetings.

The following table sets out the fees received for 2020:

	Base Membership Fee £000		Other Committee Fees £000		Additional Fees £000		Taxable Benefits[8] £000		Total £000	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Malcolm Cooper[1]	15	45	5	25	–	–	–	–	20	70
Elizabeth Edwards[2]	45	45	16	10	2	3	–	1	63	59
Christopher Jarvis[3]	45	45	4	15	–	–	2	7	51	67
Bengt Mortstedt	45	45	–	–	–	–	7	29	52	74
Anna Seeley[4]	120	74	–	6	–	–	–	–	120	80
Lennart Sten[5]	220	112	–	6	–	–	33	–	253	118
Denise Jagger[6]	45	19	14	4	–	–	5	–	64	23
Bill Holland[7]	45	5	14	1	–	–	1	–	60	6

1 Mr Cooper retired from the Board on 23 April 2020. He received the following fees: Board membership £45,000; Senior Independent Director £10,000; Audit Committee Chairmanship £10,000; and Remuneration Committee membership £5,000. The figures shown in the table above are prorated.

2 Ms Edwards received the following annual fees: Board membership £45,000; Senior Independent Director £10,000; Audit Committee membership £5,000; Nomination Committee Membership £5,000; and Workforce Advisory Panel £2,625. She became Senior Independent Director on 23 April 2020 following Mr Cooper's retirement and the corresponding fee shown in the table above is prorated.

3 Mr Jarvis stepped down as the Chair of the Remuneration Committee on 23 April 2020 and member of the Audit Committee on 5 March 2020. He received the following fees: Board membership £45,000; Remuneration Committee Chairmanship £10,000; and Audit Committee membership £5,000. The figures shown in the table above are prorated.

4 Ms Seeley received the annual following fees: Non-Executive Vice-Chair fee of £120,000 (inclusive of all Committee fees).

5 Mr Sten received the following annual fees: Non-Executive Chairman fee of £220,000 (inclusive of all Committee fees).

6 Ms Jagger became the Chair of the Remuneration Committee on 23 April 2020. She received the following fees: Board membership £45,000; Remuneration Committee Chairmanship £10,000 (from 23 April 2020); Remuneration Committee membership £5,000 (until 23 April 2020) and Audit Committee membership £5,000. Her Remuneration Committee fees in the above table are prorated.

7 Mr Holland became the Chair of the Audit Committee on 5 March 2020 and received the following fees: Board membership £45,000; Audit Committee Chairmanship £10,000 (from 5 March 2020); Remuneration Committee membership £5,000; and Audit Committee membership £5,000 (until 5 March 2020). His Audit Committee fees in the above table are prorated.

8 In accordance with the Company's expenses policy, Non-Executive Directors receive reimbursement for their reasonable expenses for attending Board meetings. In instances where those costs are treated by HMRC as taxable benefits, the Company also meets the associated tax cost to the Non-Executive Directors through PAYE. Ms Edwards received such taxable benefits of £483, which being less than £500 is therefore not reported in the above table.

Payments to past directors

John Whiteley retired from the role of CFO on 30 June 2019. Details of payments for Mr Whiteley can be found on page 98 of the 2019 annual report. £16,676 was paid to Mr Whiteley in respect of the dividend equivalents following the vesting on 25 April 2020 of 80,850 shares granted in 2017 under PIP Element B, which had already been disclosed in that year's single figure of remuneration and remain subject to a two-year holding period.

Payments for loss of office

No payments for loss of office were made in 2020.

Remuneration

Remuneration Committee Report continued

Directors' interests in shares

The Executive Directors' interests against the shareholding requirement under the Policy is provided below, with an indication of whether the current shareholding requirement has been met. Under the Policy the Committee has implemented minimum shareholdings for the Executive Directors, which requires that the Chief Executive Officer should build a holding with a value of at least 250% of salary and the Chief Financial Officer at least 200%. At 31 December 2020, the interests of the Directors in the ordinary shares of 2.5 pence each of the Company were:

Director	Unconditional Shares	Conditional PIP Element B Shares	SIP Shares (Partnership)	SIP Shares (Matching)	Total interests[3]	Shareholding[3] (% salary)	Shareholding requirement met?	Conditional PIP Element A Shares	LTIP unvested awards
Fredrik Widlund[1]	179,112	280,881	2,898	2,898	465,789	218	N	124,483	379,918
Andrew Kirkman[2]	240,967	82,663	1,359	1,359	326,348	250	Y	20,275	242,042
Elizabeth Edwards	9,809	–	–	–	9,809	n/a	n/a	–	–
Christopher Jarvis	48,440	–	–	–	48,440	n/a	n/a	–	–
Bengt Mortstedt	26,572,550	–	–	–	26,572,550	n/a	n/a	–	–
Denise Jagger	–	–	–	–	–	n/a	n/a	–	–
Bill Holland	7,500	–	–	–	7,500	n/a	n/a	–	–
Anna Seeley	12,237	–	–	–	12,237	n/a	n/a	–	–
Lennart Sten	28,500	–	–	–	28,500	n/a	n/a	–	–

1 As at the date of this report: the SIP balance for Mr Widlund consists of: 3,104 Partnership Shares and 3,104 Matching Shares. As set out on page 99 a closing balance of 131,432 Conditional PIP Element A notional shares will be awarded on 10 March 2021. On 22 January 2020, 126,000 shares were sold to fulfil a personal financial commitment as a result of divorce proceedings. Mr Widlund will increase his holding to meet the shareholding requirement during 2021.

2 As at the date of this report: the SIP balance for Mr Kirkman consists of: 1,565 Partnership Shares and 1,565 Matching Shares. As set out on page 99 a closing balance of 38,326 Conditional PIP Element A notional shares will be awarded on 10 March 2021.

3 Shares counting towards total interests and therefore shareholding requirement include beneficially owned, pre-tax number of PIP Element B shares, pre-tax number of vested but unexercised awards and all SIP shares, but excludes the notional shares awarded under PIP Element A and unvested LTIP awards. Shareholding values based on 30-day average share price up to 31 December 2020, £2.173.

Otherwise than as set out in the notes above, there have been no movements in interests held by Directors between 31 December 2020 and the date of this report.

Overall link to remuneration and equity of the Executive Directors

As a Committee, we want to incentivise Executive Directors to take a long-term, view of the performance of the Company. Therefore, when we look at the remuneration paid in the year, we also look at the total equity they hold, and its value based on the performance of the Company. The table sets out the number of shares beneficially owned by the CEO and those shares subject to service based conditions only at the beginning and end of the financial year, and the impact on the value of these shares taking the opening and closing price for the year. PIP Conditional Element A notional shares and unvested LTIP awards are excluded from the calculations.

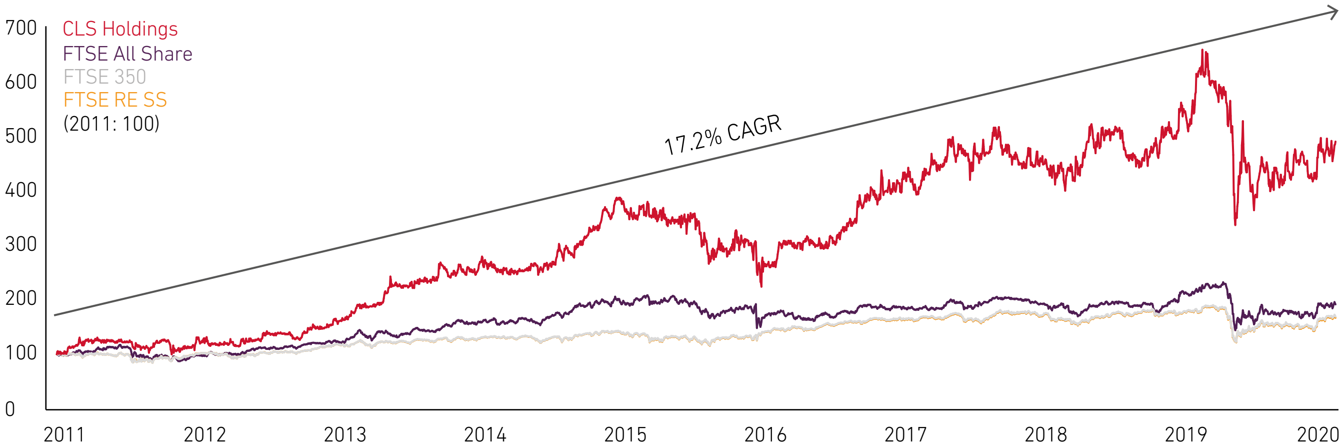
	2020 Single figure (£'000s)	Shares held at start of year	Shares held at end of year	Value of shares at start of year (£'000s)	Value of shares at end of year (£'000s)	Difference Increase/ (decrease) (£'000s)
CEO	830	546,952	465,789	1,615	1,012	(603)

Starting share price £2.95 (one-month average share price to 31 December 2019). End share price £2.173 (one-month average to 31 December 2020).

Total returns to shareholders 2010–2020 (unaudited)

To comply with the remuneration regulations, the Company's TSR performance is compared to the TSR performance of the FTSE 350 and the FTSE 350 Real Estate Super sector over the same period. The Committee believes that these are the most appropriate as these are the indices and sector in which the Company has been included since listing.

Total returns to shareholders



Historical CEO remuneration

The table below sets out total CEO remuneration for 2020 and prior years, together with the percentage of maximum PIP Element A awarded in that year. No LTIP vested in 2020.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
CEO total remuneration (£000)	417	352	721	349	656	828	1,062	1,117	1,078	830
Element A of PIP – % of maximum	–	83.5%	86.6%	89.0%	81.0%	76.0%	93.3%	62.7%	87.3%	43.3%
Element B of PIP – % of maximum	–	–	–	–	–	76.0%	93.3%	62.7%	87.3%	n/a

(–) The Company did not operate an incentive plan (PIP Element A) over this period.

Percentage change in Directors' and employee remuneration

The table below shows how the percentage change in each Directors ' salary/fees, benefits and bonus between 2019 and 2020 compares with the percentage change in each of those components of pay for employees.

	Salary/Fees		Percentage	Taxable benefits		Percentage	Bonus		Percentage
	2020 £000	2019 £000	increase/ (decrease)	2020 £000	2019 £000	Increase/ (decrease)	2020 £000	2019 £000	Increase/ (decrease)
Sten Mortstedt	515	500	3%	–	–	–	–	–	–
Fredrik Widlund	510	430	19%	8	8	–	150	528	(72%)
Andrew Kirkman	306	147	108%	6	63	(87%)	61	138	(56%)
Malcolm Cooper	20	70	(71%)	–	–	–	–	–	–
Elizabeth Edwards	63	58	8%	–	1	n/a	–	–	–
Christopher Jarvis	49	60	(18%)	2	7	(71%)	–	–	–
Bengt Mortstedt	45	45	–	7	29	(76%)	–	–	–
Denise Jagger	59	23	157%	5	–	n/a	–	–	–
Bill Holland	59	6	883%	1	–	n/a	–	–	–
Anna Seeley	120	80	50%	–	–	–	–	–	–
Lennart Sten	220	118	86%	33	–	n/a	–	–	–
Employees	4,447	4,691	(5%)	226	252	(10%)	1,634	1,634	0%

There were no changes to the Board/Committee fees for the years ended 2019 and 2020. However, as a result of the Board and Committee changes during 2020, Ms Edwards, Ms Jagger and Mr Holland received additional remuneration for their new responsibilities. Mr Cooper retired from the Board and Mr Jarvis stepped down from the Board Committees during 2020 and therefore received reduced remuneration (see page 101, Single Total Figure for Non-Executive Directors Table Notes).

Remuneration

Remuneration Committee Report continued

As set out in the 2019 annual report, Mr Sten became independent Non-Executive Chairman and Ms Seeley became Non-Executive Vice Chair and received additional remuneration. Mr Widlund's salary was increased during 2019 following a review and for taking on additional responsibilities. In 2019, Mr Kirkman served for six months from 1 July 2019.

The Group's pay review, taking effect from 1 January 2021, awarded an average percentage increase in wages and salaries of 1% to all employees.

The nature and level of benefits to employees in the year ended 31 December 2020 was broadly similar to those of the previous year.

CEO pay ratio

The table below sets out the ratios of the CEO single total figure of remuneration to the equivalent pay for the lower quartile, median and upper quartile of UK employees.

		Pay ratio		
Year	Method	25th	50th	75th
2019	Option A	19:1	15:1	8:1
2020	Option A	14:1	11:1	8:1

The CEO remuneration figure is as shown in the Single Total Figure for Executive Directors' Remuneration table on page 98.
The remuneration figures for the employee at each quartile were determined as at 31 December 2020. Each employee's pay and benefits were calculated using each element of employee remuneration, consistent with the CEO, on a full-time equivalent basis. No adjustments (other than to achieve full-time equivalent rates) were made and no components of pay have been omitted. The salary and total pay and benefits for employees at each of the percentile are as shown in the table below.

Pay data	Base salary (£000)	Total pay and benefits (£000)
CEO	464	830
Employee at 25th percentile	52	59
Employee at 50th percentile	57	73
Employee at 75th percentile	87	114

We have chosen methodology option A for the calculation, which takes into consideration the full-time equivalent basis of all UK employees and provides a representative result of employee pay conditions across the Company.

These ratios are used as part of the Committee's remuneration decision-making process with regards to broader employee pay policies as well as remuneration policies for the Executive Directors.

The ratios reflect the difference in remuneration arrangements as responsibility increases for more senior roles within the Company.

The pay ratios have decreased in 2020 compared to 2019 mainly due to the reduction in the CEO's single figure of remuneration. The CEO's remuneration fell as a result of the lower PIP Element A outcome and the change in LTIP structure under the new Remuneration Policy with no LTIP awards being included in the single figure until 2022 whilst they remain subject to performance conditions.

The employee salary and total pay benefits set out above are very similar to 2019, with the exception of the 75th percentile employee total pay and benefits which has fallen as a result of senior employees receiving lower variable pay in 2020.

We expect the ratio to fluctuate in future years as awards under the new LTIP begin to vest reflecting different vesting levels and the movement in the share price over the three years prior to vesting. This may add significant volatility to the CEO's pay and will be reflected in the ratio. The ratio is also driven by the different structure of the pay of our CEO versus that of our employees, as well as the make-up of our workforce.

This ratio will therefore vary between businesses even in the same sector. What is important from our perspective is that this ratio is influenced only by the differences in structure within our business, and not by divergence in fixed pay between the CEO and wider workforce. For the reasons outlined above, the Committee is satisfied that the median pay ratio consistent with pay and progression policies for all CLS UK employees and a reflection across the Group.

Relative importance of the spend on pay

	2020 £000	2019 £000	Percentage change increase/ (decrease)
Remuneration paid to employees of the Group	**10,138**	10,376	(2.3)%
Distributions to shareholders	**30,147**	28,721	5.0%
Group revenue	**139,351**	138,248	0.8%

Wider workforce considerations

Cascade of pay through the organisation

The Group aims to provide a remuneration package for all employees which is market competitive and operates the same core structure as for Executive Directors, with the exception of the PIP and LTIP, which is replaced by a time-based, company growth related loyalty bonus.

Senior management are participants in the PIP Element B, with the number of employees eligible to participate being 12. The Company's remuneration philosophy for all management from the Executive Directors downwards is that all employees should have a significant annual element of performance-based pay with part provided in deferred shares to ensure a focus on long-term sustainable value creation and to align their experience with those of shareholders. For all employees, the Group operates a performance-based discretionary bonus scheme and a loyalty bonus scheme based on employment longevity. The Company also has a Share Incentive Plan (SIP) in order to increase levels of share-ownership throughout the Company and to allow employees to share in the success of the Company in a tax-efficient manner.

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

The table below summarises the cascade of pay elements through the organisation below Executive Directors.

	Number of employees	Fixed Remuneration (including pension)	Annual bonus/ loyalty scheme	LTIP	Restricted share plan/Bonus deferral	Share Incentive Plan	Shareholding guideline
Executive Committee	4	Y	Y	Y	Y	Y	Y
Senior management	11	Y	Y	–	Y	Y	–
Wider Workforce	85	Y	Y	–	–	Y	–

In order for the Committee to review the wider workforce pay, policies and incentives, reports are regularly considered at the Remuneration Committee meetings, setting out key details of remuneration throughout the Company. The Committee is satisfied that the approach to remuneration across the Company is consistent with the Company's principles of remuneration. In the Committee's opinion the approach to executive remuneration aligns with wider Company pay policy and there are no anomalies specific to the Executive Directors.

The outcomes of these discussions and key decisions made in respect of Executive and senior management pay are communicated to employees through one of several channels used by the Company, as described below.

Remuneration
Remuneration Committee Report continued

Employee engagement
We regularly communicate with our employees on a range of issues, including executive pay. In 2019, Elizabeth Edwards was designated the Non-Executive Director responsible for overseeing employee engagement and chairs the Workforce Advisory Panel, consisting of representatives from across the organisation and at varying levels of seniority. This Panel provides the opportunity for an open discussion between employees and the Board. We have also used employee surveys as an effective means of gathering wider views.

A key topic during its meetings during the year was around employee benefits and resourcing for growth. Following feedback received at the Panel, we undertook an internal review and external benchmarking exercise which resulted in some enhancements to employee benefits, such as holiday entitlement in Germany, and such views helped inform management decisions on resource allocation across the Group.

The Committee will continue to seek the views of the Workforce Advisory Panel to provide valuable insight when making wider remuneration decisions. This engagement is critical in ensuring we offer a reward package across the business that continues to attract and retain the talent necessary to achieve our Group objectives.

Fairness and diversity
The Company is committed to an active equal opportunities policy from recruitment and selection, through training and development, to performance reviews and promotion. All decisions relating to employment practices are objective, free from bias and based solely upon work criteria and individual merit. The Company is responsive to the needs of its employees, customers and the community at large. We are an organisation which uses everyone's talents and abilities, where diversity is valued. The Company remains supportive of the employment and advancement of disabled persons and ensures its promotion and recruitment practices are fair and objective. The Company encourages the continuous development and training of its employees and the provision of equal opportunities for the training and career development of all employees.

Gender pay reporting
The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017 requires companies with over 250 UK employees to disclose their gender pay gap annually. CLS Holdings plc has 66 UK employees as at 31 December 2020 and is therefore not required to disclose the Gender Pay Gap information under the regulations.

The Committee notes that results based on a relatively small sample of employees would not be meaningful and therefore has decided not to disclose the Company gender pay gap.

Overall the Committee feels assured that the quality of processes behind individual pay decisions are effective in delivering an equal pay environment (like pay for like work) for the wider workforce.

Statement of implementation of policy in the following financial year

The Policy, as approved at the 2020 AGM on 23 April 2020 is set out on pages 104-115 of the 2019 annual report (www.clsholdings.com) and the table below sets out an overview of the key elements of the Policy, together with details of how the Committee will implement the Policy in 2021.

	Overview of Policy (noting changes from current Policy)	Implementation in 2021
Executive Directors		
Base salary	Any increases will be in line with wider workforce unless there is a significant change to the role and responsibilities.	As at 1 January 2021 • CEO: £468,150 (2020: £463,500) 1% • CFO: £286,100 (2020: £283,250) 1% An average increase of 1% was applied to the entire workforce.
Benefits	The key benefits provided to the Executive Directors include private medical insurance, life insurance, income protection, gym contribution and staff lunch provision.	No change.
Pensions	CEO and CFO receive 10% of salary Company contribution in line with maximum employee opportunity. For new joiners, the pension benefit will be aligned to the staged percentages applicable to the wider UK workforce, currently 5% of salary upon joining, rising to 7.5% of salary after three years and 10% of salary after 5 years.	No change.
Performance Incentive Plan (the 'PIP')	Maximum annual PIP Element A opportunity of 150% of salary. At threshold 25% of the maximum is payable. For "on target" performance 50% of the maximum is payable. 50% of the value of a Participant's Plan Account will be paid out annually for three years with 100% of the residual value paid out at the end of year four. Malus and clawback provisions will apply.	2021 performance measures will be: • EPRA Vacancy rate (20%); • EPRA Earnings per share (40%); and • Total Accounting Return (based on EPRA NTA) (40%). Maximum opportunity in 2021 will be 150% of salary for the CEO and 100% salary for the CFO. See below for the PIP matrix which will apply in 2021
Long-Term Incentive Plan ('LTIP')	Maximum annual LTIP opportunity of 150% of salary. 25% of awards vest for threshold performance. Performance will be measured over three years and vested awards will be subject to a further two-year holding period post vesting. Malus and clawback provisions will operate over the full 5-year lock in period.	Awards to be granted at 150% of salary for the CEO and 120% for the CFO. The 2021 LTIP grant is based on: • Total Shareholder Return (50%); and • EPRA NTA growth per share (50%) Both measured relative to the FTSE 350 Real Estate Super Sector constituent companies. See below for detail of the LTIP awards which will be made in 2021.
Shareholding Requirement	CEO shareholding requirement of 250% of salary, and CFO shareholding requirement of 200%. Post cessation of employment shareholding requirement requiring the minimum shareholding requirement to be retained for two years.	No change.
Non-Executive Directors (including Non-Executive Chairman and Non-Executive Vice Chair)		
Fees	Non-Executive Directors are paid a base fee and are eligible to receive Committee chair and membership fees, a SID fee and Workforce Advisory Panel daily fee. Non-Executive Directors do not participate in any variable remuneration.	See below for fees which will apply in 2021.

Remuneration

Remuneration Committee Report continued

Chairman and Non-Executive Directors' fees (audited)

The current fee levels, and those for the future financial year, are set out in the table below.

(£'000)	**Fees 2021**	Fees 2020	Change
Chairman fees	**220**	220	0%
Non-Executive Vice Chair	**120**	120	0%
NED Base Membership fee	**45**	45	0%
Senior Independent Director	**10**	10	0%
Audit Committee Chairmanship	**10**	10	0%
Remuneration Committee Chairmanship	**10**	10	0%
Committee membership	**5**	5	0%
Workforce Advisory Panel	**£750 p/d**	£750 p/d	0%

See page 101 for total fees received in 2020 by each of the Non-Executive Directors based on their respective responsibilities.

PIP Element A matrix for 2021

Performance targets are determined annually and calibrated by the Committee considering the Company's business plan and market conditions. The following table sets out the targets for 2021 in respect of each KPI, as well as the maximum bonus which can be earned in respect of each KPI for 2021, expressed as a percentage of salary:

						Performance breakdown (% salary)	
KPI	Maximum Forfeiture	Forfeiture Threshold	On-Target Performance	Good Performance	Maximum Performance	CEO (max bonus target)	CFO (max bonus target)
EPRA Earnings per share	10.5	11.5	12.0	12.5	13.5	60	40
Total Accounting Return*	(3)%	0%	3%	6%	9%	60	40
EPRA Vacancy Rate	10%	8%	5%	4%	3%	30	20
Total						150%	100%

*Based on EPRA NTA.

Long-Term Incentive Awards to be granted in 2021

The table below describes how the LTIP will be implemented in 2021. The CEO's award will be 150% of salary and the CFO's award will be 120% of salary.

	Threshold	Maximum
Award vesting for performance (% maximum)	25%	100%
Total Shareholder Return relative to FTSE 350 Real Estate Super Sector constituents (50%)	Median	Upper Quartile
EPRA NTA growth per share relative to FTSE 350 Real Estate Super Sector constituents (50%)	Median	Upper Quartile

Straight line interpolation between points.

Consideration by the Committee of matters relating to Directors' remuneration for 2020

The consideration of matters relating to Directors' Remuneration for 2020 is on pages 98-109.

Executive Director service contracts and Non-Executive Director letters of appointment

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

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

Details of the service contracts for those who served as Executive Directors during the year are as follows:

	Date of current service contract	Notice period
Fredrik Widlund	3 November 2014	12 months
Andrew Kirkman	30 March 2019	12 months

The table below sets out the dates that each Non-Executive Director was first appointed and the notice period by which their appointment may be terminated early by either party.

Director	Date of appointment	Notice period by Company or Director
Elizabeth Edwards	13 May 2014	3 months
Bengt Mortstedt	7 March 2017	3 months
Denise Jagger	1 August 2019	3 months
Bill Holland	20 November 2019	3 months
Anna Seeley	11 May 2015	3 months
Christopher Jarvis	25 November 2008	3 months
Lennart Sten	1 August 2014	3 months

Shareholder engagement

The Committee takes the views of the shareholders seriously and these views were taken into account when shaping the Policy that was approved at the AGM held on 23 April 2020. The Committee consulted with its 15 largest shareholders representing 86% of the Company's issued share capital in relation to the Policy in late 2019, and the consultation also included the main shareholder representative bodies (IA, ISS, Glass Lewis). At the end of the consultation the majority of shareholders consulted indicated they were supportive of the proposals and this was reflected in the 97.76% vote in favour of the Policy at the 2020 AGM. The Committee is grateful for the time that shareholders took to consider the Policy and to provide feedback during the consultation.

Shareholder voting

The following table represents the voting at the 2020 Annual General Meeting. The current Policy was approved at the 2020 Annual General Meeting.

	Directors Remuneration Report (2020 AGM)		Directors Remuneration Policy (2020 AGM)	
	Number of votes	**% of votes cast**	Number of votes	% of votes cast
For	**335,149,720**	**97.08**	338,679,725	97.76
Against	**10,076,826**	**2.92**	7,771,550	2.24
Total votes cast	**345,232,436**		346,457,165	
Votes withheld	**1,241,964**		17,235	

Strategic report | Corporate governance | Financial statements | Additional information

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2020.

The Chairman's letter, strategic report and corporate governance report form part of this report and should be read in conjunction with it.

Review of business

- The Group income statement for the year is set out on page 122.
- The Group objectives, business model and strategy are set out on pages 18 and 19. KPIs are set out on pages 22 and 23.
- Important events (including post balance sheet events) affecting the Company are set out on pages 4-63.
- The principal and emerging risks and uncertainties are set out on pages 54-62.
- The use of financial instruments are set out on page 50-53, and in note 19 to the Group financial statements.
- The risk management objectives are detailed in note 19 to the Group financial statements. See also pages 54 and 55.
- The Group's likely future developments are set out on pages 10-15.

Directors

Biographical details of the current Directors of the Company are set out on page 67.

All Directors will be subject to annual re-election at the 2021 Annual General Meeting in accordance with the UK Corporate Governance Code. In his role as independent Non-Executive Chairman, Lennart Sten recommends the election and re-election of the retiring Directors at the 2021 Annual General Meeting, given their experience, performance and continued important contribution to the long-term success of the Company. The Senior Independent Non-Executive Director recommends the re-election of Mr Sten.

Directors' remuneration and interests in shares are set out on pages 94-109.

Related party transactions are set out in note 31 to the Group financial statements.

Dividends

An interim dividend of 2.35 pence per share was paid on 25 September 2020. The Directors are proposing a final dividend of 5.20 pence per share making a total dividend for the year ended 31 December 2020 of 7.55 pence per share. The final dividend will be paid on 29 April 2021 to shareholders who are on the register of members on 26 March 2021.

Purchase of the Company's shares

There were no purchases of the Company's own shares during the year. A resolution will be proposed at the 2020 Annual General Meeting to give the Company authority to make market purchases of up to 40,739,576 shares, being 10% of the current issued share capital.

Share capital

Changes in share capital are shown in note 22 to the Group financial statements. At 31 December 2020, and at the date of this report, the Company's issued share capital consisted of 438,777,780 ordinary shares of 2.5 pence each, of which 407,395,760 held voting rights and 31,382,020 shares were held as treasury shares, and all of which ranked pari passu. The rights (including full details relating to voting), obligations and any restrictions on transfer relating to the Company's shares, and the powers of the Directors in that regard, are set out in the Company's Articles of Association.

Major interests in the Company's shares

As at the date of this report the Company's top 10 shareholders, including those who have notified the Company of their interests above 3% in the Company's issued share capital, are:

	No. of shares	%
The Trustee of The Sten and Karin Mortstedt Family & Charity Trust	209,648,740	51.46%
Bengt Mortstedt	26,572,550	6.52%
BMO Global Asset Management	18,598,339	4.56%
Janus Henderson Group plc	14,832,161	3.64%
Fidelity Worldwide International	12,483,542	3.06%
BlackRock Inc	12,252,564	3.01%
Schroders	9,539,800	2.34%
Invesco	7,368,515	1.81%
AXA	6,998.429	1.72%
Amati Global Investors	5,056,550	1.24%

Details of the Directors' interests in shares are shown in the Remuneration Committee Report on page 102. There are no shareholders who carry special rights with regard to control of the Company and there are no restrictions on voting rights. The Company knows of no agreements between holders of securities which would result in restrictions on the transfer of securities or on voting rights.

Significant agreements – change of control

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

Relationship agreement – controlling shareholder

As at 31 December 2020, Creative Value Investment Group Limited ("CVIG"), the investment vehicle for The Sten and Karin Mortstedt Family & Charity Trust, held through its wholly owned subsidiaries 51.46% of the Company's shares in issue and was therefore seen as a controlling shareholder under the Listing Rules.

Pursuant to Listing Rule 9.8.4, the Company has entered into a relationship agreement which shall only be terminated in the event that CVIG ceases to be a controlling shareholder, or if the Company ceases to be admitted to listing on the premium segment of the Official List. Throughout the period under review, the Company has complied with the mandatory independence provisions and procurement obligations in the relationship agreement, and as far as the Company is aware, CVIG has also complied.

Property portfolio

A valuation of all the investment properties and properties held for sale in the Group at 31 December 2020 was carried out by Cushman and Wakefield for the UK and France, and Jones Lang LaSalle in Germany, which produced an aggregate market value of £2,052.7 million (2019: £1,971.4 million).

Corporate governance

The Corporate Governance Statement, prepared in accordance with rule 7.2 of the FCA's Disclosure Guidance and Transparency Rules, is set out on pages 64 to 109 and forms part of this report.

Employees, environmental and social issues

The Group's policies on employment, environmental and social issues (including the information required by the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013), including charitable donations, are summarised in the Environmental, Social and Governance Review on pages 34 to 43. No political donations to any parties, organisations or candidates, or political expenditure were made during 2020. The Group has also published a CSER Report, which is available on line at www.clsholdings.com.

Charitable donations during the year totalled £77,501 (2019: £39,379). As part of the Group's sustainability strategy, it sponsors charitable events and organisations relating to the real estate industry and, more specifically, assists charities and organisations with donations and staff involvement initiatives in the areas where our properties are located. Further details can be found in our Sustainability Report, available on the Company's website www.clsholdings.com

Engagement with suppliers, customers and others in a business relationship with the Company

The statement in respect of the Company's engagement with suppliers, customers and others throughout the year is set out in the stakeholder engagement section on pages 8-9 and 32-33 and our Prompt Payment Code is detailed in the sustainability section on pages 42 and 43.

Human rights

The Board ensures the Group upholds and promotes respect for human rights in all its current operating locations and aims to prevent any negative human rights impact. As the Group operates in the UK, Germany and France it is subject to the European Convention on Human Rights and the UK Human Rights Act 1998. The Group respects all human rights and in conducting its business regards those rights relating to non-discrimination and fair treatment to be the most relevant and to have the greatest potential impact on its key stakeholders, which are deemed to be customers, employees and suppliers. The Board has also noted its moral and legal obligations under the Modern Slavery Act 2015. The Board has a zero tolerance approach towards modern slavery, and throughout the year the Company has contacted its first tier contractors and suppliers to ensure their compliance with the Act. Our full statement on Modern Slavery can be found on our website at www.clsholdings.com. The Group's policies seek to ensure that employees comply with the relevant legislation and regulations in place to promote good practice. The Group's policies are formulated and kept up to date and communicated to all employees through the Group Intranet and, where appropriate, individual presentations. In the year to 31 December 2020, the Group was not aware of any incident in which the organisation's activities have resulted in an abuse of human rights.

Insurance of directors and indemnities

The Company has arranged insurance cover in respect of legal action against its Directors and Officers. The Company has granted indemnities to each of the Directors and other senior management, uncapped in amount but subject to applicable law, in relation to certain losses and liabilities which they may incur in the course of acting as Directors or employees of the Company or one or more of its subsidiaries or associates.

Auditor

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

Directors' report
continued

2021 Annual General Meeting
The 2021 Annual General Meeting will be held on Thursday, 22 April 2021. The notice of meeting, including explanatory notes for the resolutions to be proposed, will be posted to shareholders.

Disclosure of information to the Auditor
Each Director has confirmed at the date of this report that:

- so far as they are aware, there is no relevant audit information of which the Company's Auditor is unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's Auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Going concern
The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future and further details of this analysis are set out together with the viability statement on page 63. Therefore, the Directors continue to adopt the going concern basis in preparing the annual report and accounts.

Disclosures under listing rule 9.8.4R
The table below is included to comply with the disclosure requirements under Listing Rule 9.8.4R. The information required by the Listing Rules can be found in the annual report at the location stated below.

Listing Rule	Information required	Disclosure
9.8.4(1)	Interest capitalised by the Group	Not applicable
9.8.4(2)	Publication of unaudited financial information	Pages 103 and 165
9.8.4(4)	Long-term incentive schemes with directors	Pages 90-109
9.8.4(5)	Director's waiver of emoluments	None
9.8.4(6)	Director's waiver of future emoluments	None
9.8.4(7)	Non pro rata allotments for cash (issuer)	None
9.8.4(8)	Non pro rata allotments for cash (major subsidiaries)	None
9.8.4(9)	Listed company is subsidiary of another company	None
9.8.4(10)	Contracts of significance with a director	None
9.8.4(11)	Contracts of significance with Controlling Shareholder	None
9.8.4(12)	Dividend waiver	Not applicable
9.8.4(13)	Waiver of future dividends	Not applicable
9.8.4(14)	Relationship Agreement with controlling shareholder	Page 111

The following table is included to comply with the additional disclosure requirements under the Listing Rule 9.8.6

Listing Rule	Information Required	Disclosure
9.8.6(1)	Directors' (and Connected Persons') interests in CLS shares at year end and at not more than one month prior to the date of the AGM notice	Page 102
9.8.6(2)	Interests in CLS shares disclosed under DTR5 at year end and not more than one month prior to the date of AGM notice	Page 110
9.8.6(3)	The going concern statement	Page 112
9.8.6(4)(a)	Amount of authority to purchase own shares available at year end	The Company had the authority to purchase 40,739,576 shares at the year end
9.8.6(4)(b)	Off-market purchases of own shares during the year	None
9.8.6(4)(c)	Off-market purchases of own shares since year end	None
9.8.6(4)(d)	Non-pro rata sales of treasury shares during the year	None
9.8.6(5)	Compliance with the Main Principles of the UK Corporate Governance Code	Page 65
9.8.6(6)(b)	Details of non-compliance with the UK Corporate Governance Code	Pages 64-109
9.8.6(7)	Directors proposed for re-election: the unexpired term of any director's service contract and a statement about directors with no service contracts	Pages 67 and 109

Approved and authorised on behalf of the Board

David Fuller BA FCIS
Company Secretary
10 March 2021

Directors' responsibility statement

Directors' responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union and have elected to prepare the parent company financial statements in accordance with FRS101 of United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

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

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

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

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

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

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

Responsibility statement

We confirm that to the best of our knowledge:

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

This statement of responsibilities was approved by the Board on 9 March 2021.

Approved and authorised on behalf of the Board

David Fuller BA FCIS
Company Secretary
10 March 2021

Independent Auditor's report to the members of CLS Holdings plc

Report on the audit of the financial statements

1. Opinion

In our opinion:
- the financial statements of CLS Holdings plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 December 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income;
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group statement of cash flows; and
- the related notes 1 to 31 to the Group financial statements and 1 to 13 to the Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

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

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

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

3. Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Valuation of the investment property portfolio. Within this report, key audit matters are identified as follows: ● Newly identified ● Increased level of risk ● Similar level of risk ● Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £25.4m which was determined on the basis of 2% of net assets. For testing of balances that impacted EPRA adjusted earnings (see note 5), a lower materiality of £2.5m was used based on 5% of the measure.
Scoping	We subject all locations in which CLS operates to full scope audit, this accounts for 100% of the Group's net assets, revenue and profit before tax.
Significant changes in our approach	There have been no significant transactions identified in the year and no change to our approach.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- assessment of the Group's financing facilities including testing the maturity profile of the Group's debt and testing covenants;
- challenge of Management's key assumptions used in their forecasts (rental income, property valuation, LTV ('loan-to-value' covenant), sale of properties and refinancing) based on the current performance, a retrospective review of previous assumptions, consideration of external market factors and discussions with management;
- evaluate the sensitivity analysis and assessment of the amount of headroom under each scenario; and
- assessment of the adequacy of the disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Independent Auditor's report to the members of CLS Holdings plc
continued

5. Key audit matters

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

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

5.1 Valuation of the investment property portfolio

Key audit matter description	**The assessment of the carrying value of the investment property portfolio, specifically the process, assumptions and judgements used to derive the property valuations.** The Group's investment properties in the UK, Germany, and France are held at £2,032.8m at 31 December 2020 (31 December 2019: £1,961.0m), making this the most quantitatively material balance in the financial statements. The valuation of the portfolio is a significant judgement area that is underpinned by a number of assumptions including property yields and estimated future rental income. Our key audit matter in relation to the valuation of the investment property portfolio is focused on the assumptions applied in the determination of the valuation, including property yields and estimated future rental income, where these fall outside of a range which we would expect to be applied. We also consider the inputs used in the data supplied to the Group's external valuers for the valuation process and the accuracy and completeness of this information in the context of the risk of potential manipulation of this by management in order to fraudulently misstate the valuation. Refer to the Audit Committee report on pages 86 to 89 where this is included as a significant issue. The relevant accounting policy for the Group is presented in note 2 on page 129 and further details in note 11 to the financial statements on pages 141 and 142.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls in respect of this business process. We obtained the external valuation reports and met with the external valuers of the property portfolio to discuss changes to the portfolio, tenancies and other performance drivers. We evaluated the competence, capabilities and objectivity of the external valuers. We involved our real estate specialist, a chartered surveyor, when attending the meetings with the external valuers and on a sample basis challenged the assumptions and judgments made by the Group's external valuers including, but not limited to, those around market rents, yields and void periods. We involved our real estate specialist in obtaining relevant industry data for the UK and drawing on local expertise in the European markets in which CLS operates. This was used to benchmark the portfolio performance and key assumptions used to assess whether the external evidence supported the assumptions used by the valuers. We assessed, on a sample basis, the integrity of information provided to the valuers, relating to rental income, to evaluate whether it was consistent with the relevant leases. We assessed the disclosures in respect of investment property and evaluated whether property valuations, the underlying assumptions and sensitivity to change are clearly disclosed.
Key observations	We concluded that the assumptions applied in arriving at the fair value of the Group's property portfolio were appropriate, as well as the inputs to the valuation.

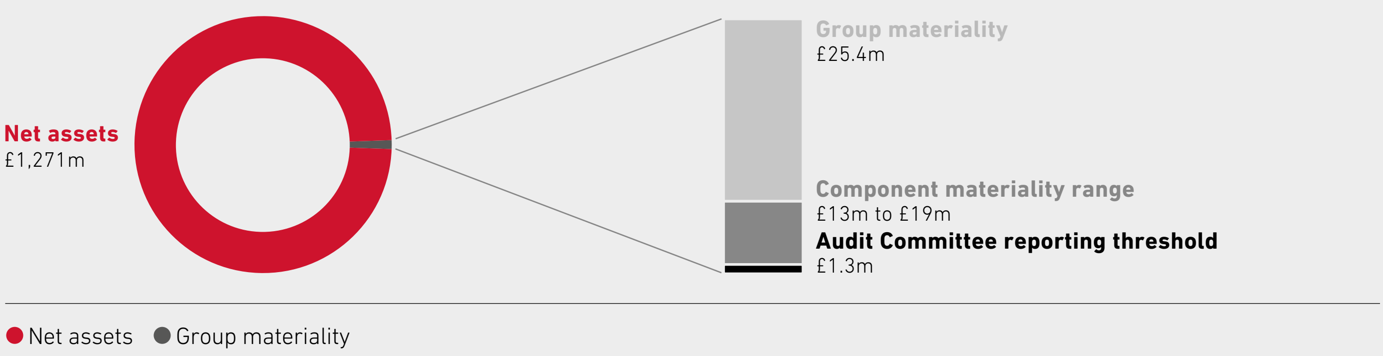
6. Our application of materiality

6.1. Materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£25.4 million (2019: £23.9 million) for balance sheet items £2.5 million (2019: £2.2 million) for income statement items	£9.2 million (2019: £10.9 million)
Basis for determining materiality	We have determined materiality for the Group based on: • 2% (2019: 2%) of net assets for testing of balance sheet items. • 5% (2019: 5%) of EPRA adjusted earnings for testing of balances that impact the measure. We have determined materiality for the Parent Company based on 2% (2019: 2%) of total assets for testing of balance sheet items.	
Rationale for the benchmark applied	As an investment property company, the main focus of management is to generate long-term capital value from the investment property portfolio and, therefore, we consider net assets to be the most appropriate basis for materiality to be applied for testing of Group balance sheet items. The increase in materiality from the prior year reflects the increase in net assets driven by new acquisitions and the uplift in the valuation of the investment property portfolio. We continue to consider EPRA adjusted earnings to be a critical performance measure for the Group and we therefore determined and applied a lower materiality to testing of those items impacting EPRA adjusted earnings. Total assets is an appropriate basis for the parent company as it holds investments in underlying subsidiary undertakings. It does not hold external debt and has no direct property holdings.	



Independent Auditor's report to the members of CLS Holdings plc
continued

6.2. Performance materiality
We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2019: 70%) of Group materiality	70% (2019: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining the performance materiality, we considered the following factors: a. our risk assessment, including our understanding of the Group's overall control environment which we consider appropriate for the size and nature of the Group; and b. our past experience of the audit, which has indicated a low number of uncorrected misstatements identified in prior periods.	

6.3. Error reporting threshold
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.3m (2019: £1.2m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risk of material misstatement at the Group level. Based on that assessment, and consistent with our conclusion on scoping in the prior year, we focused our Group audit scope on the audit work at each of the Group's principal business units, being the UK, Germany and France. These locations represent the principal business units of the Group and are considered by us to be the significant components. These components, together with the audit work performed directly by the Group audit team, account for 100% (2019: 100%) of the Group's net assets, revenue and profit before tax. All business units were subject to specified audit procedures. This approach provides an appropriate basis for undertaking audit work to address the risks of material misstatement identified above.

7.2. Working with other auditors
Our audit work at each of the three business units has been executed by Deloitte component auditors at levels of materiality applicable to each individual business unit which were lower than Group materiality and ranged from £12.8m to £19.1m (2019: £8.3m to £12.5m) with lower materialities being used for those items impacting EPRA adjusted earnings ranging from £1.4m to £1.5m (2019: £0.9m to £1.1m), consistent with the Group audit approach.

The audit work on the key audit matter has been led by the Group audit team, supplemented by specific procedures by the component auditors to gain assurance over the information provided to the valuers. The component auditors' work has been reviewed remotely by the Group team for the German and French components in the current year and, where necessary, component auditors carried out further testing at our request. The UK component is audited directly by the Group audit team.

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

All component audit partners are included in our team briefing where their risk assessment is discussed and there is frequent two-way communication between the Group and component teams. In the current year, we were not able to visit our component teams in Germany or France due to Covid-19 restrictions but we maintained regular communication and attended both close meetings via a teleconference call.

8. Other information

The other information comprises the information included in the annual report, other than the financial statements and our Auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

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

We have nothing to report in respect of these matters.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations; and
- the matters discussed among the audit engagement team including significant component audit teams and relevant internal specialists, including tax and real estate specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the accuracy and potential manipulation of the assumptions applied in determining the valuation of the property portfolio. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

Independent Auditor's report to the members of CLS Holdings plc
continued

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the Landlord and Tenant Act, Employment Laws, and Health and Safety Act.

11.2. Audit response to risks identified
As a result of performing the above, we identified the valuation of the investment property portfolio as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

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

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

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

13. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- the Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified;
- the Directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate;
- the Directors' statement is fair, balanced and understandable;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems; and
- the section describing the work of the Audit Committee.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records
Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have nothing to report in respect of these matters.

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

We have nothing to report in respect of these matters.

15. Other matters which we are required to address

15.1. Auditor tenure
Following the recommendation of the Audit Committee, we were appointed by The Board of CLS Holdings plc on 23 May 2007 to audit the financial statements for the year ending 31 December 2007 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 14 years, covering the years ending 31 December 2007 to 31 December 2020.

15.2. Consistency of the audit report with the additional report to the Audit Committee
Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

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

Georgina Robb FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
10 March 2021

Group income statement

for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Continuing operations			
Revenue	4	**139.4**	138.3
Net rental income	4	**109.8**	110.6
Administration expenses		**(18.5)**	(19.9)
Other expenses		**(15.1)**	(13.7)
Revenue less costs		**76.2**	77.0
Net movements on revaluation of investment property	11	**31.5**	57.4
Profit on sale of investment property		**11.6**	8.6
Gain on sale of other financial investments		**–**	40.4
Operating profit		**119.3**	183.4
Finance income	8	**3.2**	5.0
Finance costs	9	**(26.0)**	(29.4)
Profit before tax		**96.5**	159.0
Taxation	10	**(19.1)**	(23.8)
Profit from continuing operations		**77.4**	135.2
Discontinued operations			
Loss from discontinued operations	21	**–**	(0.5)
Profit for the year	6	**77.4**	134.7
Attributable to:			
Owners of the Company		**77.4**	135.5
Non-controlling interests		**–**	(0.8)
		77.4	134.7
Earnings per share			
Basic and diluted earnings per share from continuing operations		**19.0p**	33.3p
Basic and diluted earnings per share from discontinued operations		**–**	(0.2)p
Basic and diluted earnings per share	5	**19.0p**	33.1p

The notes on pages 127 to 158 are an integral part of these Group financial statements.

Group statement of comprehensive income
for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Profit for the year		**77.4**	134.7
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Foreign exchange differences		**24.2**	(28.8)
Items that may be reclassified to profit or loss			
Fair value loss taken to gain on sale of other financial investments, net of impairments		**–**	2.5
Revaluation of property, plant and equipment	11/12	**(3.6)**	(0.1)
Deferred tax on fair value movements	16	**0.5**	(0.3)
Discontinued operations		**–**	(0.9)
Total items that may be reclassified to profit or loss		**(3.1)**	1.2
Total other comprehensive income		**21.1**	(27.6)
Total comprehensive income for the year		**98.5**	107.1
Total comprehensive income attributable to:			
Owners of the Company		**98.5**	107.9
Non-controlling interests		**–**	(0.8)
		98.5	107.1

The notes on pages 127 to 158 are an integral part of these Group financial statements.

Group balance sheet
at 31 December 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Investment properties	11	**2,032.8**	1,961.0
Property, plant and equipment	11/12	**130.5**	43.1
Goodwill and intangible assets		**2.2**	1.4
Deferred tax	16	**7.7**	4.7
Other receivables	13	**8.2**	–
		2,181.4	2,010.2
Current assets			
Trade and other receivables	13	**22.0**	25.3
Properties held for sale	11	**21.9**	10.4
Derivative financial instruments	18	**–**	0.3
Cash and cash equivalents	14	**235.7**	259.4
		279.6	295.4
Total assets		**2,461.0**	2,305.6
Current liabilities			
Trade and other payables	15	**(54.3)**	(54.7)
Current tax		**(0.3)**	(11.9)
Borrowings	17	**(103.6)**	(132.3)
		(158.2)	(198.9)
Non-current liabilities			
Deferred tax	16	**(159.5)**	(140.8)
Borrowings	17	**(867.1)**	(759.4)
Derivative financial instruments	18	**(5.6)**	(4.1)
		(1,032.2)	(904.3)
Total liabilities		**(1,190.4)**	(1,103.2)
Net assets		**1,270.6**	1,202.4
Equity			
Share capital	22	**11.0**	11.0
Share premium		**83.1**	83.1
Other reserves	24	**117.3**	96.4
Retained earnings		**1,059.2**	1,011.9
Total equity		**1,270.6**	1,202.4

The financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 10 March 2021 and were signed on its behalf by:

Mr F Widlund
Chief Executive Officer

Mr A Kirkman
Chief Financial Officer

The notes on pages 127 to 158 are an integral part of these Group financial statements.

Group statement of changes in equity

for the year ended 31 December 2020

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
	Note 22		Note 24				
Arising in 2020:							
Total comprehensive income for the year	**–**	**–**	**21.1**	**77.4**	**98.5**	**–**	**98.5**
Share-based payment credit	**–**	**–**	**(0.2)**	**–**	**(0.2)**	**–**	**(0.2)**
Dividends to shareholders	**–**	**–**	**–**	**(30.1)**	**(30.1)**	**–**	**(30.1)**
Total changes arising in 2020	**–**	**–**	**20.9**	**47.3**	**68.2**	**–**	**68.2**
At 1 January 2020	**11.0**	**83.1**	**96.4**	**1,011.9**	**1,202.4**	**–**	**1,202.4**
At 31 December 2020	**11.0**	**83.1**	**117.3**	**1,059.2**	**1,270.6**	**–**	**1,270.6**

	Share capital £m	Share premium £m	Other reserves £m	Retained earnings £m	Total £m	Non-controlling interest £m	Total equity £m
	Note 22		Note 24				
Arising in 2019:							
Total comprehensive income for the year	–	–	(27.6)	135.5	107.9	(0.8)	107.1
Share-based payment charge	–	–	1.0	–	1.0	–	1.0
Dividends to shareholders	–	–	–	(28.7)	(28.7)	–	(28.7)
Total changes arising in 2019	–	–	(26.6)	106.8	80.2	(0.8)	79.4
At 1 January 2019	11.0	83.1	123.0	905.1	1,122.2	0.8	1,123.0
At 31 December 2019	11.0	83.1	96.4	1,011.9	1,202.4	–	1,202.4

The notes on pages 127 to 158 are an integral part of these Group financial statements.

Group statement of cash flows

for the year ended 31 December 2020

	Notes	2020 £m	2019 £m
Cash flows from operating activities			
Cash generated from operations	25	**76.9**	75.3
Interest received		**1.0**	2.8
Interest paid		**(22.1)**	(22.8)
Income tax paid on operating activities		**(11.5)**	(6.4)
Net cash inflow from operating activities		**44.3**	48.9
Cash flows from investing activities			
Purchase of investment properties		**(124.6)**	(237.2)
Capital expenditure on investment properties		**(18.9)**	(16.7)
Proceeds from sale of properties		**62.2**	171.6
Income tax paid on sale of properties		**(9.0)**	(6.6)
Purchases of property, plant and equipment		**(0.3)**	(0.5)
Proceeds from sale of corporate bonds		**–**	34.5
Proceeds from sale of equity investments		**–**	113.1
Dividends received from equity investments		**–**	2.2
Net cash flow from sale of subsidiaries	21	**(1.4)**	4.5
Purchase of intangibles		**(0.8)**	–
Distributions received from associate and investment undertakings		**0.1**	–
Net cash flow on foreign currency transactions		**0.3**	(1.2)
Net cash (outflow)/inflow from investing activities		**(92.4)**	63.7
Cash flows from financing activities			
Dividends paid	23	**(30.1)**	(28.7)
New loans		**182.5**	292.4
Issue costs of new loans		**(2.5)**	(3.6)
Repayment of loans		**(128.3)**	(209.5)
Net cash inflow from financing activities		**21.6**	50.6
Cash flow element of net (decrease)/increase in cash and cash equivalents		**(26.5)**	163.2
Foreign exchange gain/(loss)		**2.8**	(4.1)
Net (decrease)/increase in cash and cash equivalents		**(23.7)**	159.1
Cash and cash equivalents at the beginning of the year		**259.4**	100.3
Cash and cash equivalents at the end of the year	14	**235.7**	259.4

The notes on pages 127 to 158 are an integral part of these Group financial statements.

Notes to the Group financial statements
for the year ended 31 December 2020

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. The Group's principal operations are carried out in the United Kingdom, Germany and France.

The Company is registered and incorporated in the UK, registration number 02714781, with its registered address at 16 Tinworth Street, London SE11 5AL. 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 112 and have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies to the European Union.

The financial statements have been prepared on the historical cost basis, except for the revaluation of certain properties and financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on fair value of the consideration given in exchange for goods and services. Fair value is the price that would be received to sell the asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

The consolidated financial statements, including the results and financial position, are presented in sterling, which is the functional and presentation currency of the Group.

New standards and interpretations

In the current year, the Group has applied a number of new standards and amendments to IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. These new standards and amendments are listed below:

- IAS 1 and IAS 8 (amendments) Definition of Material
- IFRS 3 (amendments) Definition of a Business
- IFRS 9, IAS 39 and IFRS 7 (amendments) Interest Rate Benchmark Reform
- IFRS 16 (amendments) Covid-19-Related Rent Concessions
- Conceptual framework amendments to references to the conceptual framework in IFRS standards

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

- IAS 1 (amendments) Classification of Liabilities as Current or Non-current
- IAS 16 (amendments) Property, Plant and Equipment – Proceeds before Intended Use
- IAS 37 (amendments) Onerous Contracts – Cost of Fulfilling a Contract
- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture
- IFRS 3 (amendments) Reference to the Conceptual Framework
- IFRS 10 and IAS 28 (amendments) Sale or contribution of assets between an investor and its associate or joint venture
- IFRS 17 Insurance Contracts

The Directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Group in future periods.

Notes to the Group financial statements
continued

2. Significant accounting policies continued

2.2 Business combinations

(I) Subsidiary undertakings

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(II) Associates

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

(III) Goodwill

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

2.3 Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair value less costs to sell, except for investment properties held for sale which are measured at fair value.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after sale.

2.4 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 the income statement.

In relation to financial assets measured at fair value through other comprehensive income, exchange differences on the amortised cost of the financial assets are recognised in the income statement in the 'finance costs or finance income' line item. Other exchange differences are recognised in other comprehensive income in the fair value reserve. For financial assets measured at fair value through profit and loss, exchange differences are recognised in the income statement in the 'finance costs or finance income' line item.

(II) Consolidation of foreign entities

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

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

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

2. Significant accounting policies continued

2.5 Investment properties
Investment properties are those properties held for long-term rental yields or for capital appreciation or both. Investment properties are measured initially at cost, including related transaction costs. Additions to investment properties comprise costs of a capital nature; in the case of investment properties under development, these include capitalised interest and certain staff costs directly attributable to the management of the development. Capitalised interest is calculated at the rate on associated borrowings applied to direct expenditure between the date of gaining planning consent and the date of practical completion. The Group recognises sales and purchases of investment property when control passes on completion of the contract. Gains or losses on the sale of properties are calculated by reference to the carrying value at the end of the previous year, adjusted for subsequent capital expenditure.

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

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

Any increase arising on the revaluation of land and buildings held as property, plant and equipment is credited to the fair value reserve, except to the extent that it reverses a revaluation decrease for the same asset previously recognised as an expense, in which case the increase in value is credited to the income statement to the extent the decrease was previously expensed.

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

Fixtures and fittings	4–5 years
Head Office fit-out	10 years
Hotel	250 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit before tax.

2.7 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 risks. Derivative financial instruments are recorded at, and subsequently revalued to, fair value. Revaluation gains and losses are recognised in finance income or finance cost in the income statement, except for derivatives which qualify as effective cash flow hedges, the gains and losses relating to which are recognised in other comprehensive income.

(II) Financial assets classified as fair value through other comprehensive income (FVTOCI)
Financial assets classified as at FVTOCI are initially measured at cost, and are subsequently revalued to fair value. Revaluation gains and losses are recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary assets which are recognised in the income statement. On disposal, the cumulative gain or loss previously recognised in other comprehensive income is recycled through profit before tax.

The Group's corporate bond portfolio was held with the dual objective of holding those bonds to earn interest and selling those bonds before their maturity in order to generate cash for investment or liquidity purposes.

(III) Financial assets at fair value through profit and loss (FVTPL)
Financial assets at FVTPL are revalued to fair value. Revaluation gains and losses are recognised in the income statement.

(IV) 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.

(V) Trade and other receivables/Trade and other payables
Trade and other receivables are recognised initially at fair value. Subsequently they are measured at amortised cost with a recognised loss allowance for expected credit losses which is measured at an amount equal to the lifetime expected credit loss. Trade and other payables are stated at cost, which equates to fair value.

Notes to the Group financial statements
continued

2. Significant accounting policies continued

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

(II) Service charge income
Service charge income is recognised in accordance with IFRS 15 Revenue from Contracts with Customers, which prescribes the use of a five-step model for the recognition of revenue. These income streams are recognised as revenue in the period in which they are earned.

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

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

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

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

Current and deferred tax are recognised in the income statement except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or equity respectively.

3. Critical accounting judgements and key sources of estimation uncertainty

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

In the opinion of the Directors, for the years ended 31 December 2020 and 31 December 2019 there are no accounting judgements that are material to the financial statements.

Key sources of estimation uncertainty
The Group uses the valuations performed by its independent external valuers as the fair value of its investment properties and those properties held at valuation and classified as property, plant and equipment. The valuations are based upon assumptions including future rental income, anticipated maintenance costs, future development costs and an appropriate discount rate (see note 11 for more detail). The valuers also make reference to market evidence of transaction prices for similar properties.

4. Segment information

The Group has two operating divisions – investment properties and other investments. Other investments comprise the hotel at Spring Mews and other small corporate investments. The Group manages the investment properties division on a geographical basis due to its size and geographical diversity. Consequently, the Group's principal operating segments are:

Investment properties: United Kingdom
Germany
France

Other investments

4. Segment information continued

Year ended 31 December 2020	Investment properties					
	United Kingdom £m	Germany £m	France £m	Other investments £m	Central administration £m	Total £m
Rental income	**58.2**	**33.3**	**15.0**	**–**	**–**	**106.5**
Other property-related income	**3.8**	**–**	**0.2**	**1.9**	**–**	**5.9**
Service charge income	**11.2**	**10.3**	**5.5**	**–**	**–**	**27.0**
Revenue	**73.2**	**43.6**	**20.7**	**1.9**	**–**	**139.4**
Service charges and similar expenses	**(12.8)**	**(10.9)**	**(5.9)**	**–**	**–**	**(29.6)**
Net rental income	**60.4**	**32.7**	**14.8**	**1.9**	**–**	**109.8**
Administration expenses	**(7.5)**	**(2.9)**	**(1.8)**	**(0.2)**	**(6.1)**	**(18.5)**
Other expenses	**(8.9)**	**(2.8)**	**(1.4)**	**(2.0)**	**–**	**(15.1)**
Revenue less costs	**44.0**	**27.0**	**11.6**	**(0.3)**	**(6.1)**	**76.2**
Net movements on revaluation of investment property	**(29.1)**	**60.1**	**0.5**	**–**	**–**	**31.5**
(Loss)/profit on sale of investment property	**(0.1)**	**11.7**	**–**	**–**	**–**	**11.6**
Segment operating profit/(loss)	**14.8**	**98.8**	**12.1**	**(0.3)**	**(6.1)**	**119.3**
Finance income	**–**	**–**	**–**	**3.2**	**–**	**3.2**
Finance costs	**(17.3)**	**(5.1)**	**(2.7)**	**(0.9)**	**–**	**(26.0)**
Segment (loss)/profit before tax	**(2.5)**	**93.7**	**9.4**	**2.0**	**(6.1)**	**96.5**

Year ended 31 December 2019	Investment properties					
	United Kingdom £m	Germany £m	France £m	Other investments £m	Central administration £m	Total £m
Rental income	59.2	32.4	16.1	–	–	107.7
Other property-related income	1.1	0.6	0.2	4.9	–	6.8
Service charge income	9.2	9.1	5.5	–	–	23.8
Revenue	69.5	42.1	21.8	4.9	–	138.3
Service charges and similar expenses	(10.8)	(11.3)	(5.6)	–	–	(27.7)
Net rental income	58.7	30.8	16.2	4.9	–	110.6
Administration expenses	(7.5)	(2.8)	(2.0)	(0.3)	(7.3)	(19.9)
Other expenses	(6.2)	(3.6)	(0.9)	(3.0)	–	(13.7)
Revenue less costs	45.0	24.4	13.3	1.6	(7.3)	77.0
Net movements on revaluation of investment property	(3.4)	50.7	10.1	–	–	57.4
(Loss)/profit on sale of investment property	(4.4)	6.9	6.1	–	–	8.6
Gain on sale of other financial investments	–	–	–	40.4	–	40.4
Segment operating profit/(loss)	37.2	82.0	29.5	42.0	(7.3)	183.4
Finance income	–	–	–	5.0	–	5.0
Finance costs	(17.8)	(4.9)	(2.8)	(3.9)	–	(29.4)
Segment profit/(loss) before tax	19.4	77.1	26.7	43.1	(7.3)	159.0

Other segment information

	Assets		Liabilities		Capital expenditure	
	2020 £m	2019 £m	**2020 £m**	2019 £m	**2020 £m**	2019 £m
Investment properties						
United Kingdom	**1,044.8**	1,064.7	**605.2**	532.4	**7.3**	5.9
Germany	**767.2**	679.1	**373.3**	357.1	**6.3**	9.1
France	**314.9**	290.7	**207.2**	205.2	**4.2**	1.6
Other investments[1]	**334.1**	271.1	**4.7**	8.5	**0.1**	0.1
	2,461.0	2,305.6	**1,190.4**	1,103.2	**17.9**	16.7

1 Following the transfer of student accommodation from investment properties to PPE discussed in note 11 the 'other investments' segment also includes student accommodation at 31 December 2020.

Notes to the Group financial statements
continued

5. Alternative performance measures

Alternative performance measures ('APMs') should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Introduction
The Group has applied the October 2015 European Securities and Markets Authority ('ESMA') guidelines on APMs and the November 2017 Financial Reporting Council ('FRC') corporate thematic review of APMs in these results, whilst noting ESMA's December 2019 report on the use of APMs. An APM is a financial measure of historical or future financial performance, position or cash flows of the Group which is not a measure defined or specified in IFRS.

Overview of our use of APMs
The Directors believe that APMs assist in providing additional useful information on the underlying trends, performance and position of the Group. APMs assist our stakeholder users of the accounts, particularly equity and debt investors, through the comparability of information. APMs are used by the Directors and management, both internally and externally, for performance analysis, strategic planning, reporting and incentive-setting purposes.

APMs are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including peers in the real estate industry. There are two sets of APMs which we utilise, and which are reconciled where possible to statutory measures on the following pages.

1. EPRA APMs and similar CLS APMs
CLS monitors the Group's financial performance using APMs which are European Public Real Estate Association ('EPRA') measures as these are a set of standard disclosures for the property industry and thus aid comparability for our stakeholder users. In previous years, the two key APMs for CLS, which are in accordance with the November 2016 EPRA guidelines, were:

- EPRA earnings, which gives relevant information to investors on the long-term performance of the Group's underlying property investment business and an indication of the extent to which current dividend payments are supported by earnings; and
- EPRA net asset value (NAV), which excludes certain items not expected to crystallise in a long-term investment property business model, such as CLS'.

The latest edition of the EPRA guidelines were issued in October 2019 and replaced EPRA NAV and EPRA NNNAV with three other balance sheet reporting measures, which are defined in the glossary:

- EPRA net tangible assets (NTA);
- EPRA net realisable value (NRV); and
- EPRA net development value (NDV).

CLS considers EPRA NTA to be the most relevant of these new measures as we believe that this will continue to reflect the long-term nature of our property investments most accurately. However, all the new measures have been disclosed along with the previous measures for comparative purposes. EPRA Earnings remains the same.

5. Alternative performance measures continued

Whilst CLS primarily uses the measures referred to above, we have also disclosed all other EPRA metrics as well as disclosing the measures that CLS used to prefer for certain of these categories. The notes below highlight where the measures that we monitor differ and our previous rationale for using them. From 2021 onwards, following CLS' re-entry into the EPRA indices, we will be just using EPRA measures.

- EPRA net initial yield;
- EPRA 'topped-up' net initial yield;
- CLS and EPRA vacancy;
- EPRA capital expenditure; and
- CLS administration cost ratio and EPRA cost ratio.

2. Other APMs

CLS uses a number of other APMs, many of which are commonly used by industry peers:

- Total accounting return;
- Net borrowings and gearing;
- Loan-to-value;
- Dividend cover; and
- Interest cover.

Apart from the changes highlighted above, there have been no changes to the Group's APMs in the year with the same APMs utilised by the business being defined, calculated and used on a consistent basis. Set out below is a reconciliation of the APMs used in these results to the statutory measures.

1. EPRA APMs and similar CLS APMs

For use in earnings per share calculations	2020 Number	2019 Number
Weighted average number of ordinary shares in circulation	**407,395,760**	407,395,760
For use in net asset per share calculations		
Number of ordinary shares in circulation at 31 December	**407,395,760**	407,395,760

i) Earnings – EPRA earnings

	Notes	2020 £m	2019 £m
Profit for the year		**77.4**	135.5
Profit from discontinued operations	21	**–**	(0.3)
Net uplift on revaluation of investment property	11	**(31.5)**	(57.4)
Profit from sale of investment property		**(11.6)**	(8.6)
Current tax on disposals		**2.7**	13.4
Gain on sale of other financial investments		**–**	(40.4)
Tax thereon		**–**	0.1
Movement in fair value of derivative financial instruments	9	**1.6**	0.5
Movement in fair value of foreign exchange derivatives		**–**	0.4
Deferred taxation thereon	16	**10.9**	5.7
EPRA earnings		**49.5**	48.9
Basic and diluted earnings per share from continuing operations (pence)		**19.0p**	33.3p
EPRA earnings per share (pence)		**12.2p**	12.0p

Notes to the Group financial statements
continued

5. Alternative performance measures continued

ii) Net asset value measures

2020	IFRS NAV £m	EPRA NNNAV £m	EPRA NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m
Net assets	**1,270.6**	**1,270.6**	**1,270.6**	**1,270.6**	**1,270.6**	**1,270.6**
Goodwill as a result of deferred tax on acquisitions	–	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Other intangibles	–	–	–	(1.1)	–	–
Fair value of fixed interest debt	–	(13.2)	–	–	–	(13.2)
– tax thereon	–	2.5	–	–	–	2.5
Deferred tax on revaluation surplus	–	–	151.3	151.3	151.3	–
Capital allowances	–	–	–	(12.0)	(12.0)	–
Adjustment for short-term disposals	–	–	–	(6.9)	–	–
Fair value of financial instruments	–	–	5.6	5.6	5.6	–
Purchasers' costs	–	–	–	–	140.9	–
	1,270.6	**1,258.8**	**1,426.4**	**1,406.4**	**1,555.3**	**1,258.8**
Per share	**311.9p**	**309.0p**	**350.1p**	**345.2p**	**381.8p**	**309.0p**

2019	IFRS NAV £m	EPRA NNNAV £m	EPRA NAV £m	EPRA NTA £m	EPRA NRV £m	EPRA NDV £m
Net assets	1,202.4	1,202.4	1,202.4	1,202.4	1,202.4	1,202.4
Goodwill as a result of deferred tax on acquisitions	–	(1.1)	(1.1)	(1.1)	(1.1)	(1.1)
Other intangibles	–	–	–	(0.3)	–	–
Fair value of fixed interest debt	–	(9.9)	–	–	–	(9.9)
– tax thereon	–	1.9	–	–	–	1.9
Deferred tax on revaluation surplus	–	–	136.1	136.1	136.1	–
Capital allowances	–	–	–	(11.7)	(11.7)	–
Adjustment for short-term disposals	–	–	–	0.1	–	–
Fair value of financial instruments	–	–	3.8	3.8	3.8	–
Purchasers' costs	–	–	–	–	130.2	–
	1,202.4	1,193.3	1,341.2	1,329.3	1,459.7	1,193.3
Per share	295.1p	292.9p	329.2p	326.3p	358.3p	292.9p

5. Alternative performance measures continued

iii) Yield

EPRA net initial yield (NIY)

EPRA NIY is calculated as the annualised rental income based on the cash rents passing at the balance sheet date less non-recoverable property operating expenses, divided by the gross market value of the property (excluding those that are under development, held as PPE or occupied by CLS).

	2020				2019			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Rent passing	54.4	33.2	13.7	101.3	56.7	32.8	14.1	103.6
Adjusted for development stock	(1.1)	–	–	(1.1)	(1.4)	–	–	(1.4)
Forecast non-recoverable service charge	(2.5)	(0.8)	(0.5)	(3.8)	(2.2)	–	–	(2.2)
Annualised net rents (A)	50.8	32.4	13.2	96.4	53.1	32.8	14.1	100.0
Property portfolio	1,003.8	743.3	307.6	2,054.7	1,024.3	663.6	283.5	1,971.4
Adjusted for development stock	(49.5)	(7.5)	–	(57.0)	(52.4)	(8.2)	–	(60.6)
Purchasers' costs at 6.8%	64.6	50.0	20.9	135.5	66.1	44.5	19.3	129.9
Property portfolio valuation including purchasers' costs (B)	1,018.9	785.8	328.5	2,133.2	1,038.0	699.9	302.8	2,040.7
EPRA NIY (A/B)	5.0%	4.1%	4.0%	4.5%	5.1%	4.8%	4.7%	4.9%

EPRA 'topped-up' NIY

EPRA "topped-up" NIY is calculated by making an adjustment to EPRA NIY in respect of the expiration of rent-free periods (or other unexpired lease incentives such as discounted rent periods and step rents).

	2020				2019			
	United Kingdom £m	Germany £m	France £m	Total £m	United Kingdom £m	Germany £m	France £m	Total £m
Contracted rent	57.2	34.7	16.0	107.9	59.2	34.3	15.8	109.3
Adjusted for development stock	(1.2)	–	–	(1.2)	(1.5)	–	–	(1.5)
Forecast non-recoverable service charge	(2.5)	(0.8)	(0.5)	(3.8)	(2.2)	–	–	(2.2)
'Topped-up' annualised net rents (A)	53.5	33.9	15.5	102.9	55.5	34.3	15.8	105.6
Property portfolio	1,003.8	743.3	307.6	2,054.7	1,024.3	663.6	283.5	1,971.4
Adjusted for development stock	(49.5)	(7.5)	–	(57.0)	(52.4)	(8.2)	–	(60.6)
Purchasers' costs (6.8%)	64.6	50.0	20.9	135.5	66.1	44.5	19.3	129.9
Property portfolio valuation including purchasers' costs (B)	1,018.9	785.8	328.5	2,133.2	1,038.0	699.9	302.8	2,040.7
EPRA 'topped-up' NIY (A/B)	5.2%	4.3%	4.7%	4.8%	5.4%	5.0%	5.2%	5.2%

Notes to the Group financial statements
continued

5. Alternative performance measures continued

iv) Vacancy
The EPRA vacancy rate calculates vacancy as a proportion of the ERV of the total portfolio and, from 2021, will be the primary measure used by the Group. Previously, CLS opted to use its own rate based on ERV of vacant space plus contracted rent, which provided a more prudent KPI, as a large proportion of our portfolio used to be under rented. Both measures are set out below:

CLS vacancy

	2020 £m	2019 £m
ERV of vacant space (A)	**6.1**	4.6
Contracted rent	**107.9**	109.3
ERV of vacant space plus contracted rent (B)	**114.0**	113.9
CLS vacancy rate (A/B)	**5.3%**	4.0%

EPRA vacancy

	2020 £m	2019 £m
ERV of vacant space (A)	**6.1**	4.6
ERV of lettable space	**113.9**	120.1
ERV of total portfolio (B)	**120.0**	124.7
EPRA vacancy rate (A/B)	**5.1%**	3.7%

v) Capital expenditure
EPRA capital expenditure

This measure shows the total amounts spent on the Group's investment properties on an accrual and cash basis with a split between expenditure used for the creation of incremental space and enhancing space ('no incremental space').

	Notes	2020 £m	2019 £m
Acquisitions	11	**119.1**	232.9
Amounts spent on the completed investment property portfolio	11		
Creation of incremental space		**1.9**	2.6
Creation of no incremental space		**15.9**	14.0
EPRA capital expenditure		**136.9**	249.5
Conversion from accrual to cash basis		**6.6**	4.3
EPRA capital expenditure on a cash basis		**143.5**	253.8

vi) Cost ratios
CLS administration cost ratio

CLS' administration cost ratio represents the cost of running the property portfolio relative to its net income. CLS uses this measure to monitor the efficiency of the business as it focuses on the administrative cost of active asset management across three countries.

	Notes	2020 £m	2019 £m
Administration expenses	4	**18.5**	19.9
Less: Investment segment and First Camp	4	**(0.2)**	(0.3)
Underlying administration expenses (A)		**18.3**	19.6
Net rental income from investment property (B)	4	**109.8**	110.6
Administration cost ratio (A/B)		**16.7%**	17.7%

5. Alternative performance measures continued

EPRA cost ratio

	Notes	2020 £m	2019 £m
Administration expenses	4	**18.5**	19.9
Other expenses	4	**15.1**	13.7
Less: Investment segment and First Camp	4	**(2.2)**	(3.3)
		31.4	30.3
Net service charge costs	4	**2.6**	3.9
Service charge costs recovered through rents but not separately invoiced		**(0.3)**	(0.7)
Dilapidations receipts		**(2.6)**	(0.9)
EPRA costs (including direct vacancy costs) (A)		**31.1**	32.6
Direct vacancy costs		**(2.9)**	(2.6)
EPRA costs (excluding direct vacancy costs) (B)		**28.2**	30.0
Gross rental income	4	**106.5**	107.7
Service charge components of rental income		**(0.3)**	(0.7)
Adjusted gross rental income (C)		**106.2**	107.0
EPRA cost ratio (including direct vacancy costs) (A/C)		**29.3%**	30.5%
EPRA cost ratio (excluding direct vacancy costs) (B/C)		**26.6%**	28.0%

2. Other APMs

i) Total accounting return

	Notes	2020 £m	2019 £m
EPRA NTA at 31 December	5	**1,406.4**	1,329.3
Distribution – prior year final	23	**20.5**	19.1
Distribution – current year interim	23	**9.6**	9.6
Less: EPRA NTA at 1 January (A)	5	**(1,329.3)**	(1,241.0)
Return before dividends (B)		**107.2**	117.0
Total accounting return (NTA) (B/A)		**8.1%**	9.4%

	Notes	2020 £m	2019 £m
EPRA NAV at 31 December	5	**1,426.4**	1,341.2
Distribution – prior year final	23	**20.5**	19.1
Distribution – current year interim	23	**9.6**	9.6
Less: EPRA NAV at 1 January (A)	5	**(1,341.2)**	(1,262.0)
Return before dividends (B)		**115.3**	107.9
Total accounting return (NAV) (B/A)		**8.6%**	8.6%

Notes to the Group financial statements
continued

5. Alternative performance measures continued

ii) Net borrowings and gearing

	Notes	2020 £m	2019 £m
Borrowings short-term	17	**103.6**	132.3
Borrowings long-term	17	**867.1**	759.4
Add back: unamortised issue costs	17	**6.3**	5.5
Gross debt	17	**977.0**	897.2
Cash	14	**(235.7)**	(259.4)
Net borrowings (A)		**741.3**	637.8
Net assets (B)		**1,270.6**	1,202.4
Net gearing (A/B)		**58.3%**	53.0%

iii) Balance sheet loan-to-value

	Notes	2020 £m	2019 £m
Borrowings short-term	17	**103.6**	132.3
Borrowings long-term	17	**867.1**	759.4
Less: cash	14	**(235.7)**	(259.4)
Net debt (A)		**735.0**	632.3
Investment properties	11	**2,032.8**	1,961.0
Properties in plant, property and equipment	11/12	**128.3**	40.7
Properties held for sale	11	**21.9**	10.4
Total property portfolio (B)		**2,183.0**	2,012.1
Balance sheet loan-to-value (A/B)		**33.7%**	31.4%

iv) Dividend cover

	Notes	2020 £m	2019 £m
Interim dividend	23	**9.6**	9.6
Final dividend	23	**21.2**	20.5
Total dividend (A)		**30.8**	30.1
EPRA EPS (B)	5	**49.5**	48.9
Dividend cover (B/A)		**1.61**	1.62

5. Alternative performance measures continued

v) Interest cover

	Notes	2020 £m	2019 £m
Net rental income	4	**109.8**	110.6
Administration expenses	4	**(18.5)**	(19.9)
Other expenses	4	**(15.1)**	(13.7)
Group revenue less costs (A)		**76.2**	77.0
Finance income (excluding foreign exchange, dividend income)	8	**1.0**	2.8
Finance costs (excluding foreign exchange, derivatives and exceptionals)	9	**(24.4)**	(25.3)
Net interest (B)		**(23.4)**	(22.5)
Interest cover (-A/B)		**3.26**	3.42

6. Profit for the year

Profit for the year has been arrived at after charging:

	Notes	2020 £m	2019 £m
Auditor's remuneration: Fees payable to the Company's Auditor for:			
Audit of the Parent Company and Group accounts		**0.4**	0.4
Audit of the Company's subsidiaries pursuant to legislation		**0.1**	0.1
Depreciation of property, plant and equipment	12	**0.7**	0.9
Employee benefits expense	7	**13.5**	14.1
Foreign exchange (gain)/loss	8/9	**(2.1)**	3.6
Provision against trade receivables	13	**1.8**	0.3

Other services provided to the Group by the Company's Auditor consisted of the 2020 interim review of £40k (2019: £37k).

7. Employee benefits expense

	2020 £m	2019 £m
Wages and salaries	**9.1**	9.3
Social security costs	**1.1**	1.2
Pension costs – defined contribution plans	**0.4**	0.4
Performance incentive plan	**1.1**	1.1
Other employee-related expenses	**1.8**	2.1
	13.5	14.1

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

Information on Directors' emoluments, share options and interests in the Company's shares is given in the Remuneration Committee Report on pages 90 to 109.

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

	2020				2019			
	Property Number	**Hotel Number**	**Other operations Number**	**Total Number**	Property Number	Hotel Number	Other operations Number	Total Number
Male	**47**	**7**	**–**	**54**	46	8	1	55
Female	**53**	**9**	**–**	**62**	49	9	–	58
	100	**16**	**–**	**116**	95	17	1	113

Notes to the Group financial statements
continued

8. Finance income

	2020 £m	2019 £m
Interest income		
Financial instruments carried at amortised cost	**1.0**	0.7
Financial instruments carried at fair value through other comprehensive income	**–**	2.1
Foreign exchange gain	**2.1**	–
Other finance income	**0.1**	2.2
	3.2	5.0

9. Finance costs

	2020 £m	2019 £m
Interest expense		
Secured bank loans	**20.0**	20.6
Secured notes	**2.3**	2.4
Amortisation of loan issue costs	**2.1**	2.3
Total interest costs	**24.4**	25.3
Movement in fair value of derivative financial instruments	**1.6**	0.5
Foreign exchange loss	**–**	3.6
	26.0	29.4

10. Taxation

	2020 £m	2019 £m
Corporation tax		
Current year charge	**8.1**	20.5
Adjustments in respect of prior years	**0.3**	(2.4)
	8.4	18.1
Deferred tax (see note 16)		
Origination and reversal of temporary differences	**5.7**	5.7
Effect of change in UK tax rate	**5.0**	–
	10.7	5.7
Tax charge for the year	**19.1**	23.8

A deferred tax credit of £0.5 million (2019: charge £0.3 million) was recognised directly in equity (note 16). 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:

	2020 £m	2019 £m
Profit before tax	**96.5**	159.0
Expected tax charge at the weighted average applicable tax rate	**16.3**	31.4
Expenses not deductible for tax purposes	**1.1**	2.4
Change in tax basis of UK properties, including indexation uplift	**0.7**	0.3
Change in UK tax rate	**5.0**	–
Non-taxable income	**(1.6)**	(0.5)
Deferred tax on losses (recognised)/not recognised	**(2.8)**	0.4
Non-taxable gain on sale of investments	**–**	(7.8)
Adjustments in respect of prior years	**0.3**	(2.4)
Other	**0.1**	–
Tax charge for the year	**19.1**	23.8

The weighted average applicable tax rate of 16.9% (2019: 19.8%) was derived by applying to their relevant profits and losses the rates in the jurisdictions in which the Group operated. The standard UK rate of corporation tax applied to profits is 19.0% (2019: 19.0%).

11. Property portfolio

	United Kingdom £m	Germany £m	France £m	Total investment properties £m	Property held in PPE[1] £m	Assets held for sale £m	Total property portfolio £m
At 1 January 2020	**1,014.7**	**663.6**	**282.7**	**1,961.0**	**40.7**	**10.4**	**2,012.1**
Acquisitions	**98.1**	**17.3**	**3.7**	**119.1**	**–**	**–**	**119.1**
Capital expenditure	**7.3**	**6.3**	**4.2**	**17.8**	**0.1**	**–**	**17.9**
Disposals	**–**	**(40.4)**	**–**	**(40.4)**	**–**	**(10.2)**	**(50.6)**
Net revaluation movement	**(29.1)**	**60.1**	**0.5**	**31.5**	**(3.6)**	**–**	**27.9**
Lease incentive debtor adjustments	**3.4**	**(1.7)**	**0.2**	**1.9**	**–**	**–**	**1.9**
Exchange rate variances	**–**	**38.2**	**16.2**	**54.4**	**0.5**	**–**	**54.9**
Depreciation	**–**	**–**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
Transfer to plant, property and equipment	**(90.8)**	**–**	**–**	**(90.8)**	**90.8**	**–**	**–**
Transfer to properties held for sale	**(5.7)**	**(10.2)**	**(5.8)**	**(21.7)**	**–**	**21.7**	**–**
At 31 December 2020	**997.9**	**733.2**	**301.7**	**2,032.8**	**128.3**	**21.9**	**2,183.0**

	United Kingdom £m	Germany £m	France £m	Total £m
Investment property	**997.9**	**733.2**	**301.7**	**2,032.8**
Property held in PPE[1]	**121.9**	**4.3**	**2.1**	**128.3**
Assets held for sale	**5.9**	**10.2**	**5.8**	**21.9**
Property portfolio at 31 December 2020	**1,125.7**	**747.7**	**309.6**	**2,183.0**

	United Kingdom £m	Germany £m	France £m	Total investment properties £m	Property held in PPE[1] £m	Assets held for sale £m	Total property portfolio £m
At 1 January 2019	954.1	625.9	308.1	1,888.1	30.9	4.3	1,923.3
Acquisitions	161.3	58.3	13.3	232.9	–	–	232.9
Capital expenditure	5.9	9.1	1.6	16.6	0.1	–	16.7
Disposals	(86.1)	(42.3)	(30.4)	(158.8)	–	(4.3)	(163.1)
Reclassification to owner-occupied property	(7.5)	(1.0)	(1.8)	(10.3)	10.3	–	–
Net revaluation movement	(3.4)	50.7	10.1	57.4	(0.1)	–	57.3
Lease incentive debtor adjustments	–	2.9	0.8	3.7	–	–	3.7
Exchange rate variances	–	(40.0)	(18.2)	(58.2)	(0.3)	–	(58.5)
Depreciation	–	–	–	–	(0.2)	–	(0.2)
Transfer to properties held for sale	(9.6)	–	(0.8)	(10.4)	–	10.4	–
At 31 December 2019	1,014.7	663.6	282.7	1,961.0	40.7	10.4	2,012.1

[1] PPE: Property, plant and equipment (see note 12).

Investment properties included leasehold properties with a carrying amount of £32.8 million (2019: £29.8 million).

The property portfolio which comprises investment properties, properties held for sale and the student accommodation, hotel and landholding detailed in note 12 was revalued at 31 December 2020 to its fair value. Valuations were based on current prices in an active market for all properties. The property valuations were carried out by external independent valuers as follows:

	2020 £m	2019 £m
Cushman and Wakefield	**1,435.3**	2,009.7
Jones Lang LaSalle	**744.6**	–
L Fällström AB	**3.1**	2.4
	2,183.0	2,012.1

The total fees, including the fees for this assignment, earned by each of the valuers from the Group is less than 5% of their total revenues in each jurisdiction.

Notes to the Group financial statements
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11. Property portfolio continued

Valuation process
The Group's property portfolio was valued by external valuers on the basis of fair value using information provided to them by the Group such as current rents, terms and conditions of lease agreements, service charges and capital expenditure. This information is derived from the Group's property management systems and is subject to the Group's overall control environment. The valuation reports are based on assumptions and valuation models used by the external valuers. The assumptions are typically market related, such as yields and discount rates, and are based on professional judgement and market evidence of transactions for similar properties on arm's length terms. The valuations are prepared in accordance with RICS standards.

Each region's Head of Property, who report to the Head of Group Property, verifies all major inputs to the external valuation reports, assesses the individual property valuation changes from the prior year valuation report and holds discussions with the external valuers. When the process is complete, the valuation report is recommended to the Audit Committee and the Board, which considers it as part of its overall responsibilities.

Valuation techniques
The fair value of the property portfolio has been determined using an income capitalisation approach (excluding ongoing developments), whereby contracted and market rental values are capitalised with a market capitalisation rate. The resulting valuations are cross-checked against the equivalent yields and the fair market values per square foot derived from comparable recent market transactions on arm's length terms. Other factors taken into account in the valuations include the tenure of the property, tenancy details and ground and structural conditions.

Ongoing developments are valued under the 'residual method' of valuation, which is the same of the method of valuation described above, with a deduction for all costs necessary to complete the development, including a notional finance cost, together with a further allowance for remaining risk. As the development approaches completion, the valuer may consider the income capitalisation approach to be more appropriate.

These techniques are consistent with the principles in IFRS 13 Fair Value Measurement and use significant unobservable inputs such that the fair value measurement of each property within the portfolio has been classified as Level 3 in the fair value hierarchy.

There were no transfers between any of the Levels in the fair value hierarchy during either 2020 or 2019.

Gains and losses recorded in profit or loss for recurring fair value measurements categorised within Level 3 of the fair value hierarchy amount to a gain of £31.5 million (2019: £57.4 million) and are presented in the income statement in the line item 'Net movements on revaluation of investment properties'. The revaluation deficit for the property, plant and equipment of £3.6 million (2019: £0.1 million) was included within the revaluation reserve.

All gains and losses recorded in profit or loss in 2020 and 2019 for recurring fair value measurements categorised within Level 3 of the fair value hierarchy are attributable to changes in unrealised gains or losses relating to investment property held at 31 December 2020 and 31 December 2019, respectively.

Quantitative information about fair value measurement using unobservable inputs (Level 3)

	ERV				Equivalent yield			
	Average		Range		Average		Range	
	2020 £ per sq. ft	2019 £ per sq. ft	2020 per sq. ft	2019 per sq. ft	2020 %	2019 %	2020 %	2019 %
UK	35.51	29.53	10.00–66.43	10.00–66.43	5.70	5.58	2.42–8.80	2.36–10.75
Germany	13.52	14.30	9.44–25.09	7.16–22.81	4.42	4.93	3.00–5.50	4.00–5.88
France	19.13	22.34	9.97–33.22	12.59–43.57	4.60	5.43	3.58–6.26	4.50–6.75

Sensitivity of measurement to variations in the significant unobservable inputs
All other factors remaining constant, an increase in ERV would increase valuations, whilst an increase in the equivalent yield would result in a fall in value, and vice versa. There are inter-relationships between these inputs as they are partially determined by market conditions. An increase in the reversionary yield may accompany an increase in ERV and would mitigate its impact on the fair value measurement.

A decrease in the equivalent yield by 25 basis points would result in an increase in the fair value of the Group's investment property by £115.2 million (2019: £114.4 million) whilst a 25 basis point increase would reduce the fair value by £103.7 million (2019: £96.5 million). A decrease in the ERV by 5% would result in a decrease in the fair value of the Group's investment property by £75.8 million (2019: £71.4 million) whilst an increase in the ERV by 5% would result in an increase in the fair value of the Group's investment property by £75.6 million (2019: £79.9 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 and no interest has been capitalised within capital expenditure in either the current or comparative year.

12. Property, plant and equipment

	Student accommodation £m	Hotel £m	Land and buildings £m	Owner-occupied property £m	Fixtures and fittings £m	Total £m
Cost or valuation						
At 1 January 2019	–	28.2	3.5	–	5.7	37.4
Additions	–	0.1	–	–	0.4	0.5
Disposals	–	–	–	–	(0.1)	(0.1)
Reclassification from investment property	–	–	–	10.3	–	10.3
Revaluation	–	0.7	(0.8)	–	–	(0.1)
Exchange rate variances	–	–	(0.3)	–	–	(0.3)
At 31 December 2019	**–**	**29.0**	**2.4**	**10.3**	**6.0**	**47.7**
Additions	**–**	**0.1**	**–**	**–**	**0.3**	**0.4**
Reclassification from investment property[1]	**90.8**	**–**	**–**	**–**	**–**	**90.8**
Revaluation	**–**	**(4.1)**	**0.4**	**0.1**	**–**	**(3.6)**
Exchange rate variances	**–**	**–**	**0.3**	**0.2**	**–**	**0.5**
At 31 December 2020	**90.8**	**25.0**	**3.1**	**10.6**	**6.3**	**135.8**
Comprising:						
At cost	**–**	**–**	**–**	**–**	**6.3**	**6.3**
At valuation	**90.8**	**25.0**	**3.1**	**10.6**	**–**	**129.5**
	90.8	**25.0**	**3.1**	**10.6**	**6.3**	**135.8**
Accumulated depreciation and impairment						
At 1 January 2019	–	(0.8)	–	–	(2.9)	(3.7)
Depreciation charge	–	(0.2)	–	–	(0.7)	(0.9)
At 31 December 2019	**–**	**(1.0)**	**–**	**–**	**(3.6)**	**(4.6)**
Depreciation charge	**–**	**(0.2)**	**–**	**–**	**(0.5)**	**(0.7)**
At 31 December 2020	**–**	**(1.2)**	**–**	**–**	**(4.1)**	**(5.3)**
Net book value						
At 31 December 2020	**90.8**	**23.8**	**3.1**	**10.6**	**2.2**	**130.5**
At 31 December 2019	–	28.0	2.4	10.3	2.4	43.1

1 As a result of the ending of an agreement with a third party the Group will be managing the student accommodation internally and the services it provides will no longer be ancillary. Therefore, the Group has decided that, in accordance with IAS16 Plant, Property and Equipment, this property should be reclassified from investment property to plant, property and equipment.

Notes to the Group financial statements
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13. Trade and other receivables

	Notes	2020 £m	2019 £m
Current			
Trade receivables		**7.3**	5.6
Other receivables		**4.3**	15.5
Prepayments		**8.5**	2.5
Accrued income		**1.9**	1.7
		22.0	25.3
Non-Current			
Other receivables	21	**8.2**	–
		30.2	25.3

Trade receivables are shown after deducting a provision for bad and doubtful debts of £2.8 million (2019: £1.1 million). The provision for bad and doubtful debts is calculated as an expected credit loss on trade and other receivables in accordance with IFRS 9 (see note 2). The charge to the income statement in relation to write-offs and provisions made against doubtful debts was £1.8 million (2019: £0.3 million) (see note 6).

The expected credit loss is recognised on initial recognition of a receivable and is reassessed at each reporting period. In order to calculate the expected credit loss, the Group uses historic default rates and applies a forward-looking outlook. In the current reporting period, the forward-looking outlook has considered the actual and potential impacts of Covid-19. The historic default rates used are specific to how many days past due a receivable is. Specific provisions are also made in excess of the expected credit loss where information is available to suggest that a higher provision than the expected credit loss is required. In the current reporting period, an additional review of tenant debtors was undertaken to assess recoverability in light of the Covid-19 pandemic.

The Directors consider that the carrying amount of trade and other receivables is approximate to their fair value. There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers who are paying their rent in advance. Further details about the Group's credit risk management practices are disclosed in note 19.

14. Cash and cash equivalents

	2020 £m	2019 £m
Cash at bank and in hand	**235.7**	259.4

At 31 December 2020, cash at bank and in hand included £14.5 million (2019: £12.9 million) which was restricted by a third-party charge.

15. Trade and other payables

	2020 £m	2019 £m
Trade payables	**1.7**	2.5
Social security and other taxes	**5.8**	2.3
Other payables	**12.1**	13.9
Deferred income	**18.2**	17.6
Accruals	**16.5**	18.4
	54.3	54.7

16. Deferred tax

	Liabilities				Assets				
	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m	UK capital allowances £m	Fair value adjustments to properties £m	Other £m	Total £m	Total deferred tax £m
At 1 January 2019	11.0	126.6	1.7	139.3	(0.1)	(2.5)	(0.9)	(3.5)	135.8
Charged/(credited)									
to income statement	0.2	7.3	(0.2)	7.3	(0.1)	(1.2)	(0.3)	(1.6)	5.7
to OCI[1]	–	(0.1)	–	(0.1)	–	–	0.4	0.4	0.3
Exchange rate variances	–	(5.6)	(0.1)	(5.7)	–	–	–	–	(5.7)
At 31 December 2019	**11.2**	**128.2**	**1.4**	**140.8**	**(0.2)**	**(3.7)**	**(0.8)**	**(4.7)**	**136.1**
Charged/(credited)									
to income statement	**1.1**	**12.2**	**0.4**	**13.7**	**(0.1)**	**(2.3)**	**(0.6)**	**(3.0)**	**10.7**
to OCI[1]	**–**	**(0.5)**	**–**	**(0.5)**	**–**	**–**	**–**	**–**	**(0.5)**
Exchange rate variances	**–**	**5.4**	**0.1**	**5.5**	**–**	**–**	**–**	**–**	**5.5**
At 31 December 2020	**12.3**	**145.3**	**1.9**	**159.5**	**(0.3)**	**(6.0)**	**(1.4)**	**(7.7)**	**151.8**

[1] Other Comprehensive Income.

Deferred tax has been calculated at a weighted average across the Group of 17.5% (2019: 16.5%), and has been based on the rates applicable under legislation substantively enacted at the balance sheet date.

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. At 31 December 2020 the Group did not recognise deferred tax assets of £5.7 million (2019: £1.4 million) in respect of losses amounting to £35.3 million (2019: £8.3 million) which can be carried forward against future taxable income or gains.

In the March 2021 Budget it was announced that the headline UK corporation tax rate would increase from 19% to 25% from April 2023. A 1% increase in the UK rate equates to approximately £2.5m of additional deferred tax based on 31 December 2020.

17. Borrowings

	At 31 December 2020			At 31 December 2019		
	Current £m	**Non-current £m**	**Total borrowings £m**	Current £m	Non-current £m	Total borrowings £m
Secured bank loans	**99.5**	**820.7**	**920.2**	128.2	708.9	837.1
Secured notes	**4.1**	**46.4**	**50.5**	4.1	50.5	54.6
	103.6	**867.1**	**970.7**	132.3	759.4	891.7

Issue costs of £6.3 million (2019: £5.5 million) have been offset in arriving at the balances in the above tables.

Secured bank loans

Interest on bank loans is charged at fixed rates ranging between 0.8% and 5.5% including margin (2019: 0.8% and 5.5%) and at floating rates of typically LIBOR or EURIBOR plus a margin. Floating rate margins range between 1.1% and 2.4% (2019: 1.0% and 2.5%). The bank loans are secured by legal charges over £1,904.3 million (2019: £1,726.5 million) of the Group's 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.

Secured notes

On 3 December 2013, the Group issued £80.0 million secured, partially-amortising notes. The notes attract a fixed-rate coupon of 4.17% on the unamortised principal amount, the balance of which is repayable in December 2022 and are secured by legal charges over £139.9 million (2019: £142.0 million) of the Group's properties. The fair value was determined by the higher of the carrying principal amount and the discounted future cash flows (adjusted by excluding the margin component of the fixed interest rate[1]) at a discount rate derived from the market interest rate yield curve at the date of the valuation.

[1] The fixed interest rate is made up of a market interest rate (typically a swap rate) plus a margin.

Notes to the Group financial statements
continued

17. Borrowings continued

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

At 31 December 2020	Secured bank loans £m	Secured notes £m	Total £m
Maturing in:			
Within one year or on demand	**101.2**	**4.2**	**105.4**
One to two years	**116.1**	**46.5**	**162.6**
Two to five years	**432.0**	**–**	**432.0**
More than five years	**277.0**	**–**	**277.0**
	926.3	**50.7**	**977.0**
Unamortised issue costs	**(6.1)**	**(0.2)**	**(6.3)**
Borrowings	**920.2**	**50.5**	**970.7**
Due within one year	**(99.5)**	**(4.1)**	**(103.6)**
Due after one year	**820.7**	**46.4**	**867.1**

At 31 December 2019	Secured bank loans £m	Secured notes £m	Total £m
Maturing in:			
Within one year or on demand	129.8	4.2	134.0
One to two years	88.5	4.2	92.7
Two to five years	492.8	46.5	539.3
More than five years	131.2	–	131.2
	842.3	54.9	897.2
Unamortised issue costs	(5.2)	(0.3)	(5.5)
Borrowings	837.1	54.6	891.7
Due within one year	(128.2)	(4.1)	(132.3)
Due after one year	708.9	50.5	759.4

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

	At 31 December 2020		At 31 December 2019	
	Weighted average interest rate %	**Weighted average life Years**	Weighted average interest rate %	Weighted average life Years
Sterling	**3.0**	**7.4**	3.6	2.7
Euro	**1.4**	**2.9**	1.6	4.2

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

	At 31 December 2020			At 31 December 2019		
	% of net floating rate loans capped	**Average capped interest rate %**	**Weighted average life Years**	% of net floating rate loans capped	Average capped interest rate %	Weighted average life Years
Sterling	**–**	**–**	**–**	–	–	–
Euro	**62**	**0.77**	**4.6**	25	0.75	1.8

17. Borrowings continued

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

	At 31 December 2020			At 31 December 2019		
	Sterling £m	**Euro £m**	**Total £m**	Sterling £m	Euro £m	Total £m
Fixed rate financial liabilities	**255.2**	**399.8**	**655.0**	168.7	382.1	550.8
Floating rate financial liabilities – hedged	**143.0**	**18.7**	**161.7**	123.8	18.1	141.9
	398.2	**418.5**	**816.7**	292.5	400.2	692.7
Floating rate financial liabilities – capped	**–**	**25.6**	**25.6**	–	11.4	11.4
Floating rate financial liabilities – unhedged	**119.1**	**15.6**	**134.7**	154.5	38.6	193.1
	119.1	**41.2**	**160.3**	154.5	50.0	204.5
	517.3	**459.7**	**977.0**	447.0	450.2	897.2
Unamortised issue costs	**(4.0)**	**(2.3)**	**(6.3)**	(3.0)	(2.5)	(5.5)
Borrowings	**513.3**	**457.4**	**970.7**	444.0	447.7	891.7

Of the Group's total borrowings, 84% (2019: 77%) are considered fixed rate borrowings.

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

	Carrying amounts		Fair values	
	2020 £m	2019 £m	**2020 £m**	2019 £m
Current borrowings	**103.6**	132.3	**103.6**	132.3
Non-current borrowings	**867.1**	759.4	**880.3**	769.3
	970.7	891.7	**983.9**	901.6

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

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 had the following undrawn committed facilities available at 31 December:

	2020 £m	2019 £m
Floating rate:		
– expiring within one year	**30.0**	30.0
– expiring after one year	**–**	–
	30.0	30.0

Notes to the Group financial statements
continued

17. Borrowings continued

Contractual undiscounted cash outflows

The tables below show the contractual undiscounted cash outflows arising from the Group's gross debt.

At 31 December 2020	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Total £m
Secured bank loans	**101.2**	**116.1**	**73.8**	**258.6**	**99.6**	**277.0**	**926.3**
Secured notes	**4.2**	**46.5**	**–**	**–**	**–**	**–**	**50.7**
Total on maturity	**105.4**	**162.6**	**73.8**	**258.6**	**99.6**	**277.0**	**977.0**
Interest payments on borrowings[1]	**19.9**	**17.3**	**14.1**	**11.8**	**7.1**	**24.7**	**94.9**
Effect of interest rate swaps	**2.4**	**2.1**	**1.0**	**0.5**	**–**	**–**	**6.0**
Gross loan commitments	**127.7**	**182.0**	**88.9**	**270.9**	**106.7**	**301.7**	**1,077.9**

At 31 December 2019	Less than 1 year £m	1 to 2 years £m	2 to 3 years £m	3 to 4 years £m	4 to 5 years £m	Over 5 years £m	Total £m
Secured bank loans	129.8	88.5	168.9	67.3	256.6	131.2	842.3
Secured notes	4.2	4.2	46.5	–	–	–	54.9
Total on maturity	134.0	92.7	215.4	67.3	256.6	131.2	897.2
Interest payments on borrowings[1]	16.8	12.4	10.4	8.4	6.2	8.5	62.7
Effect of interest rate swaps	1.7	2.4	2.1	1.0	0.5	–	7.7
Gross loan commitments	152.5	107.5	227.9	76.7	263.3	139.7	967.6

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

18. Derivative financial instruments

	2020 Assets £m	2020 Liabilities £m	2019 Assets £m	2019 Liabilities £m
Non-current				
Interest rate caps and swaps	**–**	**(5.6)**	–	(4.1)
Current				
Forward foreign exchange contracts	**–**	**–**	0.3	–
	–	**(5.6)**	0.3	(4.1)

The valuation methods used to measure the fair value of all derivative financial instruments were derived from inputs which were either observable as prices or derived from prices (Level 2). There were no derivative financial instruments accounted for as hedging instruments.

Interest rate swaps

The aggregate notional principal of interest rate swap contracts at 31 December 2020 was £161.9 million (2019: £163.4 million). The average period to maturity of these interest rate swaps was 2.2 years (2019: 3.2 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 2020 the Group had no outstanding net foreign exchange contracts (2019: £26.4 million).

18. Derivative financial instruments continued

Derivative financial instruments cash flows

The following table provides an analysis of the anticipated contractual cash flows for the derivative financial instruments using undiscounted cash flows. These amounts represent the gross cash flows of the derivative financial instruments and are settled as either a net payment or receipt.

	2020 Assets £m	**2020 Liabilities £m**	2019 Assets £m	2019 Liabilities £m
Maturing in:				
Less than 1 year	**–**	**(2.4)**	0.3	(1.7)
1 to 2 years	**–**	**(2.1)**	–	(2.4)
2 to 3 years	**–**	**(1.0)**	–	(2.1)
3 to 4 years	**–**	**(0.5)**	–	(1.0)
4 to 5 years	**–**	**–**	–	(0.5)
Over 5 years	**–**	**–**	–	–
	–	**(6.0)**	0.3	(7.7)

19. Financial instruments

Categories of financial instruments

Financial assets of the Group comprise: interest rate caps; foreign currency forward contracts; financial assets at fair value through other comprehensive income or fair value through profit and loss; investments in associates; trade and other receivables; and cash and cash equivalents.

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

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

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

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

Capital risk management

The Group manages its capital to ensure that entities within the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balances. The capital structure of the Group consists of debt, cash and cash equivalents, other investments and equity attributable to the owners of the parent, comprising issued capital, reserves and retained earnings. Management perform "stress tests" of the Group's business model to ensure that the Group's objectives can be met and these objectives were met during 2020 and 2019.

Notes to the Group financial statements
continued

19. Financial instruments continued

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:

	Notes	2020 £m	2019 £m
Debt	17	**977.0**	897.2
Liquid resources	14	**(235.7)**	(259.4)
Net debt (A)		**741.3**	637.8
Equity (B)		**1,270.6**	1,202.4
Net debt to equity ratio (A/B)		**58%**	53%

Debt is defined as long-term and short-term borrowings before unamortised issue costs as detailed in note 17. Liquid resources are cash and short-term deposits. Equity includes all capital and reserves of the Group attributable to the owners of the Company.

Externally imposed capital requirement

The Group was subject to externally imposed capital requirements to the extent that debt covenants may require Group companies to maintain ratios such as debt to equity (or similar) below certain levels.

Risk management objectives

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

- market risk;
- credit risk; 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's treasury department in close co-operation with the Group's operating units and with guidance from the Board of Directors. The Board regularly assesses and reviews the financial risks and exposures of the Group.

(a) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates and foreign currency exchange rates, and to a lesser extent other price risk. The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign currency risk and also uses natural hedging strategies such as matching the duration, interest payments and currency of assets and liabilities. There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

(I) Interest rate risk

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

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

Scenario	2020 Income statement £m	2019 Income statement £m
Cash +50 basis points	**1.2**	1.3
Variable borrowings (including caps) +50 basis points	**(1.0)**	(1.9)
Cash -50 basis points	**(1.2)**	(1.3)
Variable borrowings (including caps) -50 basis points	**0.6**	1.4

19. Financial instruments continued

(II) Foreign exchange risk

The Group does not have any regular transactional foreign exchange exposure. However, it has operations in Europe which transact business denominated in Euros and, to a minimal extent, in Swedish krona. Consequently, there is currency exposure caused by translating into sterling the local trading performance and net assets for each financial period and balance sheet, respectively.

The policy of the Group is to match the currency of investments with the related borrowing, which reduces foreign exchange risk on property investments. A portion of the remaining operations, equating to the net assets of the foreign property operations, is not hedged except in exceptional circumstances. 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 exposure is in respect of the Euro. 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 reasonably likely movement in exchange rates, is set out below:

Scenario	**2020 Net assets £m**	**2020 Profit before tax £m**	2019 Net assets £m	2019 Profit before tax £m
1% increase in value of sterling against the Euro	**(6.1)**	**(1.1)**	(5.0)	(0.8)
1% fall in value of sterling against the Euro	**6.2**	**1.2**	5.1	0.8

(b) Credit risk

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

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

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

At 31 December 2020 the Group held no financial assets at fair value through other comprehensive income or fair value through profit and loss (2019: £0.3 million). Management considers the credit risk associated with individual transactions and monitors the risk on a continuing basis. Information is gathered from external credit rating agencies and other market sources to allow management to react to any perceived change in the underlying credit risk of the instruments in which the Group invests. This allows the Group to minimise its credit exposure to such items and at the same time to maximise returns for shareholders.

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

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

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

Notes to the Group financial statements
continued

20. Financial assets and liabilities

	Fair value through profit and loss £m	Amortised cost £m	Total carrying value £m
Financial assets			
Cash and cash equivalents	**–**	**235.7**	**235.7**
Other assets – non-current[1]	**–**	**8.2**	**8.2**
Other assets – current[1]	**–**	**13.5**	**13.5**
	–	**257.4**	**257.4**
Financial liabilities			
Secured bank loans	**–**	**(920.2)**	**(920.2)**
Secured notes	**–**	**(50.5)**	**(50.5)**
Derivative financial liabilities	**(5.6)**	**–**	**(5.6)**
Other liabilities – current[2]	**–**	**(30.3)**	**(30.3)**
	(5.6)	**(1,001.0)**	**(1,006.6)**
At 31 December 2020	**(5.6)**	**(743.6)**	**(749.2)**

	Fair value through profit and loss £m	Amortised cost £m	Total carrying value £m
Financial assets			
Derivative financial instruments	0.3	–	0.3
Cash and cash equivalents	–	259.4	259.4
Other assets – current[1]	–	22.8	22.8
	0.3	282.2	282.5
Financial liabilities			
Secured bank loans	–	(837.1)	(837.1)
Secured notes	–	(54.6)	(54.6)
Derivative financial liabilities	(4.1)	–	(4.1)
Other liabilities – current[2]	–	(34.8)	(34.8)
	(4.1)	(926.5)	(930.6)
At 31 December 2019	(3.8)	(644.3)	(648.1)

1 Other assets included all amounts shown as trade and other receivables in note 13 except prepayments of £8.5 million (2019: £2.5 million). All current amounts are non-interest bearing and receivable within one year.

2 Other liabilities included all amounts shown as trade and other payables in note 15 except deferred income and sales and social security taxes of £24.0 million (2019: £19.9 million). All amounts are non-interest bearing and are due within one year.

Reconciliation of net financial assets and liabilities to borrowings and derivative financial instruments

	2020 £m	2019 £m
Net financial assets and liabilities	**749.2**	648.1
Other assets – non-current	**8.2**	–
Other assets – current	**13.5**	22.8
Other liabilities – current	**(30.3)**	(34.8)
Cash and cash equivalents	**235.7**	259.4
Borrowings and derivative financial instruments	**976.3**	895.5

21. Discontinued operations

On 12 November 2018, the Board resolved to dispose of First Camp Sverige Holdings AB. As at 31 December 2018, the First Camp sub-group was therefore classified as a disposal group held for sale in accordance with IFRS 5, Non Current Assets Held for Sale and Discontinued Operations, and presented separately on the Group balance sheet as discontinued operations. Completion occurred on 7 March 2019. Details of this transaction are as follows:

	£m
Headline consideration	28.7
Adjustments from completion balance sheet	(17.0)
Net consideration at completion	11.7
Settled by:	
Cash	4.5
Vendor loan[1]	7.2
	11.7
Repayment after finalisation of completion balance sheet[2]	(1.4)
Final net consideration	10.3

[1] The loan is due for repayment at the latest by June 2023 and attracts interest of 6.0% p.a., 2.0% p.a. of which is rolled up into the principal of the loan. The loan can be repaid by the borrower at any time without penalty. At 31 December 2019, the loan balance of £7.3 million was included within the other receivables balance of £15.5 million (see note 13). As a result of the current economic uncertainty resulting from the Covid-19 pandemic the Group has reassessed the likely repayment date of this loan and at 31 December 2020, the loan balance of £8.2 million is included as a non-current asset.

[2] See cash flow statement

The results of discontinued operations, which have been included in the Group income statement, were as follows:

	2020 £m	2019 £m
Revenue	**–**	0.6
Expenses	**–**	(2.4)
Loss before tax	**–**	(1.8)
Measurement to fair value less costs to sell	**–**	1.3
Loss from discontinued operations	**–**	(0.5)
Attributable to:		
Owners of the Company	**–**	0.3
Non-controlling interests	**–**	(0.8)
	–	(0.5)

22. Share capital

	Number of shares authorised, issued and fully paid					
	Ordinary shares in circulation	**Treasury shares**	**Total ordinary shares**	**Ordinary shares in circulation £m**	**Treasury shares £m**	**Total ordinary shares £m**
At 1 January 2019, 31 December 2019 and 31 December 2020	**407,395,760**	**31,382,020**	**438,777,780**	**10.2**	**0.8**	**11.0**

The Board is authorised, by shareholder resolution, to allot shares or grant such subscription rights (as are contemplated by sections 551(1)(a) and (b) respectively of the Companies Act 2006) up to a maximum aggregate nominal value of £3,394,964 representing one-third of the issued share capital of the Company excluding treasury shares.

Notes to the Group financial statements
continued

23. Dividend

	Payment date	Dividend per share p	**2020 £m**	2019 £m
Current year				
2020 final dividend[1]	29 April 2021	5.20	**–**	–
2020 interim dividend	25 September 2020	2.35	**9.6**	–
Distribution of current year profit		**7.55**	**9.6**	–
Prior year				
2019 final dividend	29 April 2020	5.05	**20.5**	–
2019 interim dividend	27 September 2019	2.35	**–**	9.6
Distribution of prior year profit		7.40	**20.5**	9.6
2018 final dividend	29 April 2019	4.70	**–**	19.1
Dividends as reported in the Group statement of changes in equity			**30.1**	28.7

1 Subject to shareholder approval at the AGM on 22 April 2021.

24. Other reserves

	Capital redemption reserve £m	**Cumulative translation reserve £m**	**Fair value reserve £m**	**Share-based payment reserve £m**	**Other reserves £m**	**Total £m**
At 1 January 2020	**22.7**	**39.8**	**3.6**	**2.2**	**28.1**	**96.4**
Exchange rate variances	**–**	**24.2**	**–**	**–**	**–**	**24.2**
Property, plant and equipment						
– net fair value deficits in the year	**–**	**–**	**(3.6)**	**–**	**–**	**(3.6)**
– deferred tax thereon	**–**	**–**	**0.5**	**–**	**–**	**0.5**
Share-based payment credit	**–**	**–**	**–**	**(0.2)**	**–**	**(0.2)**
At 31 December 2020	**22.7**	**64.0**	**0.5**	**2.0**	**28.1**	**117.3**

	Capital redemption reserve £m	Cumulative translation reserve £m	Fair value reserve £m	Share-based payment reserve £m	Other reserves £m	Total £m
At 1 January 2019	22.7	68.6	2.4	1.2	28.1	123.0
Exchange rate variances	–	(28.8)	–	–	–	(28.8)
Property, plant and equipment						
– net fair value deficits in the year	–	–	(0.1)	–	–	(0.1)
– deferred tax thereon	–	–	0.1	–	–	0.1
Other financial investments:						
– realised fair value gains	–	–	2.5	–	–	2.5
– deferred tax thereon	–	–	(0.4)	–	–	(0.4)
Discontinued operations	–	–	(0.9)	–	–	(0.9)
Share-based payment charge	–	–	–	1.0	–	1.0
At 31 December 2019	22.7	39.8	3.6	2.2	28.1	96.4

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

The fair value reserve comprises the aggregate movement in the value of financial assets classified as fair value through comprehensive income and owner-occupied property since acquisition, net of deferred tax.

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

25. Notes to the cash flow

Cash generated from operations	2020 £m	2019 £m
Operating profit	**119.3**	183.4
Adjustments for:		
Net movements on revaluation of investment properties	**(31.5)**	(57.4)
Depreciation and amortisation	**0.7**	1.0
Profit on sale of investment property	**(11.6)**	(8.6)
Gain on sale of other financial investments	**–**	(40.4)
Lease incentive debtor adjustments	**(1.9)**	(3.7)
Share-based payment (credit)/charge	**(0.2)**	1.0
Changes in working capital:		
Increase in receivables	**(0.8)**	(3.4)
Increase in payables	**2.9**	3.4
Cash generated from operations	**76.9**	75.3

Changes in liabilities arising from financing activities	Notes	**1 January 2020 £m**	**Financing cash flows £m**	**Amortisation of loan issue costs £m**	**Fair value adjustments £m**	**Foreign exchange £m**	**31 December 2020 £m**
Borrowings	17	**891.7**	**51.7**	**2.1**	**–**	**25.2**	**970.7**
Interest rate swaps	18	**4.1**	**–**	**–**	**1.6**	**(0.1)**	**5.6**
Forward foreign exchange contracts	18	**(0.3)**	**0.3**	**–**	**–**	**–**	**–**
		895.5	**52.0**	**2.1**	**1.6**	**25.1**	**976.3**

Changes in liabilities arising from financing activities	Notes	1 January 2019 £m	Financing cash flows £m	Amortisation of loan issue costs £m	Fair value adjustments £m	Foreign exchange £m	31 December 2019 £m
Borrowings	17	836.9	80.3	2.3	–	(27.8)	891.7
Interest rate swaps	18	4.6	(1.0)	–	0.5	–	4.1
Forward foreign exchange contracts	18	0.5	(1.2)	–	–	0.4	(0.3)
		842.0	78.1	2.3	0.5	(27.4)	895.5

26. Contingencies

At 31 December 2020 and 31 December 2019 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.

27. Commitments

At the balance sheet date the Group had contracted with customers under non-cancellable operating leases for the following minimum lease payments:

Operating lease commitments – where the Group is lessor	2020 £m	2019 £m
Within one year	**100.5**	100.2
More than one but not more than five years	**279.5**	274.8
More than five years	**90.7**	115.0
	470.7	490.0

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

Other commitments

At 31 December 2020 the Group had contracted capital expenditure of £16.5 million (2019: £5.3 million). At the balance sheet date, the Group had exchanged contracts to acquire investment properties for £89.9 million (2019: £32.8 million). There were no authorised financial commitments which were yet to be contracted with third parties (2019: nil).

Notes to the Group financial statements
continued

28. Post balance sheet events

In January 2021, the Group exchanged on the acquisition of three properties for £79.2 million, before costs. In February 2021, the Group completed the acquisition of one property for £16.9 million, before costs and exchanged on the disposal of one property for £6.1 million, before costs.

29. Subsidiaries

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

United Kingdom
Registered Office: 16 Tinworth Street, London SE11 5AL

16 Tinworth Street (Residential) Limited	CLS Gateway House Limited	CLS Watford Limited	Prescot Street Leasco Limited
401 King Street Limited	CLS Germany Limited	CLSH Management Limited	Quayside Lodge Limited
Apex Tower Limited	CLS Gresham Limited	Columbia Bracknell Limited	Rayman Finance Limited
Base Offices Limited	CLS Harrow Limited	Coventry House Limited	Reflex Bracknell Limited
Brent House Limited	CLS Holdings UK Limited	Dukes Road Limited	Sentinel House Limited
Buspace Studios Limited	CLS Lloyds Avenue Limited	Elmfield Road Limited	Shard of Glass Limited
Cassini Pascal Limited	CLS London Limited	Fetter Lane Apartments Limited	Southern House Limited
Centenary Court Limited	CLS London Properties Limited	Fetter Lane Leasehold Limited	Spring Gardens III Limited
Central London Securities Limited	CLS Northern Properties Limited	Great West House Limited	Spring Mews (Block D) Limited
Chancel House Limited	CLS Office Collection Limited	Harman House Limited	Spring Mews (Hotel) Limited
Citadel Finance Limited	CLS One Limited	Hygeia Harrow Limited	Spring Mews Limited
Citadel Holdings plc	CLS Pacific House Limited	Ingrove Limited	Spring Mews (Student) Limited
CI Tower Investments Limited	CLS Prescot Limited	Instant Office Limited	Three Albert Embankment Limited
CLS Capital Partners Limited	CLS Priory Place Limited	Kennington Road Limited	Vauxhall Square Limited
CLS Chancery House Limited	CLS Residential Investments Limited	Larkhall Lane Limited	Vauxhall Square (Nominee 3) Limited
CLS Church Road Limited	CLS South London Limited	Maidenhead Cloud Gate Limited	Vauxhall Square One Limited
CLS Cliffords Inn Limited	CLS Spring Gardens Limited	Mirenwest Limited	Vauxhall Square (Student) Limited
CLS Clockwork Limited	CLS Staines Limited	New Printing House Square Limited	Wandsworth Road Limited
CLS Crawley Limited	CLS UK Properties plc	NYK Investments Limited	
CLS England and Wales Limited	CLS UK Property Finance Limited	One Elmfield Park Limited	

United Kingdom
Registered Office: 15 Atholl Crescent, Edinburgh EH3 8HA

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

France
Registered Office: 36 Rue Jules Verne, 92300 Levallois-Perret, Paris

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

Germany
Registered Office: Nagelsweg 37, 20097 Hamburg

CLS Germany GmbH
CLS Green Energy GmbH
Jarrestrasse Immobilien GmbH

29. Subsidiaries continued

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

Adlershofer Sàrl	CLS Luxembourg Sàrl	Gotic Haus Sàrl	Prater Sàrl
Albertina Sàrl	CLS Metropolis Sàrl	Grossglockner Sàrl	Rock Harman House Sàrl
Cavernet Sàrl	CLS Palisade Sàrl	Hermalux Sàrl	Salisbury Hill Sàrl
Chronotron Sàrl	CLS Tangentis Sàrl	Kapellen Sàrl	Satimood Sàrl
CLS Immobilien Stuttgart Sàrl	Freepost Sàrl	Landstrasse Sàrl	Schönbrunn Sàrl
CLS Investments Sàrl	Frohbösestrasse Sàrl	Naropere Sàrl	Zillertal Sàrl
CLS Investments 2 Sàrl	Garivet Sàrl	Network Perlach Sàrl	

Netherlands
Registered Office: Burgemeester van Reenensingel 101, 2803 DA Gouda

Chorus BV	Malmros Property BV	Portapert Properties UK BV
CLS Management BV	Petits Champs BV	Rasstaf BV
Hamersley International BV	Portapert Properties III BV	

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

Hawkswell Limited
Hawkswell One Limited
Hawkswell Two Limited

Sweden
Registered Office: Skönabäck 122, SE-274 91 Skurup

Cood Investments AB (58.02%)	Museion Förvaltning AB	Wyatt Sales AB
Endicott Sweden AB	Rasstaf Sweden AB	Xtraworks AB
Jarrestrasse Holding AB	Wyatt Media Group AB (98.87%)	

30. Associates

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

Name	Registered office	Country of incorporation	Holding
24 Media Network AB	Stureplan 4, SE- 114 35 Stockholm, Sweden	Sweden	24.2%
Fragbite AB	Aprilvagen 7, SE- 187 51 Taby, Sweden	Sweden	21.8%

Notes to the Group financial statements
continued

31. Related party transactions

Transactions with Directors

Distributions totalling £17,508,017 (2019: £16,685,205) were made through dividend payments in the year in respect of ordinary shares held by the Directors.

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

- A Group company, Museion Forvaltning AB, has an agreement with Skonaback Forvaltnings AB to lease office space. The current lease commenced 1 October 2018 and the total cost for the year was SEK 60,000 (2019: SEK 120,000). No balances were outstanding at the balance sheet date (2019: SEK nil).
- the Group charged a management fee in relation to providing property management and administration services. A Group company, CLSH Management Limited, invoiced fees totalling £25,559 (2019: £12,894). At the balance sheet date £25,500 was outstanding (2019: £12,112).
- In 2019, the Group recharged salary costs in relation to providing administration services. CLS Holdings plc, invoiced costs totalling £60,429. No such transactions occurred in 2020. No balances were outstanding at the balance sheet date (2019: £60,429).

In 2019, the Group recharged costs to Catena AB, a company with a common Director, in relation to costs incurred by the Group. CLS Holdings plc invoiced costs totalling £833. No such transactions occurred in 2020. No balances were outstanding at the balance sheet date (2019: £421).

During the year, the Group invoiced rental related charges of £132,216 (2019: £38,479) to IKEA Limited, a company in a group of companies with a common Director. At the balance sheet date £38,362 was outstanding (2019: £nil).

On 7 March 2019, the Group disposed of its 58.02% interest in First Camp Sverige Holdings AB, a company partly owned by a related party of the Group, namely the Sten and Karin Mortstedt Family & Charity Trust (which has a 51.46% interest in CLS and a 29% interest in First Camp). A proportion of the consideration was a loan which is due for repayment at the latest by June 2023 and attracts interest of 6.0% p.a., 2.0% p.a. of which is rolled up into the principal of the loan. The loan can be repaid by the borrower at any time without penalty. At 31 December 2020, the loan balance was £8.2 million (2019: £7.3 million) and in 2020 £0.5 million (2019: £0.4 million) interest was received of which £0.2 million (2019: £0.1 million) was rolled up into the principal of the loan. More information on this transaction is given in note 21.

Directors' remuneration

The remuneration of the Directors, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Information about the remuneration of individual Directors is provided in the audited part of the Remuneration Committee Report on pages 90 to 106.

	2020 £000	2019 £000
Short-term employee benefits	**1,550**	3,016
Post-employment benefits	**5**	13
Other long-term benefits	**157**	112
	1,712	3,141

Company balance sheet
at 31 December 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Investment in subsidiary undertakings	6	**432.9**	441.0
Intangible assets		**1.1**	0.4
Current assets			
Trade and other receivables	7	**3.0**	106.1
Total assets		**437.0**	547.5
Current liabilities			
Other payables	8	**(36.8)**	(190.9)
Total liabilities		**(36.8)**	(190.9)
Net assets		**400.2**	356.6
Equity			
Share capital	9	**11.0**	11.0
Share premium	10	**83.1**	83.1
Other reserves	10	**28.2**	28.7
Profit and loss account	10	**277.9**	233.8
Shareholders' funds	11	**400.2**	356.6

The Company reported a profit for the financial year ended 31 December 2020 of £74.2 million (2019: £92.2 million).

The notes on pages 161 to 164 are an integral part of these financial statements.

These financial statements of CLS Holdings plc (registered number: 02714781) were approved by the Board of Directors and authorised for issue on 10 March 2021 and were signed on its behalf by:

Mr F Widlund
Chief Executive Officer

Mr A Kirkman
Chief Financial Officer

Company statement of changes in equity

for the year ended 31 December 2020

	Notes	Share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
Arising in 2020:						
Profit for the year	10	**–**	**–**	**–**	**74.2**	**74.2**
Share-based payment credit	10	**–**	**–**	**(0.5)**	**–**	**(0.5)**
Dividends to shareholders	5	**–**	**–**	**–**	**(30.1)**	**(30.1)**
Total changes arising in 2020		**–**	**–**	**(0.5)**	**44.1**	**43.6**
At 1 January 2020		**11.0**	**83.1**	**28.7**	**233.8**	**356.6**
At 31 December 2020		**11.0**	**83.1**	**28.2**	**277.9**	**400.2**

	Notes	Share capital £m	Share premium £m	Other reserves £m	Profit and loss account £m	Total £m
Arising in 2019:						
Profit for the year	10	–	–	–	92.2	92.2
Share-based payment charge	10	–	–	0.6	–	0.6
Dividends to shareholders	5	–	–	–	(28.7)	(28.7)
Total changes arising in 2019		–	–	0.6	63.5	64.1
At 1 January 2019		11.0	83.1	28.1	170.3	292.5
At 31 December 2019		11.0	83.1	28.7	233.8	356.6

The notes on pages 161 to 164 are an integral part of these financial statements.

Notes to the Company financial statements

for the year ended 31 December 2020

1. General information

These separate financial statements are presented as required by the Companies Act 2006 and prepared on the historical cost basis.

The Company has applied UK GAAP Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101') incorporating the Amendments to FRS 101 issued by the FRC in July 2015 other than those relating to legal changes and has not applied the amendments to Company law made by The Companies, Partnerships and Groups (Accounts and Reports) Regulations 2015 that are effective for accounting periods beginning on or after 1 January 2016.

CLS Holdings plc is the ultimate parent company of the CLS Holdings Group registered and incorporated in the United Kingdom under Companies Act 2006. Its primary activity (which occurs exclusively within the United Kingdom) is to hold shares in subsidiary companies.

2. Basis of accounting

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to capital management, presentation of a cash flow statement, presentation of comparative information in respect of certain assets, standards not yet effective, impairment of assets and related party transactions. The Company is not a financial institution and is therefore able to take advantage of exemption from all requirements of IFRS 7 Financial Instruments: Disclosures and from the disclosure requirement of IFRS 13 Fair Value Measurements.

Where required, equivalent disclosures are given in the Group financial statements.

3. Significant accounting policies

The principal accounting policies are summarised below.

3.1 Going concern

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing the annual report and accounts as detailed in the Director's Report on page 112.

3.2 Investments in subsidiaries

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

3.3 Pension costs

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

3.4 Share capital

Ordinary shares are classified as equity.

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

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

3.5 Foreign currencies

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

Notes to the Company financial statements
continued

4. Profit for financial year

As permitted by s408 Companies Act 2006, the Company's profit and loss account has not been presented in these financial statements. The Company's profit for the financial year was £74.2 million (2019: £92.2 million).

Audit fees for the Company were £0.1 million (2019: £0.1 million).

Details of the Directors employed during the year and of their remuneration is included in the Remuneration Committee Report on pages 90 to 106.

5. Dividend

	Payment date	Dividend per share p	2020 £m	2019 £m
Current year				
2020 final dividend[1]	29 April 2021	5.20	**–**	–
2020 interim dividend	25 September 2020	2.35	**9.6**	–
Distribution of current year profit		**7.55**	**9.6**	–
Prior year				
2019 final dividend	29 April 2020	5.05	**20.5**	–
2019 interim dividend	27 September 2019	2.35	**–**	9.6
Distribution of prior year profit		7.40	**20.5**	9.6
2018 final dividend	29 April 2019	4.70	**–**	19.1
Dividends as reported in the Group statement of changes in equity			**30.1**	28.7

[1] Subject to shareholder approval at the AGM on 22 April 2021.

6. Investment in subsidiary undertakings

	2020 £m	2019 £m
At 1 January	**441.0**	461.1
Additions	**69.3**	50.0
Disposals	**(49.1)**	(20.3)
Provision for impairment	**(28.3)**	(49.8)
At 31 December	**432.9**	441.0

7. Trade and other receivables

	2020 £m	2019 £m
Amounts owed by subsidiary undertakings	**1.9**	102.1
Other receivables	**0.9**	2.4
Prepayments and accrued income	**0.2**	1.6
	3.0	106.1

8. Other payables

	2020 £m	2019 £m
Amounts owed to subsidiary undertakings	**34.5**	188.7
Accruals	**2.3**	2.2
	36.8	190.9

9. Share capital

	Number of shares authorised, issued and fully paid			Ordinary shares in circulation £m	Treasury shares £m	Total ordinary shares £m
	Ordinary shares in circulation	Treasury shares	Total ordinary shares			
At 1 January 2020, 31 December 2019 and 31 December 2020	**407,395,760**	**31,382,020**	**438,777,780**	**10.2**	**0.8**	**11.0**

The Board is authorised, by shareholder resolution, to allot shares or grant such subscription rights (as are contemplated by sections 551(1)(a) and (b) respectively of the Companies Act 2006) up to a maximum aggregate nominal value of £3,394,964 representing one-third of the issued share capital of the Company excluding treasury shares.

10. Reserves

	Share premium £m	Other reserves				Profit and loss account £m
		Capital redemption reserve £m	Share-based payment reserve £m	Other £m	Total £m	
At 1 January 2020	**83.1**	**22.7**	**1.4**	**4.6**	**28.7**	**233.8**
Share-based payment credit	**–**	**–**	**(0.5)**	**–**	**(0.5)**	**–**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**74.2**
Dividends to shareholders	**–**	**–**	**–**	**–**	**–**	**(30.1)**
At 31 December 2020	**83.1**	**22.7**	**0.9**	**4.6**	**28.2**	**277.9**

	Share premium £m	Other reserves				Profit and loss account £m
		Capital redemption reserve £m	Share-based payment reserve £m	Other £m	Total £m	
At 1 January 2019	83.1	22.7	0.8	4.6	28.1	170.3
Share-based payment charge	–	–	0.6	–	0.6	–
Profit for the year	–	–	–	–	–	92.2
Dividends to shareholders	–	–	–	–	–	(28.7)
At 31 December 2019	83.1	22.7	1.4	4.6	28.7	233.8

Notes to the Company financial statements
continued

11. Reconciliation of movements in shareholders' funds

	2020 £m	2019 £m
At 1 January	**356.6**	292.5
Profit for the year	**74.2**	92.2
Dividends to shareholders	**(30.1)**	(28.7)
Share-based payment (credit)/charge	**(0.5)**	0.6
At 31 December	**400.2**	356.6

12. Contingencies

At 31 December 2020 and 31 December 2019 CLS Holdings plc had guaranteed certain liabilities of Group companies, primarily in relation to Group borrowings and covering interest and amortisation payments. No cross-guarantees had been given in relation to the principal amounts of these borrowings. Since the possibility of payment by the Company under any of these guarantees and warranties is considered remote, no provisions in relation to these have been made in the Company's financial statements and no reportable contingent liability exists.

13. Commitments

At 31 December 2020, the Company had no contracted capital expenditure (2019: £nil) and no authorised financial commitments which were yet to be contracted with third parties (2019: £nil).

Five-year financial summary (unaudited)

	2020 £m	2019 £m	2018 £m	Restated 2017 £m	2016 £m
Continuing operations					
Revenue	**139.4**	138.3	133.0	120.3	128.5
Net rental income	**109.8**	110.6	107.3	100.0	107.1
Administration expenses	**(18.5)**	(19.9)	(17.8)	(14.6)	(21.3)
Other expenses	**(15.1)**	(13.7)	(13.2)	(12.2)	(14.0)
Revenue less costs	**76.2**	77.0	76.3	73.2	71.8
Net movements on revaluation of investment property	**31.5**	57.4	62.8	94.2	36.1
Profit on sale of investment property	**11.6**	8.6	2.3	43.7	9.1
Gain on sale of other financial investments	**–**	40.4	1.7	2.5	3.2
Net movement on revaluation of equity investments	**–**	–	22.2	–	–
Operating profit	**119.3**	183.4	165.3	213.6	120.2
Finance income	**3.2**	5.0	6.1	10.0	13.6
Finance costs	**(26.0)**	(29.4)	(26.5)	(32.4)	(32.7)
Share of loss of associates after tax	**–**	–	–	(0.7)	(1.0)
Profit before tax	**96.5**	159.0	144.9	190.5	100.1
Taxation	**(19.1)**	(23.8)	(12.1)	(33.5)	(1.8)
Profit for the year from continuing operations	**77.4**	135.2	132.8	157.0	98.3
Discontinued operations					
(Loss)/profit for the year from discontinued operations	**–**	(0.5)	(14.9)	0.9	–
Profit for the year	**77.4**	134.7	117.9	157.9	98.3
Dividends paid	**30.1**	28.7	26.5	24.7	20.6
Distribution of current year's profit	**30.8**	30.1	28.1	25.9	23.5
Net assets employed					
Non-current assets	**2,181.4**	2,010.2	2,034.5	1,913.1	1,763.9
Current assets	**279.6**	295.4	173.0	244.3	159.4
	2,461.0	2,305.6	2,207.5	2,157.4	1,923.3
Current liabilities	**(158.2)**	(198.9)	(170.0)	(207.2)	(186.2)
Non-current liabilities	**(1,032.2)**	(904.3)	(914.5)	(916.9)	(854.6)
Net assets	**1,270.6**	1,202.4	1,123.0	1,033.3	882.5

Ratios	**2020**	2019	2018	2017	2016
Net assets per share (pence)	**311.9**	295.1	275.5	252.0	215.1
EPRA NAV per share (pence)	**350.1**	329.2	309.8	285.6	245.6
EPRA NTA per share (pence)	**345.2**	326.3	304.6	n/a	n/a
Earnings per share (pence)	**19.0**	33.3	30.5	38.7	23.6
EPRA earnings per share (pence)	**12.2**	12.0	13.1	12.6	12.3
Net gearing (%)	**58.3**	53.0	63.4	65.2	78.8
Balance sheet loan-to-value (%)	**33.7**	31.4	36.7	36.9	43.7
Interest cover (times)	**3.26**	3.42	3.80	3.89	3.37

2017 was restated to separate the individual line items in the income statement that related to the operations of First Camp Sverige Holdings AB which was classified as discontinued as at 31 December 2018, as disclosed in note 21 to the financial statements. Accordingly, the assets and liabilities were disclosed in current assets and current liabilities on the Group balance sheet as the First Camp sub-group was classified as a disposal group held for sale. On 7 March 2019, the disposal of the First Camp sub-group completed and accordingly the assets and liabilities of the sub-group were de-recognised from the Group balance sheet. The 2016 comparative period was not restated to reflect this reclassification.

Glossary of terms

Administration cost ratio
Recurring administration expenses of the investment property operating segment expressed as a percentage of net rental income.

Balance sheet loan-to-value
Net debt expressed as a percentage of property assets.

Building Research Establishment Environmental Assessment Method (BREEAM)
An environmental impact assessment method for non-domestic buildings. Their standards cover new construction, In-Use as well as refurbishment and fit-out. BREEAM In-Use enables property investors, owners, managers and occupiers to determine and drive sustainable improvements in the operational performance of their buildings. It provides sustainability benchmarking and assurance for all building types and assesses performance in a number of areas; management, health & wellbeing, energy, transport, water, resources, resilience, land use & ecology and pollution. Performance is measured across a series of ratings; Good, Very Good, Excellent and Outstanding.

Carbon emissions Scopes 1, 2 and 3
Scope 1 – direct emissions;
Scope 2 – indirect emissions; and
Scope 3 – other indirect emissions.

CDP
CDP, formerly known as the Carbon Disclosure Project, assesses the ESG performance of all major companies worldwide and aids comparability between organisations to allow the investor community to assess the carbon and climate change risk of each company.

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

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

Diluted earnings per share
Profit for the year attributable to the owners of the Company divided by the diluted weighted average 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 for the year attributable to the owners of the Company divided by the weighted average number of ordinary shares in issue in the period.

Energy Performance Certificate (EPC)
An EPC is an asset rating detailing how energy efficient a building is, rated by carbon dioxide emission on a scale of A-G, where an A rating is the most energy efficient. They are legally required for any building that is to be put on the market for sale or rent.

European Public Real Estate Association (EPRA)
A not-for-profit association with a membership of Europe's leading property companies, investors and consultants which strives to establish best practices in accounting, reporting and corporate governance and to provide high-quality information to investors. EPRA's Best Practices Recommendations includes guidelines for the calculation of the following performance measures which the Group has adopted.

EPRA capital expenditure
Investment property acquisitions and expenditure split between amounts used for the creation of additional lettable area ('incremental lettable space') and enhancing existing space ('no incremental space') both on an accrual and cash basis.

EPRA cost ratio
Administrative & operating costs (including & excluding costs of direct vacancy) divided by gross rental income. A measure to enable meaningful measuremen of the changes in a company's operating costs.

EPRA earnings per share (EPS)
Earnings from operational activities. A measure of a company's underlying operating results and an indication of the extent to which current dividend payments are supported by earnings.

EPRA net asset value (NAV)
NAV adjusted to include trading properties and other investment interests at fair value and to exclude certain items not expected to crystallise in a long-term investment property business model.

EPRA triple net asset value (NNNAV)
EPRA NAV adjusted to include the fair values of (i) financial instruments, (ii) debt and (iii) deferred taxes on revaluations, where applicable.

EPRA net reinstatement value (NRV)
(effective from 1 January 2020)
NAV adjusted to reflect the value required to rebuild the entity and assuming that entities never sell assets. Assets and liabilities, such as fair value movements on financial derivatives are not expected to crystallise in normal circumstances and deferred taxes on property valuation surpluses are excluded.

EPRA net tangible assets (NTA)
(effective from 1 January 2020)
Assumes that entities buy and sell assets, thereby crystallising certain levels of unavoidable deferred tax.

EPRA net disposal value (NDV)
(effective from 1 January 2020)
Represent the shareholders' value under a disposal scenario, where deferred tax, financial instruments and certain other adjustments are calculated to the full extent of their liability, net of any resulting tax.

EPRA net initial yield (NIY)
Annualised rental income based on the cash rents passing at the balance sheet date, less non-recoverable property operating expenses, divided by the market value of the EPRA property portfolio, increased by estimated purchasers' costs.

EPRA 'topped up' net initial yield
This measure incorporates an adjustment to the EPRA NIY in respect of the expiration of rent free periods (or other unexpired lease incentives such as discounted rent periods and stepped rents).

EPRA vacancy rate
Estimated rental value (ERV) of immediately available space divided by the ERV of the EPRA portfolio.

Estimated rental value (ERV)
The market rental value of lettable space as estimated by the Group's valuers.

GRESB
GRESB assesses and benchmarks the environmental, social and governance (ESG) performance of real assets, providing standardised and validated data to the capital markets.

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

Key performance indicators (KPIs)
Activities and behaviours, aligned to both business objectives and individual goals, against which the performance of the Group is annually assessed. Performance measured against them is referenced in the annual report.

Liquid resources
Cash and short-term deposits and listed corporate bonds.

Net assets per share or net asset value (NAV)
Equity attributable to the owners of the Company divided by the diluted number of ordinary shares.

Net debt
Total borrowings less liquid resources.

Net gearing
Net debt expressed as a percentage of net assets attributable to the owners of the Company.

Net initial yield
Net rent on investment properties and properties held for sale expressed as a percentage of the valuation of those properties.

Net rent
Passing 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 contracted rent.

Passing rent
Contracted rent before any rent-free periods have expired.

Passive infrared sensor (PIR)
A PIR sensor will turn the lights on automatically when someone walks into a room or space and off when it becomes empty resulting in significant energy savings.

Property loan-to-value
Property borrowings expressed as a percentage of the market value of the property portfolio.

Rent reviews
Rent reviews take place at intervals agreed in the lease (typically every five years) and their purpose is usually to adjust the rent to the current market level at the review date. For upwards only rent reviews, the rent will either remain at the same level or increase (if market rents are higher) at the review date.

Rent roll
Contracted rent.

Return on equity
The aggregate of the change in equity attributable to the owners of the Company plus the amounts paid to the shareholders as dividends and the purchase of shares in the market, divided by the opening equity attributable to the owners of the Company.

Reversion
The amount by which ERV exceeds contracted rent.

SKA rating
SKA rating is an environmental assessment method, benchmark and standard for non-domestic fit-outs, led and owned by RICS. Performance is measured across the ratings; Bronze, Silver and Gold.

Total accounting return – NAV
The change in EPRA NAV before the payment of dividends.

Total accounting return – NTA
The change in EPRA NTA before the payment of dividends.

Total shareholder return (TSR)
The growth in capital from purchasing a share, assuming that dividends are reinvested every time they are received.

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.

Variable refrigerant flow (VRF)
The modular design of VRF results in energy savings by giving occupants the choice to air condition or heat only the zones in use.

Directors, officers and advisers

Directors

Lennart Sten*◊	(Non-Executive Chairman)
Anna Seeley◊	(Non-Executive Vice Chair)
Fredrik Widlund	(Chief Executive Officer)
Andrew Kirkman	(Chief Financial Officer)
Elizabeth Edwards‡†◊	(Non-Executive Director)
Bill Holland*†	(Non-Executive Director)
Denise Jagger*†	(Non-Executive Director)
Christopher Jarvis	(Non-Executive Director)
Bengt Mortstedt	(Non-Executive Director)

‡ Senior Independent Director
* Member of Remuneration Committee
† Member of Audit Committee
◊ Member of Nomination Committee

Company Secretary
David Fuller BA, FCIS

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In Memoriam

Sten Åke Mörtstedt

Sten Åke Mörtstedt

7 January 1940 – 15 December 2020

Aged 80

Sten Mortstedt, a businessman and philanthropist, was born in Karlskoga, Sweden in 1940. Sten was known for his generosity towards his friends and family; he was an inspiration to many in the real estate industry for his business acumen and will be deeply missed. The eldest of two brothers, he grew up in Ronneby. After completing his studies, he developed a life-long interest in finance and property, following in his family's footsteps.

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, Flygbostader i Ronneby later renamed 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 its flotation price and was, at that time, the largest property deal recorded in Scandinavia.

During his life, Sten had a consistent track record of building profitable and sustainable businesses. Having been involved in establishing and running property interests in the UK, Germany, France and Sweden, it was in 1987 that Sten, in partnership with his younger brother Bengt Mortstedt, established Central London Securities Ltd, later renamed to CLS Holdings plc, the company with which he would become synonymous. From then, Sten dedicated himself to CLS and he floated the company on the Main Market of the London Stock Exchange in 1994. He was Executive Chairman of CLS from its Listing until March 2016 and was the driving force behind the Group's out performance, which generated long-term sustainable growth and resulted in a market capitalisation of over £900 million. With his vision, CLS has to date generated market leading shareholder returns.

In addition to his focus on property, he was commercially active in a number of investment areas and saw many of the companies in which he invested through to successful stock exchange listings or trade sales. Sten was also a philanthropist and, following the death of his beloved wife Karin in 2014, he founded Karin & Sten Mortstedt CBD Solutions AB to fund research into the rare neurodegenerative disease Corticobasal Degeneration (CBD). This has led to a much greater understanding of CBD and the establishment of a global research drive to unlock the potential to find treatments and a cure offering hope to those affected worldwide.

Sten also put his CLS shareholding into The Sten and Karin Mortstedt Family & Charity Trust to act as a long-term shareholder in CLS. Sten is survived by his four daughters.

CLS' vision was Sten's vision and our values represents his. The basis of our successful business, originally built around a family-orientated culture, can be put down to Sten's character and insight. With the support of our workforce, we documented this character and insight in our purpose, vision and values, which will ensure the business he started continues to thrive.

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